

DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

Approved by the Board of Directors on 21 October 2020¹

POLAND
WAŁBRZYCH URBAN REGENERATION (PROJECT 1)

POLAND
WAŁBRZYCH BUILDINGS THERMOMODERNISATION
(PROJECT 2)
(UNDER REGIONAL: GREEN CITIES FRAMEWORK 2
(GRCF2))

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

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ABBREVIATIONS / CURRENCY CONVERSIONS

CEE	Central and Eastern Europe
CEMP	Construction Environmental Management Plan
City	City of Walbrzych
DSCR	Debt Service Coverage Ratio
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EIRR	Economic internal rate of return
EHS	Environment, Health and Safety
EHSS	Environment, Health, Safety and Social
ESAP	Environmental and Social Action Plan
ESDD	Environmental and social due diligence
ESIA	Environmental and Social Impact Assessment
E&S	Environmental and Social
EU	European Union
EUR	Euro
ESAP	Environmental and Social Action Plan
GCAP	Green Cities Action Plan
GDP	Gross Domestic Product
H&S	Health and Safety
IFI	International Financial Institution
JTM	Just Transition Mechanism
LGU	Local Government Units
MBA	Municipal Buildings Administration
MTF	Multiannual Financial Framework
NTS	Non-technical summary
OHS	Occupational Health and Safety
PLN	Polish Zloty
PSD	Project Summary Document
PPR	EBRD Procurement Policies and Rules
PRs	Performance Requirements
RAP	Remedial Action Plan
SEP	Stakeholder Engagement Plan
VAT	Value Added Tax
WSEZ	Walbrzych Special Economic Zone

CURRENCY CONVERSION

FX: EUR 1 = PLN 4.5

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning two operations in favour of the City of Walbrzych (the “**City**”), a municipality in Poland, are submitted for consideration by the Board of Directors.

Walbrzych has been working over the last 20 years to escape its coal mining past by undertaking a series of investments to revitalise its economy. It is seeking EBRD finance of up to PLN 134.8 million (approximately EUR 30.0 million) for two critical and complementary investments that are part of its comprehensive urban regeneration programme: a bypass road and a comprehensive retrofit of selected municipal buildings.

The first operation (“**Project 1**”) will enable Walbrzych City to finance construction of a bypass road, for which it is seeking a loan of up to PLN 54.2 million (approx. EUR 12.1 million) (“**Loan 1**”). EBRD’s loan will complement EU Cohesion/Structural Funds. This project is a critical part of the City’s transport hub, which is closely linked to its urban regeneration programme and efforts to reintegrate underdeveloped parts of the City and improve interconnectivity with the region. The expected transition impact of Project 1 is Integrated and Inclusive.

The second operation (“**Project 2**”) will enable the City to finance the retrofit and thermo-modernisation of municipally-owned residential buildings converting their heating source away from coal. Financing for this project entails a tranching loan of up to PLN 80.6 million (approx. EUR 17.9 million) (“**Loan 2**”) alongside parallel loan financing for up to PLN 58.1 million (approx. EUR 12.9 million). Project 2 will result in energy savings [REDACTED] and CO₂ emission savings [REDACTED] and through its strong green credentials qualifies for 100 per cent GET. Project 2 falls under the Green Cities Framework 2 (“**GrCF**”) and its expected transition impact qualities are Green and Well-governed, in line with the framework.

TC support for the development of a Green City Action Plan (“**GCAP**”) is expected to be provided by Poland and Taipei China.

I am satisfied that the operation is consistent with the Bank’s Strategy for Poland, the Economic Inclusion Strategy and the Bank’s Strategy for the Promotion of Gender Equality, the Municipal and Environmental Infrastructure Sector Strategy, with the Green Economy Transition Approach and with the Agreement Establishing the Bank.

Project 1 requires an exception from the Bank’s Procurement Policies and Rules (as set out under Section 2.4), due to the Bank’s co-financing alongside EU Cohesion Funds.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Jürgen Rigterink
Acting President

BOARD DECISION SHEET

POLAND – Project 1 - Wałbrzych Urban Regeneration – DTM 51552, Project 2 – GrCF2-W2 – Wałbrzych Buildings Thermo-modernisation – DTM 51556 Framework: GrCF2, DTM50674	
Transaction / Board Decision	<p>Board approval² is sought for senior unsecured loan financing of up to PLN 134.8 million (~ EUR 30.0 million) to the City of Wałbrzych (“City”) to support the City’s regeneration efforts:</p> <ul style="list-style-type: none"> – Loan 1: Loan of up to PLN 54.2 million (~EUR 12.1 million), to finance construction of ca. 6 km of bypass road (“Project 1”). Project 1 requires an exception from the Bank’s Procurement Policies and Rules (as set out in Section 2.4) based on the co-financing alongside EU Cohesion/Structural Funds. – Loan 2: Loan of up to PLN 80.6 million (~ EUR 17.9 million) comprising: a committed tranche of PLN 22.5 million (~EUR 5.0 million) and an uncommitted, tranche of up to 58.1 million (~EUR 12.9 million) to finance the thermo-modernisation and related retrofitting of municipally-owned residential buildings (“Project 2”). The uncommitted tranche, once committed by the Bank, will be provided alongside a parallel lender financing the same pool of thermo-modernisation investments. Commitment of the uncommitted tranche will be delegated to Management. Project 2 will be the City’s “trigger investment” under GrCF2, formally initiating Wałbrzych’s participation in the programme.
Client	The City of Wałbrzych is the second largest city in the Lower Silesian Voivoidship with ca. 112,000 inhabitants. The City is part of the EU’s Just Transition initiative to support the areas affected by the transition from the coal based industries.
Main Elements of the Proposal	<p><u>Transition Impact:</u></p> <p><u>For Project 1: Integrated:</u> Project 1 forms part of the City’s transportation hub and will create an integrated transportation system in Wałbrzych as well as closer links with Wrocław.</p> <p><u>Inclusive:</u> The planned bypass will increase access to economic opportunities in a currently less-developed region of the country, by increasing transport connectivity and reducing commuting time. The City will also adopt new regulations to make its urban planning processes more inclusive, by adopting participatory land use planning as a mandatory component of all future urban planning.</p> <p><u>For Project 2: Green:</u> As the trigger project for GrCF, Project 2 will significantly increase energy efficiency and help the City to diversify away from coal. <u>Well-governed:</u> The project contributes to this transition quality through the development and implementation of a comprehensive GCAP for the City. Given that Wałbrzych falls in a Just Transition region, its involvement in GrCF will have an important demonstration effect for other cities seeking to diversify away from coal.</p> <p><u>Additionality:</u> The Bank’s additionality is confirmed by the lack of any offers in its 2019 public tender for the financing as well as the City request to work with the Bank to develop GCAP, including higher standards on inclusion and gender. Provision of Loan 2 along with a parallel loan financing the same investment pool will also ensure appropriate mobilisation of commercial long term funding.</p> <p><u>Sound banking:</u> The Bank’s financial model and stress tests took into account the impact of the Covid 19 pandemic. Despite reduced GDP growth or reduction of own revenues, the City has the financial capacity to service the proposed loan.</p>
Key Risks	<i>City’s indebtedness level:</i> The City’s leverage is high which is further challenged by projected deficits in 2020 and 2021. Despite high overall indebtedness, the City’s debt service coverage ratios remain robust, thanks to the long tenor of existing and proposed financing.

² Article 27 of the AEB provides the basis for this decision.

	<i>Implementation risk:</i> The proposed projects require sufficient in-house resources to effectively manage implementation. The Projects will be implemented by a dedicated and experienced team of City representatives, who have a strong track record in implementing similar projects.
Strategic Fit Summary	<i>Poland Country Strategy</i> underlines “improved energy and resource efficiency”, “reduced air pollution” and “the Bank being alert to bankable opportunities to promote inclusive growth, including in underserved regions”. <i>Municipal and Environmental Infrastructure Sector Strategy</i> envisages focusing on “investment in municipal infrastructure to promote a low-carbon economy and resilience to the impacts of climate change”. Moreover, “gaps in quantity and quality of municipal infrastructure and services hamper integration between and within most of the Bank’s countries of operation”. The <i>Economic Inclusion Strategy</i> and the Bank’s <i>Strategy for the Promotion of Gender Equality</i> recognise the importance of strengthening access to employment for previously underserved groups as well as more inclusive decision making processes in the infrastructure sector. Furthermore, the <i>Green Economy Transition Approach</i> (GET) recognises the benefits of lending to public sector to achieve significant environmental benefits in the form of CO ₂ emission reduction and improved energy and resource efficiency. The Project 2 fits also into the recently approved GET Approach for 2021-2025, which identifies deep retrofit as a tool to decarbonise the building sector.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	<p>Two senior unsecured loans of up to PLN 134.8 million (~EUR 30 million) to the City of Wałbrzych:</p> <ul style="list-style-type: none"> - Loan 1: Up to PLN 54.2 million (~EUR 12.1 million) to finance construction of a bypass road as part of a larger urban regeneration programme that involves the construction of a new transportation hub (railway and bus stations and park and ride facility), to strengthen the regional integration of the City and improve interconnectivity between various parts of Wałbrzych (“Project 1”). The total costs of Project 1 is ~EUR 88.4 million to be funded by EU Cohesion/Structural Fund, GDDKiA³ and EBRD (14 per cent of Project 1’s costs) and a commercial bank providing short term bridge financing for the EU grant funding. - Loan 2: Up to PLN 80.6 million (~EUR 17.9 million) comprising: a committed tranche of PLN 22.5 million (~EUR 5.0 million) and an uncommitted tranche of up to PLN 58.1 million (~EUR 12.9 million), the latter to be provided alongside a parallel loan for the same amount to finance the retrofit and thermo-modernisation of municipally-owned residential buildings converting their heating source from coal to either heating pumps or gas heating (“Project 2”). Project 2 will be implemented under the Bank’s Green Cities Framework 2 – Window 2. Commitment of the uncommitted tranche will be delegated to Management. Project 2 will be the City’s “trigger investment” under GrCF2, formally initiating Wałbrzych’s participation in the programme.
Existing Exposure	None
Maturity / Exit / Repayment	<p>Loan 1 tenor equal to 12 years (up to 2033 YE) [REDACTED].</p> <p>Loan 2 comprising two tranches:</p> <ul style="list-style-type: none"> - Committed tranche (PLN 22.5 million) - tenor equal to 20 years [REDACTED]. - Uncommitted tranche (PLN 58.1 million) - tenor equal to 20 years from the commitment date of this tranche [REDACTED].
AMI eligible financing	None
Use of Proceeds	<p><u>Proceeds of Loan 1</u> will finance construction of a bypass road, which is a key component of the City’s urban regeneration programme. Although Project 1 is not part of the Green Cities Framework, it complements both the framework and the City’s wider revitalisation efforts.</p> <p><u>Proceeds from Loan 2</u> will finance the retrofit and thermo-modernisation of municipally-owned residential buildings converting their heat source from coal to less carbon intensive sources such as heating pumps or gas heating installations and PV panels. Through its strong green credentials, Project 2 qualifies for 100 per cent GET.</p> <p>The Bank will receive periodic implementation reports, which will allow it to closely monitor use of proceeds.</p>
Financing Plan of Project 1	[REDACTED]
Financing Plan of Project 2	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • City of Wałbrzych

³ GDDKiA (General Directorate for National Roads and Highways) is the central authority of national administration set up to manage the national roads in Poland.

	<ul style="list-style-type: none"> • Budimex – one of the largest construction groups operating in Poland acting as a general contractor for the bypass. • Construction companies to be contracted to carry out refurbishment of the municipal owned residential buildings (to be tendered out in the form of an open tender on a rolling basis) • Miejski Zarząd Budynków sp. z o.o – company responsible for real estate management on behalf of City of Wałbrzych. It is 51 per cent owned by the City and the reminder by Polish Development Fund Group.
Conditions to disbursement	<ul style="list-style-type: none"> • All financing and Project documents to be in place.
Key Covenants	<ul style="list-style-type: none"> • [REDACTED]Development of a GCAP and submission to the City Council for approval. • Conditions for disbursement under Loan 2 will include inter alia evidence that Loan 2 proceeds are or will be needed for Project 2, based on satisfactory progress with Project 2 procurement as evidenced on the basis of the updated Procurement Plan.
Security / Guarantees	None
Other material agreements	EU grant agreement
Associated Donor Funded TC and co-investment grants/concessional finance	<p>Post-signing:</p> <p>TC: Green City Action Plan – to assist the City with developing a GCAP to prioritise investments in the City of Wałbrzych in pursuit of the green agenda, including a component to increase the inclusiveness of urban planning decision making processes. The GCAP will incorporate (i) Just Transition considerations into the development process, acknowledging Wałbrzych’s economic legacy tied to fossil fuels and (ii) participatory land use planning considerations. [REDACTED].</p> <p>Reimbursement: The above assignments will be non-reimbursable transactional TCs to support both appropriate project preparation and implementation aspects.</p>

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Walbrzych is located in southeast part of Poland, in a region defined by a legacy of coal mining and associated industries. Deemed unprofitable, all the mines in this region were closed in the eighties and nineties, leaving tens of thousands of people out of work and resulting in severe distress for the entire community reflected in high unemployment and emigration rates, averaging 30 per cent and 20 per cent respectively, leading to the City's population shrinking from 140,000 to the current level of 112,000 and a reduction of the City's social capital.

This abrupt change at the industry level resulted also in a series of negative social and economic challenges to the City's ecosystem. Its shrinking municipal budget and decline in revenues led to a deterioration of post-mining residential buildings and post-industrial sites. In 2015 Wałbrzych was identified as one of the most deprived industrial areas in Poland and was included in the National Strategic Intervention Programme covered by the pilot revitalisation project. The City itself searched for examples of other regions suffering from de-industrialisation and mine closures and the situation of French rural town, Saint-Étienne, being Lyon's satellite city, seemed particularly relevant. These interactions helped the City to change its mindset, walk away from its mining legacy, re-define its role and to develop a new long term strategy and investment ambitions. The City's success is expected to have a high demonstration potential in the context of inevitable mine closures in the remaining Polish coal regions.

Walbrzych's strategic urban regeneration programme focuses on a range of large and small investments contributing to the improvement of the City's historical centre. The City, similarly to Saint-Etienne having close links with Lyon, is closely linked with Wrocław (a larger and wealthier municipality 70 kilometres away) and Walbrzych's ambition is to improve the links with Wrocław and to open up better access to Wrocław's employment and economic opportunities for the population of Walbrzych. The success of this strategy is dependant, however, on a few factors: (i) increased connectivity between Walbrzych and other larger cities (Wrocław in particular), (ii) attractive housing to improve Walbrzych's residential appeal⁴ and (iii) series of investments improving the quality of life⁵.

With a legacy of environmental degradation and a current need to reinvigorate its local economy by shifting away from its fossil-fuel linked legacy, the City of Walbrzych has committed to planning for a more sustainable future through its participation in EBRD Green Cities. The City will develop a GCAP, with a special focus on (i) identifying the Just Transition challenges and opportunities locally to support a green and more

⁴ Walbrzych's housing renewal programme is a key component of the City's residential appeal strategy (lack of decent housing and overwhelming congestion on the only road going through the City are the major factor fuelling the flight of more middle-class households to the suburbs, accelerating sprawl development in the north part of the City).

⁵ Through improved air quality, reduction of noise, construction of bicycle paths and common pedestrian-bicycle paths as well as creation or renovation of some well-known tourist destinations (Old Mine Science and Art Centre, Ksiaz Castle).

economically vibrant future as well as (ii) supporting inclusive decision making by introducing regulations to implement participatory land use planning to align with international best practice and enhance outcomes for the City's population. The City is fully committed to support the external consultants in the development of the Green Cities Action Plan and submit it for adoption by the City's Council.

The City's buildings thermo-modernisation programme (Project 2) is the "trigger investment" under EBRD Green Cities. The Project is seen as an essential means of retaining the population living in the central part of Walbrzych and attracting a new subset of Wrocław's population to move and live in Walbrzych and commute or work locally. The municipality's leadership in energy efficiency building modernisation may also act as a trigger to private sector investments in green buildings, further contributing to the revitalisation and modernisation of the building sector. The Project also has outstanding environmental and economic benefits such as huge energy efficiency improvements [REDACTED], significant reductions of CO₂ emissions [REDACTED] and other pollutants as well as reduction of heat costs⁶.

In addition to the EBRD Green Cities efforts and linked to Walbrzych's wider revitalisation plans, the proposed bypass (Project 1) will support improved connectivity between Walbrzych and Wrocław, which is of paramount importance to the City⁷ and also support the goals of Just Transition concept. The main challenges identified for Walbrzych region⁸ include creation of new jobs, reskilling and upskilling and new business opportunities, as well as the rehabilitation of former mining sites and land restauration. The long awaited City's bypass will move away the traffic currently going through the City's centre, enabling the relocation of the railway station to the centre of Walbrzych and encouraging the modal shift to public transport through the construction of park and ride infrastructure next to the new railway station and the construction of a bus station. In addition to making commuting to the nearby city and economic centre of Wrocław easier, this long awaited investment will facilitate local population's access to skills and employment, as well as crucial services located in the northern parts of the City.

This will help address regional inequalities that are still pronounced for certain regions in Poland. While Warsaw is among the regions with the highest GDP per capita in the EU, several other regions in the country rank amongst the lowest. GDP per capita in Walbrzych stood at 29 per cent of the average EU-28 level in 2017, compared to Warsaw at 120 per cent. The wider Lower Silesia region, which includes the city of Wrocław, reached 45 per cent of EU average.

Improved traffic is expected to reduce daily commuting time between the northern and southern parts of Walbrzych from 40 to 10 minutes during peak hours, resulting in time savings benefitting approx. 59,000 vehicles travelling from southern parts to the north on a weekly basis, including to the town centre and WSEZ (the main employment areas

⁶ The scale of economic benefits was assessed on the basis of the energy audits carried out for the selected categories of buildings.

⁷ Through its integration into the City's urban transportation hub and will also improve access of the local population in some of the most deprived parts of the City to the economic opportunities and crucial services (e.g. education, skills and health care) located in the northern part of Walbrzych.

⁸ Commission Staff Working Document, Country Report Poland 2020, Communication from the Commission to the European Parliament, the European Council, the Council, The European Central Bank and the EuroGroup.

for Walbrzych). This 30 minute reduction in commuting time will have a significant impact on the economic status of the local population as well as their well-being helping also to address regional inequalities⁹.

Both Projects will help address the challenges related to the long lasting underinvestment into Walbrzych's infrastructure which has led to suboptimal infrastructure conditions and the City's limited capacity to cope with identified challenges. The Bank's involvement will therefore close the financial gap and help the City in transformation of its economy in the area covered by the EU's Just Transition Programme. Both Projects will also bring wider exposure to the City's success in its restructuring, providing an example of how a City dependent on the mining industry can redefine its role and living conditions. Through the Projects the Bank will also contribute to building of the social capital among the citizens and increased sense of empowerment through the City's adoption of new regulation to consistently integrate participative land use planning into future urban planning processes. Community-based land planning and participatory design for public urban spaces is a collaborative approach of planning and design between urban planners, government authorities, businesses and the local community. The use of participatory land planning and design is expected to ensure that there is improved liveability in City areas for all population groups, including women, young people, people with disabilities and others. Studies have also shown that it can improve the public acceptability of development proposals by demonstrating transparency in the design approach, and ensuring greater inclusivity and community ownership of the final design. By introducing regulation mandating the use of participatory planning approaches, Walbrzych will become a leader in participative city development, resulting in greater inclusion of previously excluded groups.

Both Projects are consistent with:

- *Poland Country Strategy*, which underlines “*improved energy and resource efficiency*”, “*reduced air pollution*” and “*the Bank being alert to bankable opportunities to promote inclusive growth, including in underserved regions*” under the Strategic Priority of Promoting Green Economy Transition in Poland
- *Municipal and Environmental Infrastructure Sector Strategy*, which underlines the importance of “*investment in municipal infrastructure to promote a low-carbon economy and resilience to the impacts of climate change*”. Moreover, “*gaps in quantity and quality of municipal infrastructure and services hamper integration between and within most of the Bank's countries of operation*”. Therefore, finance solutions that address emerging socio-economic challenges is one of MEI strategic directions.
- The *Economic Inclusion Strategy* and the Bank's *Strategy for the Promotion of Gender Equality* by supporting regional inclusion, access to employment and more inclusive decision making processes in infrastructure and land use planning, enabling the full access of all groups of society to the urban space.
- The *Green Economy Transition Approach* (GET), which recognises the benefits of EBRD lending to public sector entities to achieve significant environmental benefits in the form of CO₂ emission reduction and improved energy and resource efficiency. Project 2 is aligned with the GET Approach 2021-2024, which calls for significant reductions of GHG emission to meet global climate change targets. The

⁹ While Warsaw is among the regions with the highest GDP per capita in the EU, several other regions in the country rank amongst the lowest. GDP per capita in Walbrzych stood at 29 per cent of the average EU-28 level in 2017, compared to Warsaw at 120 per cent.

Project falls under the thematic area “Cities and Environmental Infrastructure” and “Green Buildings”, which aims to prioritise and scale up investments in low-carbon infrastructure systems and decarbonise the building sector respectively.

1.2 TRANSITION IMPACT

Project 1: Being part of the City’s transportation hub, Project 1 will contribute to better connectivity between Walbrzych and Wrocław, as well as between the southern and northern parts of the city. This will improve access to economic opportunities for people living in one of the most underdeveloped regions of Poland.

The Bank will also promote the participatory land use planning in the City, which will complement its GCAP approach. This is particularly important in a post mining area where economic and social transformations affected the entire population by depriving them from their sense of self-empowerment, social capital etc. In adopting regulation promoting the inclusion of all population groups into urban planning processes, the Mayor of Walbrzych will build on the establishment of the City’s Council of Women¹⁰ and the Council of Senior People¹¹ as the advising bodies supporting the Mayor in identifying and recognising problems for women and elderly people living in Walbrzych and taking actions aimed to tackle such issues. While both councils currently fulfil an advisory function, there is no legal instrument that would mandate their – and other population groups’ – formal participation in urban planning processes. This gap will be filled under this Project, establishing inclusive decision making as a fundament for Walbrzych’s future development.

The transition qualities promoted by Project 1 are: Integrated (primary) and Inclusive (secondary):

TI Objectives Table for Project 1 Primary Quality: Integrated

Obj. No.	Objective	Details
1.1	<i>The project delivers material quality improvements of the current infrastructure between or within regions that are currently inadequately integrated.</i>	<p>The project will provide substantial economic benefits to Walbrzych and its wider region through the construction of a road bypass. The bypass will improve transport connectivity and relieve a traffic bottleneck on the existing road through the city, which is currently operating well beyond its design capacity with average annual daily traffic flow of up to 36,000 vehicles.</p> <p>The project will also enable and support wider regeneration projects within the city centre including a</p>

¹⁰ The responsibilities of the Council of Women include analysis of the City’s policies directed towards issues, problems and the needs of women, diagnosis of women situation in Walbrzych, education on equality of rights, supporting women in taking up business, social and other activities and cooperation with various organisations focusing on women’s role in increasing quality of life in Walbrzych.

¹¹ The Council of Seniors is responsible for opining on the programmes and the acts of local law with the main focus on elderly people, promoting activities and development of the seniors, monitoring their needs, integration and enhancing various form of seniors’ involvement in the City’s life, cross-generation integration and promotion of actions aimed at social inclusion of the elderly people.

		<p>new rail station, shopping centre and park and ride site which will provide wider benefits to the city.</p> <p>The cost benefit ratio of the project is around 4 representing a strong economic case. Walbrzych and its surrounding region is also one of the most deprived areas of Poland due to its historic reliance on the declining coal industry. The population of the City has declined from around 140,000 in 1995 to under 112,000 currently and GDP per capita in the Lower Silesia region stood at 45 per cent of the EU average. The region has also been identified as a priority for support under the EU's Just Transition mechanism to support areas with a high dependence on carbon intensive sectors.</p>
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Secondary Quality: Inclusive

Obj. No.	Objective	Details
2.1	<i>The project will foster new economic opportunities for the local population in a less developed region through increased access to services by at least 10 per cent..</i>	<p>The planned bypass is expected to reduce daily commuting time for the local population living in the southern part of Walbrzych from 40 to 10 minutes during peak hours, resulting in time savings of 30 minutes per way. Assuming a 40 hour work week with a twice daily commute, this equals to 5 hours per week or 12.5 per cent of productive time saved as a result of better transportation connection. This will affect the users of an estimated number of approx. 59,000 vehicles travelling from the southern to the northern city parts on a weekly basis, including to Walbrzych Special Economic Zone. The 30 minute reduction in commuting times is expected to have a positive impact on Walbrzych's inhabitants both in terms of economic status and well-being, as demonstrated by research. Improved access to economic opportunities in the North such as employment opportunities provided by the SEZ and within the new transportation hub, as well as crucial services including kindergartens and schools will particularly benefit currently disadvantaged groups such as the families of former miners that are predominantly concentrated in the South.</p>
2.2	<i>The project will introduce new standards and policies for infrastructure design or delivery in line with MDB best practice to accommodate previously excluded target groups.</i>	<p>As a result of the project, Walbrzych will adopt new regulation to make participative land use planning a compulsory component of future urban planning processes. Community-based land planning and participatory design for public urban spaces is a collaborative approach between urban planners, government authorities, businesses and the local community. The approach goes beyond traditional stakeholder consultation and instead invites members of the local community to actively propose solutions and new ideas. The use of participatory land planning and design is expected to ensure that there is improved liveability in city areas, and that it can improve the public acceptability of development proposals by demonstrating transparency in the design approach, and</p>

		ensuring greater inclusivity and community ownership of the final design. While Walbrzych has already experimented with one-off initiatives to increase citizen's participation in urban planning, there is no formal regulation in place to make this a standard component of future planning processes. By introducing such regulation, Walbrzych will become a leader in participative city development, resulting in greater inclusion of previously excluded groups.
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Delivery Risks for Project 1:

Under Project 1 risks to transition impact are primarily related to the successful and timely implementation of the project significantly within the budget, completion of the transportation hub within the assumed timing and achieving the impact assumed in the form of commuting time reduction, relocation of traffic from the central road to the bypass and adoption of the regulations related to the participatory land use planning. These risks are mitigated by the strong support for the project as well as loan conditionalities.

Project 2 is put forward under the GrCF2 (DTM 50674) with Walbrzych, after Warsaw, and is the second Polish city to join EBRD Green Cities. Walbrzych recognises the importance of a green recovery and how addressing its environmental challenges will help make the City an even better place to live. With its coal legacy, the City is particularly interested in reducing air pollution and GHG emission. The City already embarked on first actions including the adoption of the Urban Plan for Climate Change Adaptation, ban of certain plastic products in City's controlled institutions and development of the Low Carbon Economy Plan.

Actions indicated in that Plan include thermal efficiency improvement of the buildings, improving energy efficiency in industrial facilities, promotion and increasing the use of public transport, and Walbrzych bypass construction. The City's commitment to develop and implement a GCAP will build upon its previous policy work. It will help to identify and prioritise environmental challenges and develop innovative ways to address them through targeted investments, services and policy instruments. The GCAP will also build necessary capacity and facilitate better coordination and buy-in among various stakeholders within the City.

Given Walbrzych's commitment to such issues such as climate change and Just Transition, the GCAP will function as an amalgamator of the City's goals and departments to create a clear and systematic vision for its sustainable development. The GCAP will also help to link a breadth of environmental concerns to the City's unique municipal and infrastructure operations challenges and opportunities related to the Just Transition initiative.

The transition qualities promoted under this Framework are: Green (primary) and Well-governed (secondary) and Project 2 is expected to support the Framework objectives in the following ways:

Green: The Project is 100 per cent GET, as the majority of loan proceeds will be allocated to energy efficiency or renewable energy investments. Targeted buildings will meet advanced energy performance requirements after the deep-retrofit. Project 2's focus on the energy efficiency and renewable energy investments will support accompanied works and necessary refurbishment to protect energy efficiency

investments and prolong building lifetime. Apart from heat source conversion all buildings will undergo comprehensive thermo-insulations, replacement of the windows and doors and other energy efficiency improvements. The energy audits carried out for each building class estimated energy savings [REDACTED] and reductions of CO₂ emissions [REDACTED]. Through its strong green credentials, Project 2 qualifies for 100 per cent GET.

Well-governed: this “trigger project” for the City under EBRD Green Cities will support Wałbrzych in developing a GCAP. The action plan to be developed will help the City identify and prioritise the environmental challenges to be addressed through immediate action and long term development goals.

TI Objectives Table for Project 2

Obj. No.	Framework Objective	Transition Indicators	Contribution of Operation to Framework Objectives	Baselines	Target Values	Implementation Timelines
Primary TI Quality: Green						
1.1	Multiple green investments: Each participating city makes on average at least 3 investments that address priority environmental challenges identified by the GCAP, where all EBRD financed projects reduce emissions or improve resource efficiency by minimum 20% or promote climate change resilience.	Implementing an eligible Green Cities project	The signed Green Cities project will improve the energy efficiency [REDACTED] compared to baseline and will reduce the CO ₂ emission savings [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Environmental impact: To achieve significant environmental improvements for at least one priority environmental challenge, i.e. the promotion or protection of certain performance levels (colour codes) for critical environmental challenges as specified in the GCAPs, for more than 50% of the Green Cities.	Achieving significant environmental impact in a priority environmental challenge identified in the GCAP	The project will address air pollution and climate mitigation concerns through the substantial reduction of CO ₂ emissions and significant energy efficiency improvements	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Effective GCAP implementation: To achieve the overall objective, the Framework will also have an implementation objective of achieving at least 50% of all verifiable targets, set in all GCAPs, within 5 years after the respective GCAP finalisation (including both investments and well defined policy measures).	Implementing a project identified as a target for the GCAP	The Project will support the City to develop a Green City Action Plan that sets verifiable targets	[REDACTED]	[REDACTED]	[REDACTED]

1.4	Strong follow-on support: At least 50% of transactions and investment volume under GrCF2 being follow-on investments addressing critical environmental challenges identified in the GCAPs.	Implementing a follow-on project	The Project will support the City to develop a GCAP, enabling follow on opportunities.	[REDACTED]	[REDACTED]	[REDACTED]
Secondary TI Quality: Well-governed						
2.1	New GCAPs: [REDACTED] additional GCAPs finalised and approved where all GCAPs include priority actions and a monitoring strategy.	GCAP developed and submitted for approval	Walbrzych's GCAP sent to the City Council including an implementation and monitoring strategy	[REDACTED]	[REDACTED]	[REDACTED]
2.2	PSCs and tariff increases: PSCs and effective tariff increases in line with the respective PSCs, aimed at cost-recovery or improved fare-box ratio, for the majority of all sub-projects benefitting revenue-generating operators.	Public service contract signed and implemented	n/a	[REDACTED]	[REDACTED]	[REDACTED]
		Tariffs reached the target level	n/a	[REDACTED]	[REDACTED]	[REDACTED]
2.3	Access to financial markets: Develop green finance roadmaps in 4 cities to address the key elements required to access green finance markets, including green bonds.	A green finance roadmap finalised	n/a	[REDACTED]	[REDACTED]	[REDACTED]

Delivery Risks for Project 2:

Under Project 2 risks to transition impact are primarily related to the successful implementation of the project and successful completion and subsequent impact of the GCAP in promoting investments into Green projects. There is also a risk linked to uncertainty over the possibility of finding the parallel lender financing the Project 2 along with the Bank.

1.3 ADDITIONALITY

Identified triggers	Description
<i>No triggers identified</i>	n/a
Additionality sources	Description of additionality sources
Financing Structure EBRD offers a large volume instrument that fills a market funding gap and is required to structure the project.	The Bank's financing to Polish municipalities has fallen over the last decade primarily due to the appetite of commercial banks to lend to this sector. This has however recently changed as the City of Walbrzych approached the Bank itself with the request to provide the financing for the proposed two projects. The City's decision was driven by the lack of any offers in an open tender it organised last year to finance Project 1. The City had been working with a broad array of commercial banks before (PKO BP, Getin Noble Bank, DNB Bank) plus with BGK and EIB as well as NFOSiGW and WFOSiGW but those banks have already exhausted their exposures and lending capacity or risk appetite. This is further exacerbated by the commercial banks' decisions to freeze any new exposure as a result of COVID 19. Provision of part of Loan 2 will be subject to securing a parallel loan for the same amount as the Bank's uncommitted tranche and will reflect the Bank's role in helping to mobilise financing.
Risk mitigation EBRD helps the client to mitigate carbon transition risks and take climate action, such as to move along a low carbon transition pathway. EBRD helps the client to mitigate climate governance risks and take climate action, such as to improve its internal corporate governance for managing climate risks.	Project 2 will be the "trigger project" for the City under EBRD Green Cities, through which the Bank will support Walbrzych in developing its GCAP. The GCAP will help the City identify and prioritise its environmental challenges, which will drive its future investments.
Standard-setting: helping projects and clients achieve higher standards Client seeks EBRD expertise on corporate governance improvements, including for climate risk management. Client seeks EBRD expertise on higher environmental standards, above 'business as usual' (e.g. adoption of emissions standards, climate-related ISO standards etc.).	EBRD credit, transition impact, procurement and environmental (as reflected in the GET strategy) related conditionalities go beyond what commercial funding sources would require, promoting performance improvements and greater transparency. As part of the Project conditionality, the client will be required to implement an Environmental and Social Action Plan ("ESAP") as well as a GCAP. Moreover, the City will adopt the regulations on the participatory land use planning to promote greater inclusivity and community ownership.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Sovereign risk	Low/ Medium	<p>Risk: Local Government Unit (“LGU”) risk is linked to the country’s sovereign risk.</p> <p>Mitigant: Poland has a well-established legal framework relating to the public finances of LGUs. The control system of LGUs by the Regional Chambers of Auditors ensures state control over public finances. Poland’s long term risk rating is investment grade at the level of A2 by Moody’s, A- by Fitch.</p>
City’s credit risk	Medium/ Medium	<p>Risk: The City has an elevated credit risk due to high indebtedness, with total debt/total revenues gradually decreasing [REDACTED].</p> <p>Mitigant: It must be underlined that despite the high level of indebtedness, the City’s debt servicing capacity is sustainable in the long-term thanks to long tenors and generous grace periods. [REDACTED]</p> <p>The City’s authorities are placing priority on debt servicing and debt management, successfully applying a policy of active and flexible adjustment of the level of expenses to meet the actually planned level of revenues, early repayment of the selected debt facilities, optimal management of the grace period and maximising the tenor of the debt to adjust to the nature of the capital investments. Additional sensitivities performed show that with a reduction of own revenues around 6%, debt servicing capacity is maintained.</p>
Leverage risk	Medium/ Medium	<p>Risk: Wałbrzych has run budget deficits in 2017 and 2018 [REDACTED]. Deficits are projected in 2020 and 2021.</p> <p>Mitigant: The City has a relatively large potential to shape its budget results and has achieved operating surpluses in the period under review (i.e. the budget deficit for 2019 was originally planned at PLN 81 million, while in fact a budget surplus was achieved at PLN 31 million). The City’s indebtedness level is controlled by the State through individual debt service limits. The debt service/total revenue ratio planned in a local budget cannot exceed the past three years’ average current balance, plus revenue from asset sales/total revenue. In the case of Wałbrzych this limit was set at 9.38% as for the end of 2018 with the City’s actual ratio being at the manageable level of 6.93%. Projections based on conservative assumptions show that the City is able to maintain legally binding levels of the individual debt levels in the long-term.</p>
Implementation risk	Low / High	<p>Risk: Projects of such scope and complexity require sufficient in-house resources that can manage the Project</p> <p>Mitigant: The City has a track record in delivering projects of similar scope and complexity. Projects are implemented by a dedicated and experienced team of City’s representatives. Also an independent team of consultants have been engaged in order to mitigate implementation risk, where applicable.</p>
E&S related risk	Low/Medium	<p>Risk: Projects face numerous E&S risks such as: resettlement risk, H&S risk, construction risk.</p> <p>Mitigant: Independent E&S due diligence has been undertaken to review Projects’ resettlement actions, public consultations as well as the City’s capacity to develop Projects in line with EBRD policies.</p>

Predictability and strength of the institutional and financial framework	Medium/Medium	<p>Risk: Wałbrzych is operating within a centralistic institutional framework which is governing City's duties and split between responsibilities of local and central government. A local government's budgetary architecture is highly dependent on state resources which exposes City finances to the performance of the general government budget. Moreover in light of the expansive policy of the central government and recent budgetary and fiscal measures envisaged to counter the negative effect of the Covid-19 pandemic on the Polish economy, there is a risk that the City's regulated revenues could be lower in next years.</p> <p>Mitigant: Central government funding is related mainly to administrative tasks delegated to local governments (such as social spending). Transfers of tasks to local governments requires the provision of necessary financial resources for their implementation. Wałbrzych's investment projects are currently underway and their financing is based on EU grant funding as well commercial financing, which is not dependant on state support.</p>
Management of EU grant	Medium/High	<p>Risk: The City has limited opportunities in securing long-term financing necessary to carry out investment projects. Unavailability of external financing for bypass project and contract termination/ delays in project delivery may trigger penalties for mismanaging of EU regional funds.</p> <p>Mitigant: Due diligence carried out on the City's level showed sufficient management capacity to undertake projects of the given complexity. Over the last 10 years, the City of Wałbrzych has implemented 8 road investment projects, of which 4 were co-financed by EU funds. The City is currently exploring various possibilities on how to raise financing (including EBRD) to complete its EU funded investments. The City has proven it has the necessary debt management skills to ensure proper level of debt servicing for the new loans. Additional sensitivities and break-even analyses performed show, that the City is able to maintain its debt servicing capacity even with a drop of own revenues [REDACTED].</p>
Economic volatility – COVID 19	High/ Medium	<p>Risk: Wałbrzych revenues have been steadily increasing over the last four years mainly due to growth of the state's designated subsidies for budgetary sources and EU grant funding for investments. Underperformance of state budgetary revenues and impact of Covid-19 pandemic on Polish economy may negatively impact Wałbrzych financial standing.</p> <p>Mitigant: In response to the Covid-19 pandemic, Polish authorities have introduced a range of anti-crisis measures, including monetary policy loosening and a fiscal stimulus. The government anticipates that the Covid-19 virus pandemic will not cause a recession and that growth will slow [REDACTED]. On the other hand <i>IHS Markit</i> market research shows that Polish GDP is going to be hit by weakening of domestic and external demand [REDACTED].</p> <p>The City's budget (updated with 1Q2020 executed figures) points to an increase of planned total revenues [REDACTED] and a [REDACTED] drop of total expenditure, which is expected to result in a deficit [REDACTED].</p>

2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
<ul style="list-style-type: none"> - Good financial and operational performance of the City - On-time project implementation - Environmental compliance 	<ul style="list-style-type: none"> - Financial ratios meeting covenanted levels - Completion according to the timeline and within the budget - ESAP compliance 	[REDACTED]

Project Monitoring Indicators for Project 1

Primary Quality: Integrated

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Physical capacity of the client extended or modernised: Length of roads.	Completion of bypass project and an increase in km of roads.	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Net increase in road infrastructure usage / capacity.	Extension of target infrastructure network, as measured by net increase in the usage of road infrastructure. The average daily traffic on the new bypass to exceed 16,000	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Expanded access of infrastructure.	Completion of regeneration projects including new station, park and ride site and shopping centre [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Inclusive

2.1	Time available for reallocation to economic activities or education as a result of improved access to transport (hours per week)	Time savings of 5 hours per week per person based on average commute time between northern and southern parts of Walbrzych	[REDACTED]	[REDACTED]	[REDACTED]
2.1	Number of individuals (local population) with improved access to transportation services	Approx. 59,000 of vehicles travelling from the southern to the northern parts on a weekly basis using the newly constructed bypass.	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Legal, institutional or regulatory frameworks in	Adoption of relevant municipal legislation to ensure the application of	[REDACTED]	[REDACTED]	[REDACTED]

	target areas improved	participative land use planning in future urban planning processes.			
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Project Monitoring Indicators for Project 2

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
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Primary Quality - Green

1.1	Energy saved (GJ/y)	Primary energy savings achieved compared to baseline.	[REDACTED]	[REDACTED]	[REDACTED]
1.2	CO2 Emissions reduced (tonnes/yr)	CO2 savings achieved compared to a scenario where acceptable comfort levels are achieved.	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality - Well-governed

2.1	GCAP completed	Walbrzych's GCAP sent to the City Council including an implementation and monitoring strategy	[REDACTED]	[REDACTED]	[REDACTED]
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3. KEY PARTIES

3.1 THE CITY OF WALBRZYCH

Walbrzych is located in the Lower Silesia Voivoidship, south western Poland, approximately 70 km southwest of the region capital (Wrocław) and about 30 km from the Polish-Czech border. Due to its location Walbrzych is also an important communication hub. It has a population of about 112,000 inhabitants which makes it the regional 2nd largest city (33rd in the country).

Since 1997 modern industry has been developing mainly in the Walbrzych Special Economic Zone (“WSEZ”) “INVEST-PARK”. The creation of WSEZ was dictated by the fall of all coal mines, textile and crockery industries (in 1994 the unemployment rate in Walbrzych was around 25 per cent). Currently WSEZ covers nearly 3800 ha of investment lands in 58 locations of southwest Poland. Quin Polska, Toyota Motor Corporation, Cersanit, Faurecia, NSK Steering Systems Europe, Metzeler, Henkel - Ceresit, Trelleborg run their factories there. Just in Walbrzych alone 7 thousand people found their jobs at WSEZ. More information about WSEZ is provided in Annex 2.

4. MARKET CONTEXT

4.1. LOWER SILESIA REGIONAL COOPERATION

In 2012 the City authorities created the Wałbrzych agglomeration for the cooperation between neighbouring communes and for mutual development. The Agglomeration is

located in the Lower Silesia region, covers an area of 1,748 sqm, of which 18 per cent are urban territories:



Wałbrzych Agglomeration

The Agglomeration encompasses 22 municipalities, populated by ca. 400,000 inhabitants. Formerly dominated by mining, the region struggled following the economic transformation in the 90's, resulting in one of the highest poverty and unemployment rates in Poland.

4.2. JUST TRANSITION CONTEXT

Just Transition Mechanism (“**JTM**”) is an important pillar of the recently-launched EU Green Deal, focused on supporting territories facing socioeconomic challenges related to the transition towards climate neutrality. JTM’s focus is on coal regions as well as territories with significant exposure to declining industrial sectors and other carbon intensive fuels. While the proposed projects are not presented as the operation under a JTM, they are fully in line with the spirit of JTM and the City itself has been identified as one of the regions covered by this initiative.

Wałbrzych’s legacy of fossil fuels has left the city with unique challenges concerning transitioning to a low-carbon economy. The Sub-region, impacted by an unfinished transition, suffers from low levels of economic development, social issues and degradation of infrastructure.

Therefore Wałbrzych became one of the regions identified in the recent Country Report 2020 which should be covered by the recently adopted Just Transition Initiative launched by the European Commission. The City is a member of the Platform for Coal Regions in Transition, and positions itself to benefit from the EU’s Just Transition Fund.

4.3. BUILDING SECTOR CONTEXT

Residential energy consumption accounts for around 29 per cent of national final energy consumption and is therefore a large contributor of CO₂ emissions. CO₂ emissions and air pollution from this sector is exacerbated by a high share of coal use for heating (e.g. 70 per cent of single-family buildings in Poland use coal, which collectively consume more than 9 million tonnes of coal per year).

Energy intensity per household is above the EU-27 average, indicating high energy inefficiency in the building sector. The energy performance of residential buildings is low due to age (75 per cent of the buildings were built before 1988) and historical low energy efficiency standards. Typical primary energy demand exceeds 250 kWh/m², which is significantly above the energy performance benchmarks in comparable climate conditions and modern buildings. Due to low energy performance and poor building condition, indoor temperatures and other parameters are often below comfort level, impacting human health and wellbeing.

Poland has made significant progress in adopting modern energy performance regulations and has outlined several measures to target the sector in Poland's National Energy Efficiency Action Plan ("NEEAP"). The central government has also launched several support schemes to encourage private sector investments in this sector. However, additional efforts and investments are necessary to utilise the energy efficiency potential in the building sector to achieve Poland's energy saving targets and GHG emission reduction goals. In addition, there is a lack of support mechanism which encourage deep-retrofits of public owned buildings. Walbrzych City's efforts to implement such deep retrofit investments are particularly noteworthy since the City's strategic plans aimed at improving the living conditions of the citizens and making the City more attractive place for living are being implemented with extraordinary energy efficiency improvements and GHG emission reductions. Due to its strong green credentials, Project 2 qualifies for 100 per cent GET.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 WALBRZYCH MULTIANNUL FINANCIAL FRAMEWORK

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

Project 1:

[REDACTED]

Project 2:

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Project 1:

Categorised B under the 2014 ESP and low-medium risk due to physical resettlement caused by the construction of the bypass. Project 1, which involves changing the course of the national road No 35 via a new 6 km long, dual-carriageway road, will move existing transit traffic through Wałbrzych outside the old town and the city centre. Construction works are underway and commissioning is planned in June 2021.

Environmental and social due diligence (“**ESDD**”) comprised of review of existing environmental and social (“**E&S**”) studies, an audit carried out by independent consultants and included a site visit by the Bank's E&S specialists. The findings of ESDD were that the municipality and contractor have some elements of E&S management in place, follow national legislation and that the project is generally structured to meet EBRD’s Performance Requirements (“**PRs**”). The consulting team are in the process of finalising a disclosure package that will include a Non-Technical Summary (“**NTS**”), Stakeholder Engagement Plan (“**SEP**”) and a Remedial Action Plan (“**RAP**”) to address minor gaps between the resettlement approach implemented on the project and the requirements of EBRD PR5.

A National Environmental Impact Assessment (“**EIA**”) was completed for the project and an Environmental Decision as well as Development Consent Decision were granted well in advance of the initiation of construction activities. Overall, the City is addressing E&S issues, in line with national legislation. However, the municipality does not have a formal E&S Policy, nor operate an Environmental, Health, Safety and Social Management System. The construction contractor is responsible for the management of Environmental, Health, Safety & Social (“**EHSS**”) issues at construction sites and for implementing all EHSS mitigation measures and required by the project EIA. Oversight of construction is being carried out by the Municipal Roads, Transport and City Maintenance Management department. EHSS reports are prepared and revised by Project Engineer and by the City on a monthly basis.

The construction contractor is managing Occupational Health and Safety (“**OHS**”) in line with Polish law and have a functioning OHSAS 18001:2007 OHS management system in place. All workers on site are required to pass an induction and initial health and safety (“**H&S**”) training. Policies and procedures are in place for key OHS risks including working at heights, confined spaces, use of PPE amongst others. ESDD confirmed that workers have been provided with necessary personal protective equipment and are using them. Working conditions are subject to periodic verification and weekly inspections and H&S statistics are reported to the City on a monthly basis.

The construction contractor is also responsible for ensuring that working conditions at the construction sites are in line with Polish law. All subcontractors of the general contractor are hired based on back to back contracts as such their employees also need to be hired in line with Polish labour code. There are a significant number of Ukrainian workers on-site hired by subcontractors. ESDD confirmed that these workers are

subject to all the requirements, rights and obligations applicable to Polish workers. An employee grievance mechanism is in place and all employees of the general contractor, as well as subcontractors are informed of the process through a variety of methods, including information boards at all construction sites. However, there is no grievance register and no effective follow up procedure. Workers are either living in the Walbrzych region already or responsible for their own accommodations. ESDD and other internal and external state inspections conducted to date have confirmed that conditions on site meet the requirements of Polish labour law.

Project 1 is expected to have benefits for community health and safety by diverting traffic and associated noise, air pollution and risks of accidents away from more densely populated to less densely populated areas of the municipality. Residual impacts of air pollution along the new alignment will be mitigated through the planting of trees along the road alignment. Noise barriers have also been planned for key areas along the road alignment in order to mitigate the risk of noise exceedances at sensitive receptors. Good construction practices are also being followed to minimise air pollution, noise, water and waste management during the construction phase. The road has been designed according to Polish road design standards.

The project is taking place in an urban environment and will not affected any Critical Habitat or Natura 2000 sites. The main potential biodiversity impact involves habitat fragmentation which will be mitigated through the provision of animal passages including bridges, underpasses and culverts. Trees in proximity to construction sites are being protected and post-construction revegetation along the road corridor will use native vegetation.

The land acquisition and expropriation process was initiated in 2006 and was finalised in 2016. In total, 36 ha of land (329 individual plots) was acquired, of which 25% was in a private hands, with the remainder public land. 62 families were resettled from rental accommodations in 5 municipal and 2 private buildings. All people received replacement dwellings of a higher standard than their original dwellings. While no agricultural land was impacted, one business was expropriated and fully compensated at market value. No complaints were received and there were no court cases related to the compensation process. A RAP has been prepared to assess the approach to resettlement against EBRD requirements and National Law. This assessment concluded that compensations met the standard of full replacement cost and that the resettlement approach was largely in line with these requirements. The RAP includes measures to address identified gaps including in grievance management and monitoring.

Project 1 does not affected any cultural heritage elements. However, a Chance Finds Procedure has been developed to identify and protect any unexpected finds. The EIA involved public hearings with local communities in line with the requirements of EU and Polish legislation. These were followed by a series of consultations in 2018-19 regarding the initiation of construction on the bypass and the urban regeneration project more broadly. A SEP is being developed alongside a formal grievance mechanism.

An Environmental and Social Action Plan (“ESAP”) has been developed for Project 1 and will be agreed with City prior to signing. It includes the requirement to: develop and implement an Environmental and Social Policy as well as Environment Health & Safety Management system at the level of the municipality; enhance ongoing E&S

oversight of construction; address gaps in the worker Grievance Mechanism; develop & implement an Emergency Preparedness & Response Plan; develop and implement a COVID-19 risk management and oversight approach; and implement SEP. The Bank will monitor the project through annual environmental and social reports provided by the City, and site visits if necessary.

Project 2:

Categorised B under the 2014 ESP. Project 2, which consists of implementing energy efficiency measures in 52 pre-selected multi-storey municipal residential buildings in old parts of Walbrzych will improve the insulation and heating sources and technical standards of the buildings, resulting in improved energy efficiency and reduced emissions.

ESDD comprised of an audit carried out by independent consultants and included a site visit by the Bank's E&S specialists. The findings of the ESDD were that the City has some elements of environmental and social management in place, follows national legislation and that the project is generally structured to meet EBRD's Performance Requirements. The consulting team are in the process of finalising a disclosure package that will include a NTS, SEP and a RAP to address temporary resettlement of residents that will be disclosed prior to signing.

It was determined that a national Environmental Impact Assessment was not required for this Project under national or municipal law. A Construction Phase Environmental, Health, Safety and Social Management Plan will be developed and implemented by the Contractors. The Company will be required to review and approve the Construction Environmental Management Plan ("**CEMP**") prior to the start of construction. The CEMP will include construction health and safety, construction environmental controls, plans for community health and safety, and emergency preparedness and response plans.

Overall the Municipal Buildings Administration ("**MBA**") is addressing environmental and social issues, in line with national legislation. The Municipality does not have a formal E&S Policy, nor operate an Environmental, Health, Safety and Social Management System. Currently, environmental and social aspects are managed by MBA on ad-hoc basis, but no shortcomings was identified during the audit. Labour conditions during construction works will be the responsibility of the contractors (supervised by the MBA inspectors and State Labour Administration).

Resource efficiency and pollution control is not expected to be an issue. It was confirmed that no asbestos containing materials are present in the buildings. The thermal insulation will be achieved by cladding of external walls with suitably fire-rated materials (expanded polystyrene), as prescribed to national standards. The Project will result in an estimated average annual savings of 60%, which corresponds to carbon emission reduction of 4 700 tCO₂e per annum.

As part of preparation for tendering the works, MBA will conduct bird and bat monitoring at the buildings. Should any protected species be found, appropriate organisation of construction works will be adopted to avoid disturbance.

Families occupying dwellings in the renovated buildings will be offered alternate, temporary accommodations in other municipal buildings that offer superior or similar conditions. At the end of the renovations, they will have an option to either return to their original dwelling or remain permanently in accommodations provided during the renovations. A RAP has been prepared to assess the approach to resettlement against EBRD requirements and national law. This assessment found that the resettlement approach is largely in line with these requirements. The RAP includes measures to address any gaps including in grievance management and monitoring. These buildings are not listed as protected in national law, although are included in local registers. Heritage Administration opinions were obtained as applicable.

A SEP is being developed. It includes engagement with the residents' representatives, consultation with business owners, and a community grievance mechanism. A grievance mechanism is currently in place. To date, no grievances have been recorded with respect to thermomodernisation of the buildings.

An ESAP has been developed for Project 2 and will be agreed with the City prior to signing. It includes the requirement to develop Environment and Social as well as Health & Safety Policies and management systems; prepare and implement a Construction EHS Management Plan; develop and implement a worker grievance mechanism; implement appropriate measures for asbestos management if any is found; calculate CO2 emissions reductions; have the design engineer prepare a fire safety report; conduct monitoring of birds and bats; and implement the project Stakeholder Engagement Plan. The Bank will monitor the project through annual environmental and social reports provided by the City, and site visits if necessary.

6.2 INTEGRITY

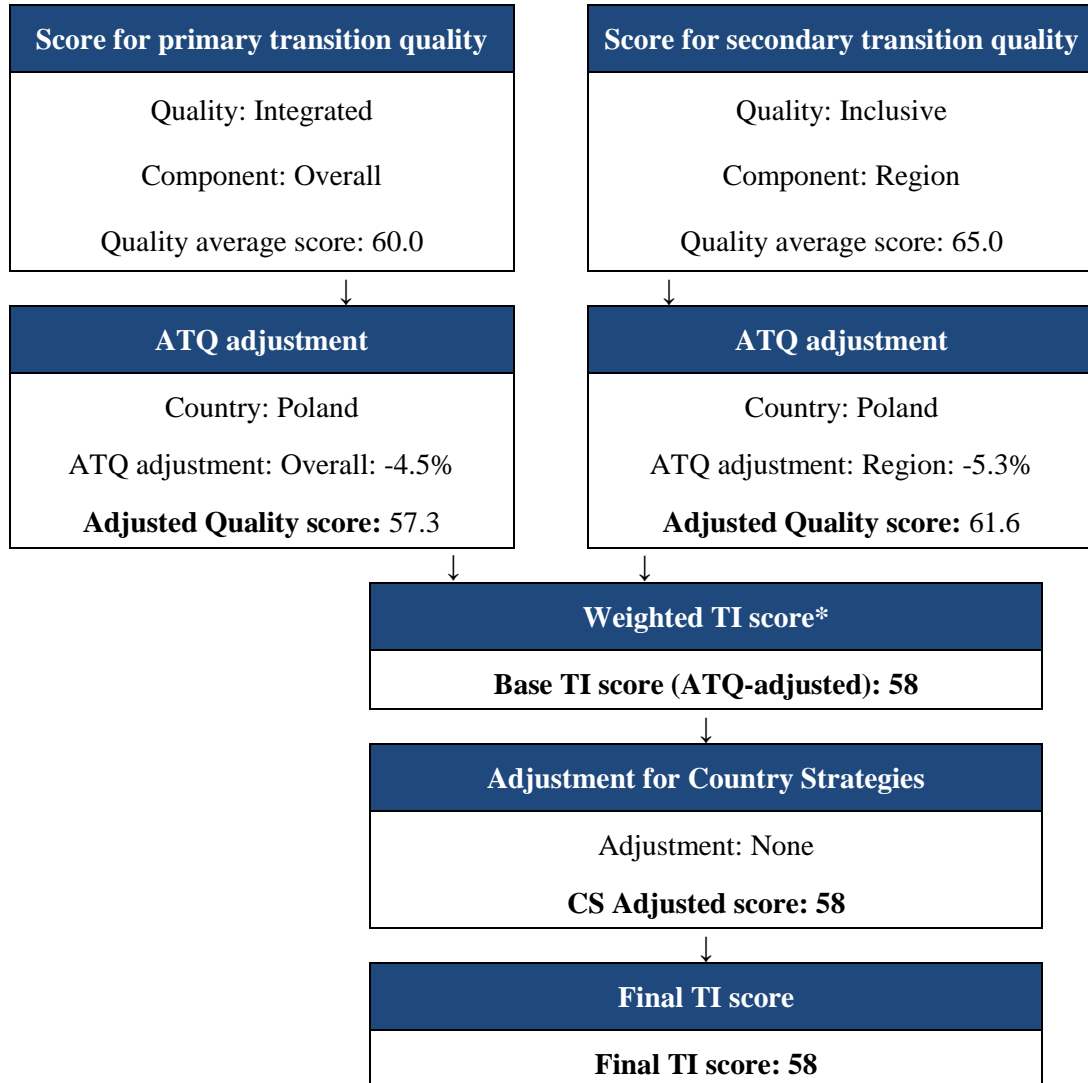
In conjunction with OCCO, an updated internal integrity review was undertaken on City, the Mayor and Deputy Mayor as well as Budimex, the contractor for the bypass. [REDACTED] It was therefore concluded that this Project does not present an unacceptable reputational or integrity risk to the Bank.

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the project, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the project.

ANNEXES TO OPERATION REPORT

ANNEX 1	Project 1 Transition Impact Scoring Chart
ANNEX 2	Walbrzych Special Economic Zone
ANNEX 3	Implementation Progress of GrCF / GrCF2
ANNEX 4	City Financials
ANNEX 5	Project 1 Implementation and Procurement plan
ANNEX 6	Project 2 Implementation and Procurement plan
ANNEX 7	Project 2 EIRR

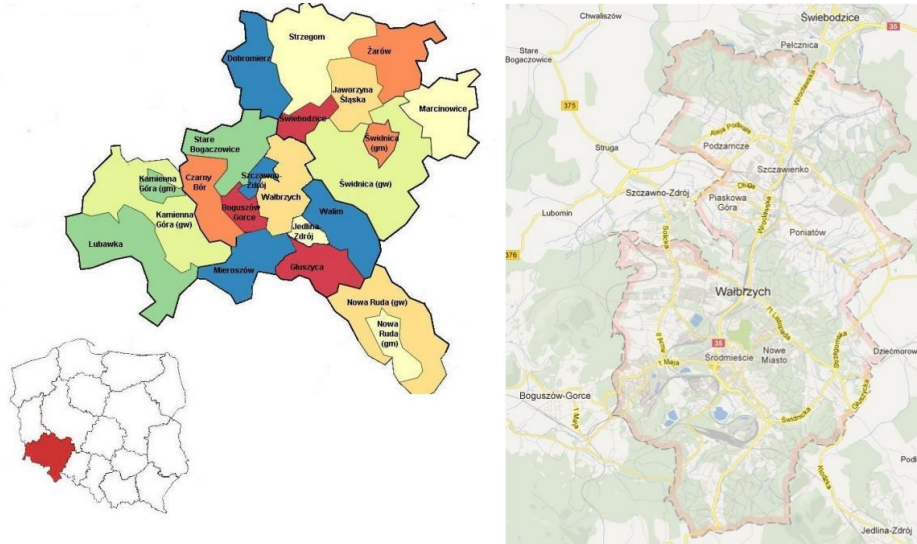
ANNEX 1 – PROJECT 1 TRANSITION IMPACT SCORING CHART



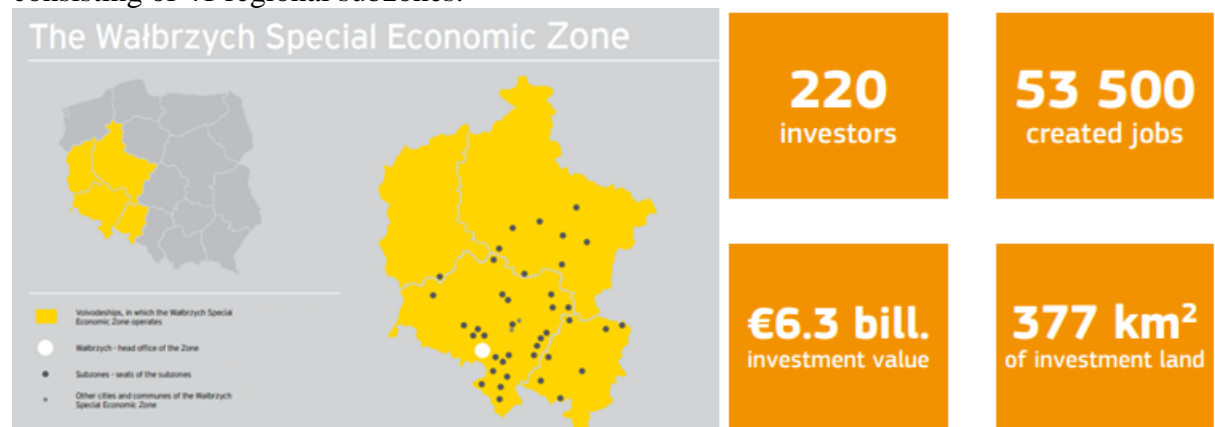
*The Primary Quality score is weighted 75% for the calculation of the Base TI Score. The Secondary Quality is weighted 25%.

ANNEX 2 - WAŁBRZYCH SPECIAL ECONOMIC ZONE (WSEZ)

The City of Wałbrzych is located in the Lower Silesia voivoidship in southwest Poland. The City lies approximately 70 kilometres (43 miles) southwest of the voivoidship capital, Wrocław and about 30 kilometres (19 miles) from the Czech border. It has a population of about 112,000 inhabitants which makes it the second largest city in the region and the 33rd largest in Poland.



WSEZ was established in 1997 and currently encompasses an area of 377 thousand km² consisting of 41 regional subzones:



WSEZ was established as a response to high unemployment in the region, resulting from closed mines and a collapse of the textile and porcelain industries. As the Zone grew bigger, it has become an anchor in overcoming other challenges such as regional disintegration and social exclusion. So far WSEZ has attracted 220 investors that invested over EUR 6.3 billion and created a total of 53,500 jobs. In 2019 the Zone was recognised as one of the world's most attractive zones by FDI Magazine. In addition to income tax exemptions and attractive investment plots, WSEZ offers administrative, human resources and accounting support and access to a network of reliable professional suppliers and partners.

Located in south-west Poland, the Zone benefits from a long regional tradition of industrial production and proximity to Germany and the Czech Republic. The automotive industry is the leading sector in the Zone, securing investment from corporations including Toyota, Mercedes-Benz and Volkswagen. Apart from automotive WSEZ hosts companies from various industries including: metalworking, household goods, plastic product industries:

Biggest investors in Wałbrzych Subzone	Industry	Location
AGC Glass Poland Sp. z o. o.	Glass	Wałbrzych Subzone
Cersanit III S.A.	Ceramic sanitary	Wałbrzych Subzone
Faurecia Wałbrzych S.A.	Automotive	Wałbrzych Subzone
Mando Corporation Sp. z o. o.	Automotive	Wałbrzych Subzone
Maxpro CNC Sp. z o. o.	Metal processing	Wałbrzych Subzone
Migapol Sp. z o. o.	Metal processing	Wałbrzych Subzone
NSK Steering Systems Europe Polska Sp. z o. o.	Automotive	Wałbrzych Subzone
OPALEX Sp. z o. o.	Textile	Wałbrzych Subzone
Poland Smelting Technologies - POLST Sp. z o. o.	Smelting	Wałbrzych Subzone
JOYSONQUIN Automotive Systems Polska Sp. z o.o.	Automotive	Wałbrzych Subzone
RONAL - POLSKA Sp. z o. o.	Automotive	Wałbrzych Subzone
Toyota Motor Manufacturing Poland Sp. z o. o.	Automotive	Wałbrzych Subzone
Toyota Tsusho Europe - Wałbrzych branch	Automotive	Wałbrzych Subzone
Tristone Flowtech Poland Sp. z o. o.	Automotive	Wałbrzych Subzone
Corthinx Sp. z o. o.	Yacht building	Wałbrzych Subzone
Bridgestone Diversified Products Poland Sp. z o. o.	Tyres	Żarów Subzone
Colorobia Polska Sp. z o. o.	Ceramics	Żarów Subzone
Diacel Safety Systems Europe Sp. z o. o.	Automotive	Żarów Subzone
Electrolux Poland Sp. z o. o.	Household	Żarów Subzone
Franc Textil Sp. z o. o.	Textile	Żarów Subzone
King Kitchen Feed Sp. z o. o.	Other	Żarów Subzone
Steel.s Poland Sp. z o. o.	Metal processing	Żarów Subzone
T&P Polska Sp. z o. o.	Packaging	Żarów Subzone
Best Heating Systems Sp. z o. o.	Heating	Świdnica Subzone
Yagu Poland Factory Sp. z o. o.	Metal processing	Żarów Subzone
KCP Sp. z o. o.	Metal processing	Żarów Subzone
ILP Sp. z o. o.	Automotive	Żarów Subzone
Cloos-Polska Sp. z o. o.	Robotization	Świdnica Subzone
Colgate Palmolive Manufacturing Poland Sp. z o. o.	Other	Świdnica Subzone

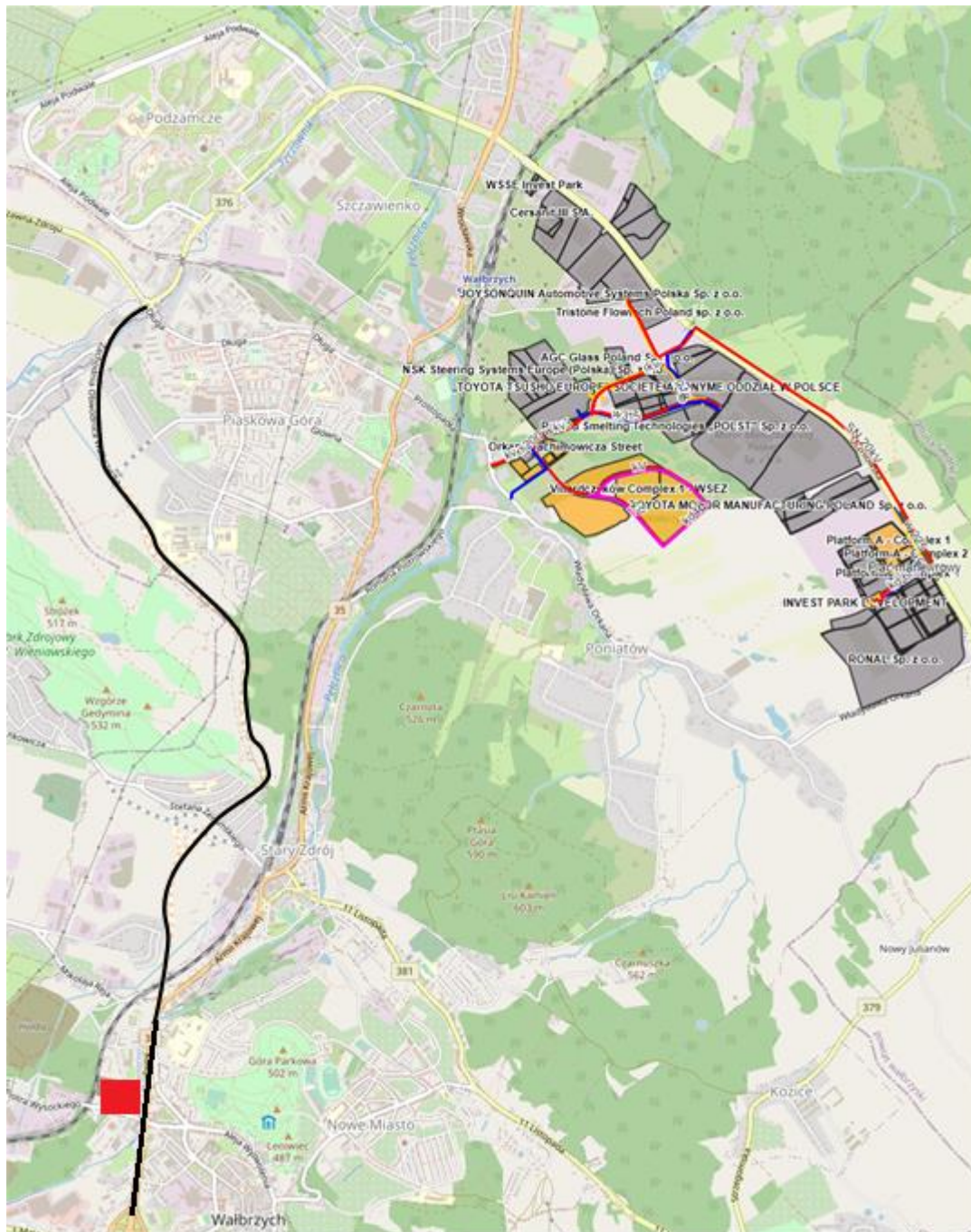
Electrolux Poland Sp. z o. o.	Household	Świdnica Subzone
Forma System Sp. z o. o.	Other	Świdnica Subzone
Klingenburg International Sp. z o. o.	Metal processing	Świdnica Subzone
Nifco Poland Sp. z o. o.	Automotive	Świdnica Subzone
Sonel S.A.	Electric devices	Świdnica Subzone
Tama Polska Sp. z o. o.	Other	Świdnica Subzone
THT Produkcja Opakowań Przemysłowych Sp. z o. o.	Packaging	Świdnica Subzone
Solgaz Sp. z o. o.	Other	Świdnica Subzone
Almes Poland Sp. z o. o.	Automotivr	Świdnica Subzone
Aryzta Polska Sp. z o. o.	Bakery	Strzegom Subzone
I.T.R Poland Sp. z o. o.	Other	Nowa Ruda Subzone
Orion PU Sp. z o. o.	Other	Nowa Ruda Subzone
Umicore Autocat Poland Sp. z o. o.	Automotive	Nowa Ruda Subzone
Zpas-Net Sp. z o. o.	Other	Nowa Ruda Subzone
Framo Morat Polska Sp. z o. o.	Other	Nowa Ruda Subzone
Enwar Sp. z o. o.	Metal processing	Świebodzice Subzone
Kelvion Machine Cooling Sp. z o. o.	Metal processing	Świebodzice Subzone
Sagepo Refa Sp. z o. o.	Metal processing	Świebodzice Subzone
Vasco Tech Sp. z o. o. Sp. k.	Food	Świebodzice Subzone

WSEZ Wałbrzych subzone – general information

Wałbrzych-City Subzone (“**Subzone**”) located within administrative borders of the City, encompasses an area of 33ha investment land. Wałbrzych Subzone was a key element in the region’s development and its efforts to walk away from its coal legacy. Since its establishment, overall unemployment in Wałbrzych dropped from 15 per cent to ca. 5 per cent as end of April 2020. Additionally average gross salary (in real terms) grew almost 2.5 fold in respective period.

The subzone become an important centre of automotive industry and attracted leading international car component’s manufacturers. Toyota Motor Manufacturing Poland became the largest single investor in the Subzone – and so far invested PLN 2.9 billion (EUR 650m) in the Subzone and employs 1,930 people. Starting from 2021 Toyota plant located in the WSEZ will expand to produce integral parts to Toyota’s hybrid electric powertrain system. With this EUR 93 million new investment total employment in WSEZ will increase by 380 people. [REDACTED]

Walbrzych Subzone, bypass route and location of the transportation hub (red box).



ANNEX 3 - IMPLEMENTATION PROGRESS OF GRCF / GRCF2

The Green Cities Framework (“GrCF”), approved by the Board in November 2016, set an ambitious agenda for the Bank’s municipal business, with the over-arching aim being ‘to serve as a sector-wide catalyst for addressing environmental challenges at the City level’. After only 2 years of operation, the Framework proved its ability to act as such a catalyst with the utilisation of the entire EUR 250 million headroom. As a consequence, in October 2018 a new Framework was approved by the Board, Green Cities Framework 2 (GrCF2), with a headroom of EUR 1.1 billion, with EUR 700 million from the Bank’s own capital and the remainder from the Green Climate Fund (“GCF”) and other donors. Given the sizeable amount from the GCF, in the form of concessional loans and grants for both capex and TC and the requirement to confirm to GCF the availability of Bank co-financing, GrCF2 is divided into two windows: Window I for GCF co-financing and Window II for non GCF co-financing. Since 2016, the GrCF and GrCF2 have mobilised nearly EUR 1.5 billion in EBRD and donor funding.

Table 1 shows the current portfolio of EBRD Green City projects [REDACTED].

Table 1: EBRD Green Cities Portfolio							
no	Sub-Project name	Approval date	CCY/amount Board approved	Committed Amounts	Amount cancelled	Disbursed	Progress of the sub-project
Sub-projects signed under the Green Cities Framework (GrCF & GrCF2)							
1	Chisinau Buildings	2016	EUR 10m	EUR 10m			Trigger. Signed.
2	Sarajevo Water	2017	EUR 25m	EUR 10m		EUR 1.65m	Trigger. Signed.
3	Belgrade Green Boulevard	2017	EUR 20m	EUR 20m		EUR 13.79m	Trigger. Signed.
4	Batumi Bus	2017	EUR 5.5m	EUR 5.5m		EUR 3.55m	Trigger. Signed.
5	Banja Luka DH	2017	EUR 8.4m	EUR 8.4m		EUR 8.35m	Trigger. Signed.
6	UKT Tirana Water	2018	EUR 15m	EUR 15m		EUR 5.26m	Follow on. Signed.
7	Varna Climate Resilience	2018	EUR 10m	EUR 10m		EUR 8.33m	Trigger. Signed.
8	Ulaanbaatar Solid Waste	2018	EUR 8.6m	EUR 8.6m		EUR 0.08m	Trigger. Signed.
9	Lviv Solid Waste	2018	EUR 20m	EUR 20m		EUR 1.04m	Trigger. Signed.
10	Izmir Metro II	2018	EUR 80m	EUR 80m		EUR 80m	Trigger. Signed.
11	Zenica Hospital	2018	EUR 10m	EUR 10m			Trigger. Signed.
12	Sofia Electric Bus	2018	EUR 7.9m	EUR 3.7m		EUR 3.14m	Trigger. Signed.
13	Tbilisi Solid Waste	2018	EUR 15m	EUR 15m		EUR 0.15m	Follow on. Signed.
14	Minsk VK Wastewater	2018	EUR 84m	EUR 84m		EUR 0.84m	Trigger. Signed.
15	Craiova Urban Rehabilitation	2018	EUR 15m	EUR 15m		EUR 6.86m	Trigger. Signed.
16	Skopje Buses	2019	EUR 10m	EUR 10m		EUR 9.95m	Trigger. Signed.
17	Balti Trolleybus	2019	EUR 2.5m	EUR 2.5m			Trigger. Signed.
18	Banja Luka Water	2019	EUR 4m	EUR 4m		EUR 1.49m	Follow On. Signed.
19	Tbilisi Bus Extension	2019	EUR 65m	EUR 65m		EUR 14.07m	Follow On. Signed.
20	Skopje Wastewater Project	2019	EUR 58m	EUR 58m			Follow On. Signed.

21	Sofia Electric Buses Extension	2019	EUR 0.5m	EUR 0.5m			Follow On. Signed.
22	Novi Sad Bus Fleet Renewal	2019	EUR 7m	EUR 7m			Trigger. Signed.
23	Ulaanbaatar District Heating Project	2020	EUR 8.9m	EUR 8.9m			Follow On. Signed.
24	Sarajevo Public Transport	2020	EUR 15m	EUR 15m			Follow On. Signed.
25	Sarajevo Public Transport 2	2020	EUR 20m	EUR 20m			Follow On. Signed.
26	Tbilisi Metro	2020	EUR 65m	EUR 50m			Follow On. Signed.
27	Sarajevo Public Building	2020	EUR 8m	EUR 8m			Follow On. Signed.
28	Banja Luka Water Phase 2	2020	EUR 6m	EUR 6m			Follow On. Signed.
Sub-total			EUR 603.1m	EUR 569.8m			
Projects identified under GCAPs but signed outside the Green Cities Framework							
28	Gyumri Urban Roads (Tranche III)	2019	EUR 4m	EUR 4m			Follow On. Signed.
29	GAM Lagoon Remediation	2019	EUR 10.3 m	EUR 5m			Follow On. Signed.
30	MR3: GAM Solid Waste	2019	EUR 3.2m	EUR 3.2m			Follow On. Signed.
Sub-total			EUR 17.5m	EUR 12.2m			
	TOTAL		EUR 620.6m	EUR 582m			
Framework Summary							
Total amount available under the Green Cities Framework (GrCF & GrCF2)						EUR	950m
Total committed amount of signed sub-projects under Green Cities (GrCF & GrCF2), excluding starred projects, which were identified under GCAPs but signed outside the Framework						EUR	569.8m
Total amount approved but pending signing/commitment						EUR	259m
Amounts cancelled						EUR	2.25m
Headroom available under the Framework (GrCF2) – Windows 1 and 2						EUR	118.9m

[REDACTED]

ANNEX 4 – CITY FINANCIALS

[REDACTED]

ANNEX 5 – PROJECT 1 IMPLEMENTATION AND PROCUREMENT PLAN

Procurement classification – Public

[REDACTED] The City has over 15 years of successful experience in implementing similar EU financed projects. For this purpose, the City has set up a permanent dedicated project implementation structure for managing EU Cohesion and Structural Funds. The unit is adequately staffed with technical, legal, financial and procurement staff supported by independent consultants to assist it with preparation, tendering, administration and supervision of all EU funded contracts.

Contracts risk assessment - Low

The works contract to be financed under this transaction has already been awarded, approved by the Cohesion Fund Managing Authority and is currently under implementation. At the time of submission of the SRM/FRM, the Bank was not aware of any issues with the implementation of the contract.

Project implementation arrangements:

The sub-project will require an exception from EBRD's PP&R, as envisaged under paragraph 2.4 of the PP&R for projects jointly co-financed with EU Cohesion/Structural Funds. FOPC issued a general recommendation in favour of exceptions to allow national procurement rules for all projects co-financing with EU Cohesion/Structural Funds in Poland at its meeting on 05 May 2011.

The exception refers to one single work contract for Construction of Walbrzych Road Bypass on the National Road no. 35, following an open tender in accordance with the Polish Public Procurement Law, which was awarded to Budimex S.A. Poland, on 04 April 2019 for the amount of PLN 307.05 million.

The Bank will finance up to eighteen (18) per cent of the contract with the remaining amount being financed by the Managing Authority for EU Structural and Cohesion Funds and GDDKiA.

The contract does not require retroactive financing.

ANNEX 6 - PROJECT 2 IMPLEMENTATION AND PROCUREMENT PLAN¹²**Procurement classification – Public**

[REDACTED] The City has over 15 years of successful experience in implementing similar EU financed projects. For this purpose, the City has set up a permanent dedicated project implementation structure for managing EU Cohesion and Structural Funds. The unit is adequately staffed with technical, legal, financial and procurement staff supported by independent consultants to assist it with preparation, tendering, administration and supervision of all EU funded contracts.

Project 2 builds on the City's previous experience gained with the implementation of two similar projects concerning the retrofit and thermo-modernisation of buildings, one being financed by EU under the Structural, Cohesion Funds, and the other by EIB under a parallel loan. Under these two projects the municipality since 2017 has completed the retrofit and thermo-modernisation of over 30 publicly owned buildings and 100 privately owned buildings/ apartment blocks.

¹² The amounts and timing specified above are of indicative character (as per current investment plan of the City) and are expected to be adjusted during the Project 2 implementation.

Contracts risk assessment - Low

The works contracts to be financed under this transaction are simple works contracts based on the design prepared by the Employer (the City), designs which are based on technical solutions pre agreed under the first two similar projects financed under EU Structural Funds and EIB parallel loan.

Project implementation arrangements:

The project envisages the retrofit and thermo-modernisation of approximately 52 municipality owned apartment blocks. Due to the nature of works to be executed, which requires the consent of the tenants to accept temporary relocation to other buildings owned by the municipality, the number of buildings that can be tendered out at any single moment in time requires a high degree of flexibility. Therefore, the current procurement strategy envisages 16 tenders spread over a period of 5 years, each tender covering in average of around 3 buildings and having an estimated value of EUR 1.8 million.

Considering that the contracts to be procured under Project 2 are relatively small value, spread over time and by their nature unlikely to attract international competition, it is recommended that article 3.10 of the PP&R apply to the transaction. This assumes that the City will award all contracts under the project through open tender in accordance with the Polish Public Procurement Law, using the same standard tender documents, methodology of evaluation and contracts used for the previous EU and EIB financed projects.

ANNEX 7 – PROJECT 2 EIRR

[REDACTED]