

## SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Sustainable Finance Framework

Republic of Serbia

May 30, 2024

### VERIFICATION PARAMETERS

Type(s) of instruments contemplated

- Sustainable Finance Instruments

Relevant standards

- Green Bond Principles (as of June 2021 with June 2022 Appendix 1), Social Bond Principles (as of June 2023), Sustainability Bond Guidelines (as of June 2021), as administered by the International Capital Market Association (ICMA)
- Green Loan Principles and Social Loan Principles (as of February 2023), as administered by the Loan Market Association (LMA)

Scope of verification

- Republic of Serbia Sustainable Finance Framework (as of May 29, 2024)
- Republic of Serbia Eligibility Criteria (as of May 29, 2024)

Lifecycle

- Pre-issuance verification

Validity

- Valid as long as the cited Framework remains unchanged

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## SCOPE OF WORK

The Republic of Serbia (“the Issuer”, or “Serbia”) commissioned ISS-Corporate to assist with its Sustainable Finance Instruments by assessing three core elements to determine the sustainability quality of the instruments:

1. Serbia’s Sustainable Finance Framework (as of May 29, 2024) – benchmarked against the International Capital Market Association’s (ICMA) Green Bond Principles (GBP), Social Bond Principles (SBP), and Sustainability Bond Guidelines (SBG) and the Loan Market Association (LMA) Green Loan Principles and Social Loan Principles.
2. The Eligibility Criteria – whether the project categories contribute positively to the United Nations Sustainable Development Goals (UN SDGs) and how they perform against proprietary issuance-specific key performance indicators (KPIs) (See Annex 1).
3. Consistency of Sustainable Finance Instruments with Serbia’s Sustainability Strategy – drawing on the key sustainability objectives and priorities defined by the Issuer.

## SERBIA OVERVIEW

Serbia is located in the Balkans Peninsula. The Issuer is a parliamentary republic, classified as an upper-middle income country by the World Bank.<sup>1</sup> The Issuer has an estimated population of around 7 million inhabitants as of 2020, with 56.26% of its population living in urban areas, and a level of greenhouse gas emissions per capita of 0.48% as of 2020, which has decreased in recent years.

Serbia is working toward fighting today's multiple global challenges related to climate change, extinction of flora and fauna, endangered ecosystems, continuous growth of waste and pollution, and shortages of natural resources that result from climate change and pollution.

Serbia is, among other European countries, heavily affected by the impact of climate change and this trend is projected to continue, with estimates of temperature increases of 1.7 – 4.0°C, and even exceeding 5.0°C by the end of the century,<sup>2</sup> depending on the global effort in greenhouse gasses emission reduction. Analyses of the climate change in the region recognize that human health, safety and life quality are highly vulnerable to natural hazards and sectorial weather-related losses. Over the past two decades, droughts, floods, exceptionally harsh winters and other weather-related extreme events have caused major physical damage and financial losses, with significant impacts on the economy, especially in the agricultural sector.

In light of such potentially devastating effects, Serbia has joined global efforts to confront climate change threats through participation in global and regional initiatives in order to shift to a green economy.

### *ESG risks associated with sovereign Issuer*

ISS ESG's Country Rating identifies sustainability risks in the following key areas for Serbia:<sup>3</sup> Political system and governance, Human Rights and fundamental freedoms, Social conditions, Natural resources, Climate change and energy, Product and consumption.

This report focuses on the sustainability credentials of the issuance. Part III of this report assesses the consistency between the issuance and the Issuer's overall sustainability strategy.

<sup>1</sup> World Bank income groups: <https://ourworldindata.org/grapher/world-bank-income-groups#:~:text=For%20the%20current%202024%20fiscal,those%20with%20a%20GNI%20per>

<sup>2</sup> Regional Cooperation Council: <https://www.rcc.int/news/383/rcc-publishes-study-on-climate-change-in-the-western-balkans-alarming-increase-of-temperature-over-the-whole-territory>


<sup>3</sup> Please note this is not an Issuer-specific assessment.

## ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION <sup>4</sup>
<p><b>Part I:</b></p> <p><b>Alignment with GBP, SBP, SBG, GLP, and SLP</b></p>	<p>The Issuer has defined a formal concept for its Sustainable Finance Instruments regarding the use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the ICMA’s GBP, SBP, SBG, and LMA’s GLP and SLP.</p>	<p><b>Aligned</b></p>
<p><b>Part II:</b></p> <p><b>Sustainability quality of the Eligibility Criteria</b></p>	<p>The Sustainable Finance Instruments will (re)finance eligible asset categories which include:</p> <p>Green categories: Renewable Energy, Energy Efficiency, Transport, Sustainable Water and Wastewater Management, Pollution Prevention and Control and Circular Economy, and Protection of the Environment and Biodiversity and Sustainable Agriculture.</p> <p>Social categories: Access to Essential Services – Education, Access to Essential Services – Healthcare, Socioeconomic Advancement and Empowerment, and Food Security and Sustainable Food Systems.</p> <p>Product and/or service-related use of proceeds categories<sup>5</sup> individually contribute to one or more of the following SDGs:</p> 	<p><b>Positive</b></p>

<sup>4</sup> The evaluation is based on Serbia’s Sustainable Finance Framework (May 29, 2024), on the analysed Eligibility Criteria as received on May 29, 2024.

<sup>5</sup> Renewable Energy, Energy Efficiency, Transport, Sustainable Water and Wastewater Management, Pollution Prevention and Control and Circular Economy, and Protection of the Environment and Biodiversity and Sustainable Agriculture, Access to Essential Services – Education, Access to Essential Services – Healthcare, Socioeconomic Advancement and Empowerment, and Food Security and Sustainable Food Systems

	<p>Process-related use of proceeds categories<sup>6</sup> improve the Issuer’s operational impacts and mitigate potential negative externalities of its sector on one or more of the following SDGs:</p>  <p>The environmental and social risks associated with those use of proceeds categories are managed.</p>	
<p><b>Part III:</b></p> <p><b>Consistency of Sustainable Finance Instruments with Serbia’s Sustainability Strategy</b></p>	<p>The key sustainability objectives and the rationale for issuing Sustainable Finance Instruments are clearly described by the Issuer. All project categories considered are in line with the sustainability objectives of the Issuer.</p> <p>At the date of publication of the report and leveraging ISS ESG Research, the Issuer is exposed to the following controversial areas: Status per Freedom House: Partly Free, Child Labor, Corruption, Coal Power Generation, Freedom of Speech and Press, Human Rights, and Military Budget.</p>	<p><b>Consistent with Issuer’s sustainability strategy</b></p>

<sup>6</sup> Renewable Energy, Energy Efficiency, Sustainable Water and Wastewater Management.

## SPO ASSESSMENT

### PART I: ALIGNMENT WITH GREEN BOND PRINCIPLES (GBP), SOCIAL BOND PRINCIPLES (SBP), SUSTAINABILITY BOND GUIDELINES (SBG), AND GREEN LOAN PRINCIPLES (GLP) AND SOCIAL LOAN PRINCIPLES (SLP)

This section evaluates the alignment of Serbia’s Sustainable Finance Framework (as of May 29, 2024) with the ICMA’s GBP, SBP, SBG, and LMA’s GLP and SLP.

GBP, SBP, SBG, GLP AND SLP	ALIGNMENT	OPINION
<p><b>1. Use of Proceeds</b></p>	<p>✓</p>	<p>The Use of Proceeds description provided by Serbia’s Sustainable Finance Framework is <b>aligned</b> with the ICMA’s GBP, SBP, SBG, and LMA’s GLP and SLP.</p> <p>The Issuer’s green and social categories align with the project categories as proposed by the ICMA’s GBP, SBP, SBG, and LMA’s GLP and SLP. Criteria are defined in a clear and transparent manner. Disclosure of an allocation period and commitment to report by project category has been provided, and environmental and social benefits are described.</p> <p>The Issuer defines exclusion criteria for harmful projects categories, in line with best market practice.</p>
<p><b>2. Process for Project Evaluation and Selection</b></p>	<p>✓</p>	<p>The Process for Project Evaluation and Selection description provided by Serbia’s Sustainable Finance Framework is <b>aligned</b> with the ICMA’s GBP, SBP, SBG, and LMA’s GLP and SLP.</p> <p>The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the Issuer and clearly show the intended benefit to the relevant population.</p>

		<p>The Issuer involves various stakeholders in this process and identifies alignment of their Sustainable Finance Framework and their green and social projects with reference to green and social standards, in line with best market practice.</p>
<p><b>3. Management of Proceeds</b></p>	<p>✓</p>	<p>The Management of Proceeds provided by Serbia’s Sustainable Finance Framework is <b>aligned</b> with the ICMA’s GBP, SBP, SBG, and LMA’s GLP and SLP.</p> <p>The net proceeds collected are equal to the amount allocated to eligible projects, with no exceptions. The net proceeds are tracked in an appropriate manner. The net proceeds are managed per bond (bond-by-bond approach). Moreover, the Issuer discloses the temporary investment instruments for unallocated proceeds.</p> <p>The Issuer has set a reallocation period of one year, in line with best market practices.</p>
<p><b>4. Reporting</b></p>	<p>✓</p>	<p>The allocation and impact reporting provided by Serbia’s Sustainable Finance Framework is <b>aligned</b> with the ICMA’s GBP, SBP, SBG, and LMA’s GLP and SLP.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. The reporting will be publicly available on the Issuer’s website. Serbia has disclosed the type of information that will be reported and explains that the level of expected reporting will be at the portfolio level. Moreover, the Issuer commits to report annually, until full allocation of proceeds.</p> <p>The Issuer discloses roles and responsibilities in the monitoring and reporting process, and is transparent about the information reported, and further defines the duration and frequency of the impact reporting, in line with best market practice.</p>



## PART II: SUSTAINABILITY QUALITY OF THE ELIGIBILITY CRITERIA

### A. CONTRIBUTION OF THE SUSTAINABLE FINANCE INSTRUMENTS TO THE UN SDGs<sup>7</sup>

Sovereign can contribute to the achievement of the SDGs by investing in specific services/products which help address global sustainability challenges, and by being responsible actors, working to minimize negative externalities in their operations along the entire value chain. The aim of this section is to assess the SDG impact of the UoP categories investing in by the Issuer in two different ways, depending on whether the proceeds are used to (re)finance:

- specific products/services,
- improvements of operational performance.

#### 1. Products and services



The assessment of UoP categories for investing in products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an Issuer's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment<sup>7</sup> of UoP categories for investing in specific products and services is displayed on a 3-point scale:



Each of the Sustainable Finance Instruments' Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

#### GREEN CATEGORIES

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
Renewable Energy	Contribution	 

<sup>7</sup> The impact of the UoP categories on UN Sustainable Development Goals is assessed with proprietary methodology and may therefore differ from the Issuer's description in the framework.

*Expenditures and subsidies related to promote the production and distribution of energy from renewable sources including:*

- Solar.
- Wind.
- Geothermal.
- Small-scale hydro (<50MW).

**Renewable Energy**

*Expenditures and subsidies related to promote the production and distribution of energy from renewable sources including biomass.<sup>8</sup>*

**Energy Efficiency**

- Investments to district energy (heating/cooling) powered by renewable energy sources incl., solar collectors, and geothermal energy.
- Investments to district energy (heating/cooling) powered by renewable energy sources incl. heat pumps.<sup>9</sup>

**Energy Efficiency**

- Investments to district energy (heating/cooling) powered by biomass.<sup>10</sup>

**Transport**

- Investments for the construction, improvement and maintenance of rail infrastructure and electric rolling stock for passenger and freight transportation.
- Investment related to construction, maintenance and upgrade of new electric metro, tram, and electric rolling stocks/vehicles.

**Contribution**



**Contribution**



**Contribution**



**Contribution**



<sup>8</sup> Projects will be limited to using 2nd generation feedstock with certifications for wood-based feedstock.

<sup>9</sup> The energy source for this category is only renewable energy.

<sup>10</sup> Projects will be limited to using 2nd generation feedstock with certifications for wood-based feedstock.

- *Subsidies to incentivize the acquisition of zero-emission vehicles.*
- *Investment to purchase hybrid and/or zero-emission vehicles.*
- *Subsidies to incentivize the acquisition of charging infrastructure for zero emissions vehicles.*
- *Investment to purchase charging infrastructure own by the public authorities.*
- *Investments in bicycle and pedestrian traffic infrastructure.*
- *Investment related to construction, maintenance and upgrade of new electric bus lines.*

**Sustainable Water and Wastewater Management**

- *Expenditures for the development of flood protection and to strengthen resilience of water infrastructure in case of severe weather and climate change events.*

**Sustainable Water and Wastewater Management**

- *Construction of drinking water treatment plant and infrastructure for clean water supply.*
- *Construction of dams and reservoir for water collection.*
- *Installation and improvement of wastewater collection and treatment infrastructure.*
- *Water supply and wastewater treatment program in medium-sized municipalities in Serbia.*

**Pollution Prevention and Control and Circular Economy**

**Contribution**



**Contribution**



**Contribution**



*Expenditures for waste collection, treatment and recycling infrastructure, equipment and projects.*

**Pollution Prevention and Control and Circular Economy**

- *Rehabilitation and closure of unsanitary landfills.*
- *Hazardous waste management.*

**Contribution**



**Pollution Prevention and Control and Circular Economy**

*Expenditures to incentivize increased usage of recyclable, recycled, and/or re-used products and materials.<sup>11</sup>*

**Contribution**



**Protection of the Environment and Biodiversity and Sustainable Agriculture**

- *Expenditures to development and implementation of new, more resistant, varieties and species to increase afforestation (indigenous species).*
- *Expenditures related to sustainable forest management.*
- *Expenditures to protect and restore natural landscapes and preserve landscape diversity, including terrestrial ecosystems.*
- *Management and maintenance of national parks.*

**Contribution**



**Protection of the Environment and Biodiversity and Sustainable Agriculture**

*Expenditures to protect and restore natural landscapes and preserve landscape*

**Contribution**



<sup>11</sup> Incentives to private companies for recovery and reuse of waste. This program covers: reuse, recycling of batteries and storage batteries / accumulators; reuse, recycling of household appliances and IT equipment as well as television sets, lighting and medical tools in addition to surveillance tools and electric power tools.

*diversity, including river and swamp ecosystems.*

**Protection of the Environment and Biodiversity and Sustainable Agriculture**

*Infrastructure and systems to improve resilient and offer protection against consequences resulting from climate change, e.g., floods, drought, hail, forest fires among others.*

**Contribution**



**SOCIAL CATEGORIES**

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p><b>Access to Essential Services – Education</b></p> <ul style="list-style-type: none"> <li>▪ Subsidies for student loans (granted on the basis of household-income and educational performance).</li> <li>▪ Investments into the operation of existing or new vocational schools.</li> <li>▪ Investments into the construction of existing or new institutions of student standard (primary and high schools, as well as vocational schools).</li> <li>▪ Scholarships for students (granted on the basis of educational performance, but also considering socio-economic factors).</li> <li>▪ Investments into ICT infrastructure in schools, related training for teachers and employees in the public administration.<sup>12</sup></li> <li>▪ Offerings for informatics and computer science in primary schools.</li> <li>▪ Establishing and improving public e-education services.</li> </ul>	<p><b>Contribution</b></p>	
<p><b>Access to Essential Services – Education</b></p> <p>Investments into the operation of existing or new institutions of student standard (primary and high schools).</p>	<p><b>Contribution</b></p>	
<p><b>Access to Essential Services – Healthcare</b></p>	<p><b>Contribution</b></p>	

<sup>12</sup> This category is focused on education and expanding ICT infrastructure in schools.

- Investments into the operation of hospitals and medical school capabilities.
- Financial assistance for persons with rare diseases to support access rehabilitation measures.

**Access to Essential Services – Healthcare**

- Investments into the construction and refurbishment of hospitals and medical school capabilities.
- Supply of medical equipment (Mammograms, magnetic resonance imaging scans, and ultrasounds) to health institutions.
- Financial assistance for persons with rare diseases to support the purchase of medicines.

**Contribution**



**Socioeconomic Advancement and Empowerment**

- Financial assistance for the purchase of a first appartement for families with an average household income below the average monthly wages of employees in Serbia.
- Social assistance payments to low-income individuals.

**Contribution**



**Socioeconomic Advancement and Empowerment**

- Financial assistance for low-income families with children.
- Enhancing rural communities by providing grants for purchasing properties in rural areas to enhance the demographic structure of those areas.<sup>13</sup>

**Contribution**



**Food Security and Sustainable Food Systems**

Financial support and technical support to small and medium farmers for agricultural

**Contribution**



<sup>13</sup> Restrictions apply, such as that applicants who receive grants cannot alienate real estate within ten years from the date of concluding the contract on the sale of real estate and have to live on the properties themselves (i.e.cannot rent it)

*production, in order to, among others, support the technological development in agriculture and rural development, improvement knowledge creation and transfer, and enhance social structures.*

**Food Security and Sustainable Food Systems**

*Programs to ensure access to health and nutritious food services.*

**Contribution**





**2. Improvements of operational performance (processes)**

The below assessment aims at qualifying the direction of change (or “operational impact improvement”) resulting from the operational performance projects (re)financed by the UoP categories, as well as related UN SDGs impacted. The assessment displays how the UoP categories are mitigating the exposure to the negative externalities relevant to different business model and the sectors.

The table below aims at displaying the direction of change resulting from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

USE OF PROCEEDS (PROCESSES)	OPERATIONAL IMPACT IMPROVEMENT <sup>14</sup>	SUSTAINABLE DEVELOPMENT GOALS
<p><b>Energy Efficiency</b></p> <ul style="list-style-type: none"> <li>• <i>Investments and subsidies related to increase of energy efficiency of existing residential and public sector buildings such as:<sup>15</sup></i></li> <li>• <i>Improvement of the building's thermal envelope (replacement of external windows and doors, installation of thermal insulation of walls, roofs, etc.).</i></li> <li>• <i>Improvement of the thermos-technical systems of the building by replacing the system or part of the system with a more efficient system (replacing the existing boiler with a more efficient boiler, installing electronically regulated circulation pumps, installing thermostatic valves on all heating elements, installing heat pumps, replacing existing and installing new efficient air conditioning systems, etc.).</i></li> <li>• <i>Installation of solar collectors in the installation for central preparation of domestic hot water.</i></li> <li>• <i>Installation of solar panels and accompanying installations for the production of electricity for own needs.</i></li> </ul>		

<sup>14</sup> Limited information is available on the scale of the improvement as no threshold is provided. Only the direction of change is displayed.

<sup>15</sup> The assessment is limited to the examples of projects spelled out in the comment by Serbia.

- Expenditures related to the installation of LED lightings.
- Other support for improvement of energy efficiency financed/promoted by the Directorate for financing and promotion of energy efficiency.

**Energy Efficiency**

Investments and subsidies related to increase of energy efficiency of existing residential and public sector buildings such as:<sup>16</sup>



- Modernization of building lighting systems and public lighting systems.

**Pollution Prevention and Control and Circular Economy**

Expenditures to prevent or address illegal waste disposal.



<sup>16</sup> The assessment is limited to the examples of projects spelled out in the comment by Serbia.

## B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE ELIGIBILITY CRITERIA

The table below evaluates the Eligibility Criteria against issuance-specific KPIs. All of the assets will be located in Serbia.

### ASSESSMENT AGAINST KPIs

#### All categories

#### Biodiversity



Serbia has adopted several national legislations aimed at environmental protection. From a public procurement point of view, Public Procurement Law<sup>17</sup> sets principles of procurement in Article 5, which states that business entities are obliged to respect obligations in the field of environmental protection i.e. provisions of international law related to environmental protection, in the execution of public procurement contracts. Section 5 of the Law (Articles 126-127) deals with Standards of assurance of quality and standards of environmental protection. According to the Law, when considering the procurement of goods, services, or works, the contracting authority must choose those with minimal environmental impact. The law requires respect of Vienna Convention for the Protection of the Ozone Layer with Annexes I and II, the Montreal Protocol on Substances that Deplete the Ozone Layer, Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal, Stockholm Convention on Persistent Organic Pollutants (Stockholm POP Convention), and the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade.

Law on nature protection of the Serbia regulates production, collecting, and trade of protected species. The legal basis for adoption in the Republic of Serbia, is the law on nature protection, in accordance with the Law on Ratification of the Convention on Biological Diversity. The Law on nature protection of the Republic of Serbia governs protection and conservation of nature and biological, geological and landscape diversity as part of the environment and regulates proclamation and management of protected areas and ecological network, proclamation and management of strictly protected and protected species and habitat types, collecting and sustainable use and trade of protected species. The legal basis for adoption in the Republic of Serbia, is the Law on nature protection, in accordance with the Law on

<sup>17</sup> Public Procurement Law: <https://www.paragraf.rs/propisi/zakon-o-javnim-nabavkama.html>

Ratification of the Convention on Biological Diversity<sup>18</sup> and other biodiversity related conventions, agreements and global categories and criteria.

The Republic of Serbia also has a Law on Strategic Environmental Impact.<sup>19</sup> The Law on Strategic Environmental Impact regulates the terms and conditions, methods, and procedure of conducting the Environmental Impact Assessment (EIA). All projects funded will undergo an EIA. The basic principles of strategic assessment are five (i) Principles of Sustainable Development - preparation and adoption of plans and programs to determine the conditions for preserving the value of natural resources and landscape, biological diversity, wild plant and animal species and autochthonous ecosystem, (ii) Principle of Integrity - preservation and sustainable use of biological diversity in appropriate sectors and cross-sectoral programs and plans, (iii) Precautionary Principle - every activity must be carried out in a way to prevent or reduce the negative impacts of certain plans and programs on the environment before their adoption, (iv) Principle of Hierarchy and Coordination - the assessment of the impact of plans and programs is carried out on different hierarchical levels at which plans and programs are adopted, (v) Principle of Publicity - inform the public about certain plans and programs on their possible impact on the environment.

### Community Dialogue



Serbia has measures in place to identify potential controversies associated with the potential investments. A range of government ministries manage and deliver projects and programs that are included in the Expenditures Pool. Each relevant ministry is requested to provide a list of budget expenditures with the necessary level of information to demonstrate alignment with the eligibility criteria for Eligible Green or Social Expenditures defined in Serbia’s Sustainable Finance Framework. Ministries are responsible for monitoring their expenditures, including identifying, managing and reporting any political, legal, climate, environmental or social risks relating to their expenditures.

In line with Article 45a of the Law on Planning and Construction,<sup>20</sup> following the decision on starting a spatial plan elaboration, the relevant Ministry or local municipality must organize a public review of the plan and its general goals and purpose, possible alternatives, and effects of the plan. “Early public review”

<sup>18</sup> Ratification of the Convention on Biological Diversity: [Biodiversity Strategy of the Republic of Serbia for the period 2011 – 2018 | United Nations Development Programme \(undp.org\)](#)

<sup>19</sup> Law on Strategic Environmental Impact: [https://www.ekologija.gov.rs/sites/default/files/old-documents/Procena\\_uticaja/Zakoni/%D0%97%D0%B0%D0%BA%D0%BE%D0%BD%20%D0%BE%20%D1%81%D1%82%D1%80%D0%B0%D1%82%D0%B5%D1%88%D0%BA%D0%BE%D1%98%20%D0%BF%D1%80%D0%BE%D1%86%D0%B5%D0%BD%D0%B8%20%D1%83%D1%82%D0%B8%D1%86%D0%B0%D1%98%D0%B0%20%D0%BD%D0%B0%20%D0%B6%D0%B8%D0%B2%D0%BE%D1%82%D0%BD%D1%83%20%D1%81%D1%80%D0%B5%D0%B4%D0%B8%D0%BD%D1%83\\_1.pdf](https://www.ekologija.gov.rs/sites/default/files/old-documents/Procena_uticaja/Zakoni/%D0%97%D0%B0%D0%BA%D0%BE%D0%BD%20%D0%BE%20%D1%81%D1%82%D1%80%D0%B0%D1%82%D0%B5%D1%88%D0%BA%D0%BE%D1%98%20%D0%BF%D1%80%D0%BE%D1%86%D0%B5%D0%BD%D0%B8%20%D1%83%D1%82%D0%B8%D1%86%D0%B0%D1%98%D0%B0%20%D0%BD%D0%B0%20%D0%B6%D0%B8%D0%B2%D0%BE%D1%82%D0%BD%D1%83%20%D1%81%D1%80%D0%B5%D0%B4%D0%B8%D0%BD%D1%83_1.pdf)

<sup>20</sup> Law on Planning and Construction: [https://www.paragraf.rs/propisi/zakon\\_o\\_planiranju\\_i\\_izgradnji.html](https://www.paragraf.rs/propisi/zakon_o_planiranju_i_izgradnji.html)

is to be advertised in mass media (mass public communication) and on the webpage of local municipality as well as the relevant Ministry for 15 days. All remarks and objections from the public, legal and physical persons must be noted by the relevant Ministry or local municipality, whereby noted remarks can affect the plan.

After this period, when the spatial plan is drafted, it must contain public objections and comments. Under Art. 50 of the same law, the relevant body or planning commission must show all objections / remarks and subsequent decision taken per each remark in a separate report, which the plan drafting body must enact within 30 days. Under Art. 51, if remarks result in a fundamental change for the plan, a new draft must be created within a pre-determined time period. Similar procedures exist for smaller scale urbanistic plans, through a public presentation engagement, under Art. 63 of the law.

### **Circular Economy / Waste Management**

Serbia has set a waste management program for 2022-2031.<sup>21</sup> It was preceded by the Waste Management Strategy for the period 2010-2019 ("Official Gazette of the RS", No. 29/10), which set the conditions for the establishment and development of an integrated waste management system in the Republic of Serbia. During the previous period, the progress has been made in harmonizing waste management regulations with the EU regulations. The program determines the strategic goals for the improvement of the waste management system and the basic principles that should guide all actors in waste management to achieve these goals in the Republic of Serbia for the period 2022-2031.



Further, Serbia has adopted a circular economy development program<sup>22</sup> until 2024, as a complex and comprehensive document that defines the areas of waste management, water, renewable energy sources and energy efficiency. This document defines the priorities for the next three years. Moreover, the Government's Economic Reform Program 2024-2026 was approved in December 2023, and sets out a number of structural reforms including in the area of circular economy.

All major city public enterprises have adopted ISO certification, including Belgrade, Novi Sad, Sremska Mitrovica, Cacak (based on ISO 14001, ISO 9001 and OHSAS 180001).

<sup>21</sup> Waste management program: <https://www.ekologija.gov.rs/dokumenta/upravljanje-otpadom/program>

<sup>22</sup> Circular economy development program: <https://www.srbija.gov.rs/vest/en/198508/circular-economy-development-programme-in-serbia-until-2024-adopted.php>

Serbia has also adopted several national legislations aimed at environmental protection. Section 5 of the Law<sup>23</sup> (Articles 126-127) deals with Standards of assurance of quality and standards of environmental protection. The law requires respect of Vienna Convention for the Protection of the Ozone Layer with Annexes I and II, the Montreal Protocol on Substances that Deplete the Ozone Layer, Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal, Stockholm Convention on Persistent Organic Pollutants (Stockholm POP Convention); Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade.

### Labor, Health and Safety

Serbia has measures in place to ensure labor, health and safety. The Issuer has ratified all 10 ILO fundamental conventions for labor, health and safety.<sup>24</sup> Human and minority rights are guaranteed by the Constitution. Serbia has ratified all ILO convention but has not yet ratified the additional 2024 Protocol of the Forced Labor Convention. However, Article 26 of the Serbian Constitution covers the topic and the same requirements as the ILO.<sup>25</sup>

Worker health and safety is regulated through a set of laws as enumerated by ILO itself, including Law on Safety and Health at Work; Law on Ratification of ILO Convention No. 167 on Safety and Health in Construction; and Law on Ratification of ILO Convention No. 187 on the Promotional Framework for Occupational Safety and Health at Work.



The implementation and continued compliance with these laws is under the scope of Ministry of Labor and Social Policy, which includes two administrative bodies:

(i) the Occupational Safety and Health Directorate which acts as a focal point of the European Agency for Safety and Health at Work (EU-OSHA)<sup>26</sup> and operates supported by a network of ministry representatives, academic partners, etc. with the definition of current strategy of worker health and safety (2018-2022 plan currently valid) including preparation of legislation, creating national programs for improving health and safety, and monitoring current status of worker protection.

<sup>23</sup> Public Procurement Law: <https://www.paragraf.rs/propisi/zakon-o-javnim-nabavkama.html>

<sup>24</sup> ILO core conventions:

<https://www.ilo.org/serbia#:~:text=Serbia%20has%20been%20a%20member,incluing%20all%20ten%20fundamental%20conventions.>

<sup>25</sup> Republic of Serbia Constitution: <https://www.paragraf.rs/propisi/constitution-of-the-republic-of-serbia.html>

<sup>26</sup> EU-OSHA: <https://osha.europa.eu/en/about-eu-osha/national-focal-points/serbia>

(ii) The Work Inspectorate, who perform regular supervision, compliance with safety and health conditions, investigations to injuries at work.

### User's Safety for Products

Serbia has a Law in place for planning and construction.<sup>27</sup> Any new construction must demonstrate fire protection compliance with national legislation<sup>28</sup> through technical documentation, which requires approval from the relevant authorities including a fire protection engineer sign-off. Adaptation work must not change fire protection safety and generate negative environmental impact. Finally, the Law on Housing and Maintenance of Buildings<sup>29</sup> covers the requirement for installation for fire detection and notification systems, extinguishers, safety lighting etc. Building maintenance require ongoing preventative measures on evacuation procedures.

Serbia's Law on Consumer Protection<sup>30</sup> protects the position of consumers, this law regulates the rights and obligations of consumers, instruments and ways of protecting consumer rights, informing and improving consumer knowledge about their rights and ways of protecting their rights, the rights and obligations of associations and unions whose field of activity is the achievement of consumer protection goals, out-of-court settlement of consumer disputes, rights and obligations of state authorities in the field of consumer protection and others issues of importance for the position and protection of consumers.

Serbia's Law on Food Safety<sup>31</sup> regulated the general conditions for food and animal feed safety, as well as obligations and responsibilities of subjects in the food and animal feed business, rapid notification and alarm system, emergency measures and crisis management, hygiene and quality of food and animal feed.

Serbia's Law on Noise Protection in the Environment<sup>32</sup> regulates subjects of environmental protection against noise, measures, and conditions of noise protection in the environment, measurement of noise in the environment, access to noise information, supervision and other issues of importance for environmental protection and human health. The provisions of this law refer to noise in the environment to which people are exposed, especially in built-up areas, public parks, or other quiet zones in agglomerations, in quiet zones outside settlements, near schools, hospitals, and other facilities, noise-sensitive

<sup>27</sup> Law on Planning and Construction: [https://www.paragraf.rs/propisi/zakon\\_o\\_planiranju\\_i\\_izgradnji.html](https://www.paragraf.rs/propisi/zakon_o_planiranju_i_izgradnji.html)

<sup>28</sup> Law on Fire Protection: [https://www.paragraf.rs/propisi/zakon\\_o\\_zastiti\\_od\\_pozara.html](https://www.paragraf.rs/propisi/zakon_o_zastiti_od_pozara.html)

<sup>29</sup> Law on Housing and Maintenance of Buildings: [https://www.paragraf.rs/propisi/zakon\\_o\\_stanovanju\\_i\\_odrzavanju\\_zgrada.html](https://www.paragraf.rs/propisi/zakon_o_stanovanju_i_odrzavanju_zgrada.html)

<sup>30</sup> Serbia's Law on Consumer Protection: [https://www.paragraf.rs/propisi/zakon\\_o\\_zastiti\\_potrosaca.html](https://www.paragraf.rs/propisi/zakon_o_zastiti_potrosaca.html)

<sup>31</sup> Serbia's Law on Food Safety: [https://www.paragraf.rs/propisi/zakon\\_o\\_bezbednosti\\_hrane.html](https://www.paragraf.rs/propisi/zakon_o_bezbednosti_hrane.html)

<sup>32</sup> Serbia's Law on Noise Protection in the Environment:  
[https://www.paragraf.rs/propisi/zakon\\_o\\_zastiti\\_od\\_buke\\_u\\_zivotnoj\\_sredini.html](https://www.paragraf.rs/propisi/zakon_o_zastiti_od_buke_u_zivotnoj_sredini.html)

zones, which originates from the operation of noise sources in the sense of this law.

Finally, Serbia’s Law on Construction Products<sup>33</sup> regulates the conditions for placing on the market and making available on the market of construction products, drawing up a declaration of performance and putting a mark of conformity on construction products, obligations of economic entities, technical regulations for construction products and Serbian technical specifications, simplified procedures, bodies for technical evaluation, bodies for evaluation and verification of the constancy of performance of construction products, the validity of documents on the conducted assessment and verification of the constancy of performance of construction products and conformity marks issued abroad and other issues of importance in the field of construction products.

**Inclusion**

Inclusion is covered under Article 1, 14 and 15 of Section One as well as Section 2 of the Serbian Constitution.<sup>34</sup>



The social inclusion policies are defined by the wider concept of the Human Resources and Social Development sector, which includes several national strategies in the area of poverty reduction, social inclusion, social welfare, education, employment, health and social housing, as well as strategies aimed at improving the status of socially excluded groups, such as women, persons with disabilities, migrants and others.

The Law on Social Welfare was adopted in 2011 to support the reform of implementation of the integral social welfare concept and to improve of protection of the poorest, ensuring minimum subsistence level and more efficient system of benefits. Every individual and family in need of social assistance and support have the right to social protection in accordance with the Law on Welfare. The right to social welfare is provided by the provision of social protection services and material support.

**Quality Management**



Serbia has a supreme state body for auditing public funds in the Republic of Serbia.<sup>35</sup> It is responsible to review the budget and other public funds spending whether the funds were used in accordance with the principles of economy,

<sup>33</sup> Serbia’s Law on Construction Products: <https://www.paragraf.rs/propisi/zakon-gradjevinskim-proizvodima.html>

<sup>34</sup> Constitution: <https://www.paragraf.rs/propisi/constitution-of-the-republic-of-serbia.html>

<sup>35</sup> State Audit: <https://track.unodc.org/uploads/documents/BRI-legal-resources/Serbia/14 -Law on State Audit Institution.pdf>  
[https://www.dri.rs/storage/upload/documents/materijali/2022/Code%20of%20Ethics\\_SAI.pdf](https://www.dri.rs/storage/upload/documents/materijali/2022/Code%20of%20Ethics_SAI.pdf)  
[https://www.dri.rs/storage/upload/documents/ostali\\_zakoni/Poslovnik%202009%20ENG.pdf](https://www.dri.rs/storage/upload/documents/ostali_zakoni/Poslovnik%202009%20ENG.pdf)



efficiency, effectiveness, as well as in accordance with the planned objective. The Institution is an autonomous and independent state body. In execution of operations from its competence, the Institution is accountable to the National Assembly of the Republic of Serbia. This body is also in charge of checking quality standards.

## Ethics

The first National Anti-Corruption Strategy of the Republic of Serbia was adopted in 2005.<sup>36</sup>

The report of the Anti-Corruption Agency on the implementation of the Strategy from 2005 shows that objectives achieved in 2012 were mostly those that dealt with the establishing of the legal and institutional framework for prevention and combating corruption, prevention of conflict of interest in the public sector, involvement in the regional and international fight against corruption, and the establishment of ethical standards and transparent funding of political parties. On the other hand, certain issues listed in the strategic document were resolved only partially or are currently being address. The following can be mentioned as examples: the judicial reform which still has to be completed in a satisfactory manner; privatization and public procurement processes which continue to cause concern in terms of corruption; insufficient transparency of media ownership and the possibility of undue influence on the media's editorial policy; lack of participation of the public in the legislative process and budget planning, etc.

The National Anti-Corruption Strategy of the Republic of Serbia 2013-2018 was adopted on the basis of these foundations, while specific measures and activities for its implementation were provided in the action plan.

Serbia also has a Code of Corporate Governance of the Chamber of Commerce<sup>37</sup> which, in accordance with the Law on Companies,<sup>38</sup> is an integral part of the annual report on the operation of a public joint stock. The Chamber of Commerce and Industry of Serbia adopted the Corporate Governance Code, which targets all companies in Serbia. It is predominantly based on EU best practices and Organisation for Economic Co-operation and Development (OECD) principles. The principles and recommendations contained in this code

<sup>36</sup> Anti-Corruption: <https://mpravde.gov.rs/en/tekst/1702/anti-corruption.php>  
<https://serbia-business.eu/the-government-of-serbia-adopted-the-strategy-of-state-ownership-and-management-for-the-first-time/>

<sup>37</sup> Code of Corporate Governance of the Chamber of Commerce:  
<https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwi1uK62m4GGAxWdhf0HHTatC0QQFn0ECBsQAQ&url=https%3A%2F%2Fwww.ebrd.com%2Fdocuments%2Fogc%2Fserbia.pdf&usq=AOvVaw3gdFiHDL7pB68J5beU2vxd&opi=89978449>

<sup>38</sup> Law on Companies: <https://www.paragraf.rs/propisi/companies-act-of-serbia.html>

are not binding. Still, they are recommended to all companies, particularly to the Serbian Chamber of Commerce members, as the best practice in corporate governance. Companies may directly implement the principles and recommendations of the code by adopting a decision of the competent body of the company or, if needed, elaborate them by adopting their own corporate governance code or by adopting other internal bylaws of the company.

Moreover, in August 2023, Serbia has adopted the Law on Management of State-Owned Companies<sup>39</sup> which defines that capital companies are obliged to adopt the Code of Ethics. The Code of Ethics regulates the principles and rules of business ethics, generally accepted rules of conduct and professional standards that all employees must adhere to, to protect the ethical and socially responsible behavior of employees. The capital company is also obliged to adopt an Integrity Plan, in accordance with the law.

## Water

ISO implementation and certification in Serbia is conducted on a voluntary basis. There is no centralized database of the full list of Public enterprises that have implemented the ISO 9001 or 14001 systems to date. Environmental Management Systems have been implemented in many regional Public Enterprises of Water & Sewage Management.

Serbia's Water Law<sup>40</sup> regulates the legal status of water, integral water management, management of water facilities and water land, sources and methods of financing water activities, supervision of the implementation of this law, as well as other issues important for water management.



The Republic Directorate for Water, as an administrative body within the Ministry of Agriculture, Forestry and Water Management, performs tasks related to: water management policy, multipurpose use of water, water supply, except water distribution, water protection, implementation of water protection measures and planned rationalization of water consumption, arrangement of water regimes, monitoring and maintaining the regime of waters that form and cross the border of the Republic of Serbia, and inspection supervision in the field of water management.<sup>41</sup>

<sup>39</sup> Law on Management of State-Owned Companies: <https://www.paragraf.rs/propisi/zakon-o-upravljanju-privrednim-drustvima-koja-su-u-vlasnistvu-republike-srbije.html>

<sup>40</sup> Serbia's Water Law: [https://www.paragraf.rs/propisi/zakon\\_o\\_vodama.html](https://www.paragraf.rs/propisi/zakon_o_vodama.html)

<sup>41</sup> Republic Directorate for Water: <https://rdvode.gov.rs/lat/index.php>

### **Exclusion Criteria**

Serbia explicitly excludes the following activities: exploration and production of fossil fuels, nuclear energy, manufacturing and production of armaments, defense, tobacco and alcoholic products, activities related to gambling, and deforestation and degradation of forest.

Any expenditures that violate the Constitution of Serbia, the EU Charter of Fundamental Rights, as well as national laws or regulations, are excluded from the national budget.

## PART III: CONSISTENCY OF SUSTAINABLE FINANCE INSTRUMENTS WITH SERBIA’S SUSTAINABILITY STRATEGY

*Key sustainability objectives and priorities defined by the Issuer*

TOPIC	ISSUER APPROACH
<p><b>Strategic ESG topics</b></p>	<p>The Issuer focuses on five pillars:</p> <ul style="list-style-type: none"> <li>▪ Climate, Energy, Mobility</li> <li>▪ Circular Economy</li> <li>▪ Depollution</li> <li>▪ Sustainable Agriculture and Food Production</li> <li>▪ Biodiversity</li> </ul> <p>These sustainability pillars have been defined in line with the European Green Deal.</p> <p>The Issuer also has four social priorities:</p> <ul style="list-style-type: none"> <li>▪ The fight against poverty and inequality</li> <li>▪ Access to education</li> <li>▪ Access to healthcare</li> <li>▪ Development of regional economies</li> </ul>
<p><b>ESG goals/targets and Action Plan</b></p>	<p>To achieve its strategic ESG topics, the Issuer has set the following goals:</p> <ul style="list-style-type: none"> <li>▪ Climate, energy, mobility – to work towards the 2050 target of a carbon-neutral continent;</li> <li>▪ Circular economy – to commit to the process of transition from a linear to a circular economy, being fully aware of the necessity for a research and innovation system to support such a transition;</li> <li>▪ Depollution - Depollution of air, water and soil in the Western Balkans; a joint interest stemming from the primary concern for the health of citizens;</li> <li>▪ Sustainable agriculture and food production – to commit to work towards ensuring transformation of the agriculture sector, minimizing its negative environmental and</li> </ul>

	<p>climate impact and safeguarding affordable and healthy food; and</p> <ul style="list-style-type: none"><li>▪ Biodiversity – defining the post-2020 biodiversity framework and developing a long-term strategy for halting biodiversity loss, protection and restoration of ecosystems and abundant biological diversity.</li><li>▪ The fight against poverty and inequality – the overall goal of the Employment Strategy of the Republic of Serbia 2021–2026 is to create a stable and sustainable employment growth underpinned by knowledge and decent work, whereas its objectives are 1) growth of high-quality employment achieved through cross-sectoral measures aimed to enhance labor supply and demand, 2) improved labor market position of the unemployed, and 3) improved institutional framework for employment policy.</li><li>▪ Access to education – the Serbian Ministry of Education, Science and Technological Development has developed a national Strategy for the Development of Education in Serbia by 2030. The strategy encompasses a comprehensive program, from preschool to higher education and lifelong learning.</li><li>▪ Access to healthcare – with its Public Health Strategy, the Government lays out an action plan until 2026 to further expand the quality of overall healthcare and to reduce inequalities in health. It builds on joint actions of government and citizens to promote health and well-being.</li><li>▪ Development of regional economies – with the Law on Regional Development, Serbia aims at developing an environment conducive for business and better social standards through programs that support productivity and competitiveness, and entrepreneurship development.</li></ul>
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	<p>The goals are public and monitored on the Government’s Economic Reform Program 2024-2026.<sup>42</sup></p> <p>The Ministry of Environmental Protection (MEP) and The Ministry of Mining and Energy have responsibility for matters related to climate change on national and international level.</p> <p>Total investment needs for the implementation of the Integrated National Energy and Climate Plan are estimated at around 30 billion euros.</p>
<p><b>Climate Transition Strategy</b></p>	<p>In March 2021, Serbia adopted a Law on Climate Change that entails the following strategies:</p> <ul style="list-style-type: none"> <li>▪ Low Carbon Development Strategy of the Republic of Serbia for the period 2023-2030 with projections until 2050. The strategy envisages that the Action Plan for its implementation in the period 2024-2030 be adopted within one year, is prepared for a period of at least five years, and prescribes general goals, measures, and activities in the sectors.</li> <li>▪ Program of Adaptation to Changing Climatic Conditions for period 2023-2030. This Program aims at identifying the impacts of climate change on sectors and systems and determine adaptation measures in accordance with the law governing the Serbian planning system.</li> </ul> <p>The law established the National Council for Climate Change (as an advisory body to the Government) and the National GHG Inventory System. To achieve the intended aims of this legislation, public bodies, in addition to the adoption of specific by-laws and ordinances, also adopted appropriate sectoral policies and measures.</p>

<sup>42</sup> Government’s Economic Reform Program 2024-2026: <https://rsjp.gov.rs/en/news/economic-reform-programme-erp-2024-2026/#:~:text=The%20structural%20reforms%20outlined%20in,development%20and%20placement%20of%20innovative>

<p><b>Sustainable Development Goals Agenda</b></p>	<p>The Issuer has committed to the Sustainable Development Goals Agenda. By the end of 2015, Serbia had established the Inter-Ministerial Working Group for the implementation of the United Nations 2030 Agenda for Sustainable Development, composed of representatives of ministries and other institutions. Additionally, in 2017, the Focus Group of the Serbian National Assembly was established to develop oversight mechanisms and oversee the SDG implementation.</p> <p>In July 2019, the Government of the Republic of Serbia submitted its first Voluntary National Review at the United Nations High-level Political Forum meeting, describing all its achievements in implementing the SDGs, with a special focus on local communities and youth.</p> <p>An annual Progress Report on the Implementation of Sustainable Development Goals by 2030 in the Republic of Serbia has been published.<sup>43</sup> The progress on 17 SDGs has been monitored through 83 indicators.</p>
<p><b>ESG Risk and Sustainability Strategy Management</b></p>	<p>Serbia has established a dedicated process to evaluate and select eligible green and social expenditure and involve various ministries with the required expertise. Any expenditure will need to be compliant with National Law. Serbia has adopted several national legislations aimed at environmental protection and social and labor protection.</p> <p>Section 5 of the Law (Articles 126-127)<sup>44</sup> deals with Standards of assurance of quality and standards of environmental protection.</p> <p>Serbia ratified all 10 ILO fundamental conventions.</p>
<p><b>Issuer ranking against international indexes</b></p>	<ul style="list-style-type: none"> <li>▪ Human Development Index: 63, in 2024</li> <li>▪ Corruption Perception Index: 104, in 2023</li> </ul>

<sup>43</sup> Progress Report on the Implementation of Sustainable Development Goals by 2030: <https://sdg.indikatori.rs/media/1546/progress-report-on-the-implementation-of-sustainable-development-goals-by-2030-in-the-republic-of-serbia.pdf>

<sup>44</sup> Section 5 of the Law: [https://www.ujn.gov.rs/wp-content/uploads/2021/07/Public-Procurement-Law-OG-91\\_2019-PPO.pdf](https://www.ujn.gov.rs/wp-content/uploads/2021/07/Public-Procurement-Law-OG-91_2019-PPO.pdf)

	<ul style="list-style-type: none"> <li>Global Peace Index: 65, in 2023</li> </ul>
<p><b>Issuer exposure to controversial areas<sup>45</sup></b></p>	<p>At the date of publication and leveraging ISS ESG Research, the following controversy in which the Issuer would be involved have been identified, to which Serbia has provided the following information:</p> <ul style="list-style-type: none"> <li>Status per Freedom House: Partly Free<sup>46</sup></li> <li>Child Labor: Serbia has ratified all main conventions regulating child labor. The United Nations Convention on the Rights of the Child (CRC),<sup>47</sup> ILO Convention No. 138 on Minimum Age (C. 138), and ILO Convention No. 182 on the Worst Forms of Child Labor (C. 182).<sup>48</sup> Serbia has also improved its normative framework and significantly increased capacities to combat child labor. The new General Protocol for Protection of Children from Violence in Serbia,<sup>49</sup> adopted in February 2022, identifies different types of violence against children for the first time contains the definition of child labor and child begging. To improve the implementation of policies relating to the protection of children against child labor, representatives of the Labor Inspection, Prosecution offices, centers for Social Work and the Ministry of Interior received extensive training on child labor issues. In addition, 135 centers for Social Work in Serbia and the institutes of Social Protection benefitted from a fully accredited training program developed specifically for them: "Child labor: prevention, identification and intervention".</li> <li>Corruption: the normative framework for preventing corruption in Serbia includes the Law on Prevention of Corruption ("Official Gazette" 35/2019, 88/2019, 11/2021, 94/2021 and 14/2022),</li> </ul>

<sup>45</sup> Controversial Areas are derived from ISS ESG Country Rating research which is informed by third-party data. It is not the result of an engagement between ISS-Corporate and the Republic of Serbia.

<sup>46</sup> Freedom House: <https://freedomhouse.org/country/serbia/freedom-world/2024>

<sup>47</sup> United Nations Convention on the Rights of the Child: <https://www.unicef.org.uk/what-we-do/un-convention-child-rights/>

<sup>48</sup> ILO Convention on Child Labor: <https://www.ilo.org/international-programme-elimination-child-labour-ipec/what-child-labour/ilo-conventions-child-labour#:~:text=The%20aim%20of%20ILO%20Convention,the%20elimination%20of%20child%20labour.>

<sup>49</sup> General Protocol for Protection of Children from Violence in Serbia: <https://eurochild.org/uploads/2024/02/Serbia-Childrens-Rights-Political-will-or-wont.pdf>



the Law on the Financing of Political Activities (“Official Gazette” no. 14/2022), the Law on Referendum and People’s Initiative (“Official Gazette”, no. 111/2021 and 119/2021), and the Law on Lobbying (“Official Gazette”, no. 86/2018 and 86/2019).<sup>50</sup> Serbia also works closely with several international organizations, such as the Council of Europe (incl. Group of States against Corruption),<sup>51</sup> the Organization for Security and Co-Operation in Europe,<sup>52</sup> the United Nations Office on Drugs and Crime,<sup>53</sup> and the U.S. Department of Justice’s OPDAT,<sup>54</sup> to detect and eliminate organized crime, corruption, money laundering, and terrorism financing. The authorities continue to follow the development of international and EU standards to implement any new standards, as necessary, into the domestic legal framework as well as to enhance other segments of the Serbian system to prevent money laundering and the financing of terrorism. Serbia fulfills 10 of the 13 recommendations of the Group of States Against Corruption (GRECO).<sup>55</sup>

- Coal Power Generation: By signing the Sofia Declaration on the Green Agenda for the Western Balkans, Serbia has committed itself to work towards making Europe climate-neutral by 2050. Serbia will accept an obligation to adopt National Energy and Climate Plans (NECP) by the end of the year and provide for a target of over 45% of renewables in Serbia’s electricity generation mix by the end of 2030. Last year, Serbia prepared the first version of NECP and held a public review. According to newly proposed legislation on EBRD loan guarantees, Serbia has committed to stop using coal by the end of 2050 at the latest.
- Freedom of Speech and Press:<sup>56</sup> At the National Assembly of the Republic of Serbia in October 2023, the Law on Public Information and Media

<sup>50</sup> Anti-bribery and corruption laws in Serbia: <https://cms.law/en/int/expert-guides/cms-expert-guide-to-anti-bribery-and-corruption-laws/serbia>

<sup>51</sup> Council of Europe: <https://www.coe.int/en/web/portal>

<sup>52</sup> Organization for Security and Co-Operation in Europe: <https://www.osce.org/>

<sup>53</sup> United Nations Office on Drugs and Crime: <https://www.unodc.org/>

<sup>54</sup> U.S. Department of Justice’s OPDAT: <https://www.justice.gov/criminal/criminal-opdat>

<sup>55</sup> Group of States Against Corruption (GRECO): <https://www.coe.int/en/web/greco>

<sup>56</sup> The data comes from Reporters without Borders Press Freedom Index: <https://rsf.org/en/index>

and the Law on Electronic Media were adopted. The adoption of these laws (in line with EU requirements) is an important step towards the further improvement of the media scene in Serbia, as well as the further implementation of the Strategy for the Development of the Public Information System in the Republic of Serbia for the period 2020 – 2025.

- Human Rights: According to the Constitution of the Republic of Serbia, Serbia is a democratic state based on the rule of law and social justice, principles of civil democracy, human and minority rights and freedoms and adherence to European principles and values. The fundamental principles which are recognized in the Constitution in this area are the direct implementation of human rights, the purpose of constitutional guarantees, limitation on human and minority rights, prohibition of discrimination, protection of human and minority rights and freedoms. The government of Serbia remains committed to creating an inclusive society, a society that respects diversity, all minority groups and communities and the basic rights of every person. The following strategies were adopted in recent period: Strategy for prevention and protection against discrimination for the period from 2022 to 2030,<sup>57</sup> Strategy for gender equality for the period from 2021 to 2030,<sup>58</sup> Strategy for Social Inclusion of Roma in the Republic of Serbia 2022 to 2030,<sup>59</sup> Strategy for Creating an Enabling Environment for the Development of Civil Society in the Republic of Serbia from 2022 to 2030.<sup>60</sup>

<sup>57</sup> Strategy for prevention and protection against discrimination for the period from 2022 to 2030: <https://www.sveda02022.com/en/pravo-zakoni-pravilnici/strategija-prevenicije-i-za%C5%A0tite-od-diskriminacije-za-period-od-2022-2030?c=rs-ljudska-i-manjinska-prava-strategije-i-akcioni-planovi>

<sup>58</sup> Strategy for gender equality for the period from 2021 to 2030: <https://www.srbija.gov.rs/vest/en/179692/2021-2030-gender-equality-strategy-adopted.php>

<sup>59</sup> Strategy for Social Inclusion of Roma in the Republic of Serbia 2022 to 2030: [https://pjp-eu.coe.int/hu/web/roma-integration/serbia?p\\_l\\_id=138808439](https://pjp-eu.coe.int/hu/web/roma-integration/serbia?p_l_id=138808439)

<sup>60</sup> Strategy for Creating an Enabling Environment for the Development of Civil Society in the Republic of Serbia 2022 to 2030: <https://www.srbija.gov.rs/vest/en/184591/civil-society-development-strategy-adopted.php#:~:text=The%20Serbian%20government%20adopted%20today,act%20independently%20and%20smoothly%20and>

	<ul style="list-style-type: none"> <li>▪ <b>Military Budget:</b> The Republic of Serbia transparently discloses its Ministry of Defense budget within the annual budget law. The proportion of military expenditures has consistently hovered around 2% of the Gross Domestic Product (GDP). Specifically, these expenditures constituted 2.3% of the GDP in 2022, decreased to 1.95% in 2023, and are projected to further reduce to 1.85% in the current year, as per the stipulations of the 2024 Budget Law. This is in line with NATO requirements.</li> </ul>
<p><b>Sustainability Reporting</b></p>	<p>The Issuer provides regular report on its sustainable developments via the Statistical Office of the Republic of Serbia.<sup>61</sup> The Republic of Serbia reports SDGs progress in a public report annually.<sup>62</sup></p>
<p><b>Industry associations, Collective commitments</b></p>	<p>The Issuer signed the Green Agenda for the Western Balkans and is part of the Western Balkans. Serbia is also signatory of the Paris Agreement.</p>
<p><b>Previous sustainable/sustainability-linked issuances or transactions and publication of sustainable financing framework</b></p>	<p>Serbia issued its inaugural Green Bond in September 2021 of the value of EUR 1 billion. Proceeds have been allocated to the categories renewable energy, energy efficiency, transport, sustainable water and wastewater management, pollution prevention and control and circular economy, protection of the environment and biodiversity and sustainable agriculture.<sup>63</sup> The Green Bond Framework received a Second Party Opinion by ISS-Corporate.<sup>64</sup></p>

*Rationale for issuance*

Serbia has implemented a series of initiatives to promote and advance the Country’s sustainable development, including environmental, social and governance policies, plans and programs. Policies and commitments on climate change, just transitions to a low-carbon economy, and social and economic advancement are reflected in the governmental strategic plans.

<sup>61</sup> Statistical Office of the Republic of Serbia: <https://www.stat.gov.rs/en-US#:~:text=The%20Statistical%20Office%20of%20the.up%20to%20the%20regional%20level.>

<sup>62</sup> SDGs Progress Report: <https://sdg.indikatori.rs/media/1627/progress-report-on-the-implementation-of-sustainable-development-goals-by-2030-in-the-republic-of-serbia-2022.pdf>

<sup>63</sup> Republic of Serbia Green Bonds: <https://javnidug.gov.rs/en/zeleneobveznice>

<sup>64</sup> SPO Republic of Serbia: <https://www.iss-corporate.com/file/documents/spo/spo-20210902-Serbia.pdf>

To achieve these ambitions, substantial investments need to be mobilized and a functioning and expanding green, social and sustainability capital market plays a central role in this context. The Sustainable Finance Framework will support this commitment and raise a part of the necessary funding from the international capital markets. By issuing Green, Social and Sustainable Finance Instruments, Serbia also intends to increase awareness of the importance of sustainable financing and to promote it both internationally and locally, within the Serbian financial and capital markets sectors.

**Opinion:** *The key sustainability objectives and the rationale for issuing Sustainable Finance Instruments are clearly described by the Issuer. All the project categories financed are in line with the sustainability objectives of the Issuer.*

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## ANNEX 1: METHODOLOGY

The ISS-Corporate SPO provides an assessment of labelled transactions against international standards using ISS-Corporate proprietary methodology. For more information, please visit: <https://www.iss-corporate.com/file/publications/methodology/iss-corporate-green-social-and-sustainability-bond-loan-spo-methodology-summary.pdf>

## ANNEX 2: QUALITY MANAGEMENT PROCESSES

### SCOPE

The Republic of Serbia commissioned ISS-Corporate to compile a Sustainable Finance Instruments SPO. The Second Party Opinion process includes verifying whether the Sustainable Finance Framework aligns with the ICMA's Green Bond Principles (GBP), Social Bond Principles (SBP), Sustainability Bond Guidelines (SBG), and LMA's Green Loan Principles (GLP) and Social Loan Principles (SLP) and to assess the sustainability credentials of its Sustainable Finance Instruments, as well as the Issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion:

- ICMA's Green Bond Principles (GBP), Social Bond Principles (SBP), Sustainability Bond Guidelines (SBG)
- LMA's Green Loan Principles (GLP) and Social Loan Principles (SLP)

### ISSUER'S RESPONSIBILITY

The Republic of Serbia's responsibility was to provide information and documentation on:

- Framework
- Eligibility Criteria
- Documentation of ESG risks management at the Framework level

### ISS-CORPORATE'S VERIFICATION PROCESS

Since 2014, ISS Group, of which ISS-Corporate is a part of, has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

This independent Second Party Opinion of the Sustainable Finance Instruments to be issued by the Republic of Serbia has been conducted based on a proprietary methodology and in line with the ICMA's Green Bond Principles (GBP), Social Bond Principles (SBP), Sustainability Bond Guidelines (SBG), and LMA's Green Loan Principles (GLP) and Social Loan Principles (SLP).

The engagement with the Republic of Serbia took place from April to May 2024.

### ISS-CORPORATE'S BUSINESS PRACTICES

ISS-Corporate has conducted this verification in strict compliance with the ISS Group Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About this SPO

Companies turn to ISS-Corporate for expertise in designing and managing governance, compensation, sustainability and cyber risk programs that align with company goals, reduce risk, and manage the needs of a diverse shareholder base by delivering best-in-class data, tools, and advisory services.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the Issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.iss-corporate.com/solutions/sustainable-finance/bond-issuers/>

For more information on SPO services, please contact: [SPOsales@iss-corporate.com](mailto:SPOsales@iss-corporate.com)

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