

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 15 December 2021¹

Romania

GRCF2 W2 - TIMISOARA CITY TRAMS

[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

CAPEX	Capital Expenditures
City	City of Timisoara
EE	Energy Efficiency
E&S	EBRD Environmental and Social Policy
EIRR	Economic Internal Rate of Return
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
EU	European Union
EUR	Euro
FW	Framework
FX	Foreign Exchange
GCAP	Green Cities Action Plan
GDP	Gross Domestic Product
GET	Green Economy Transition
GHG	Green House Gas
GrCF2 W2	EBRD Green Cities Framework 2 Window 2
PP&R	EBRD Procurement Policies and Rules
RPPL	Romanian Public Procurement Law
RON	Romanian Leu
SSF	EBRD Shareholder Special Fund
TC	Technical cooperation
VAT	Value Added Tax

CURRENCY CONVERSION

Date	RON/EUR
November 11, 2021	4.95

PRESIDENT’S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Municipality of Timisoara (the “City”) in Romania, are submitted for consideration by the Board of Directors.

The facility will consist of a senior loan of up to EUR 20.3 million to the City.

The project will enable the City to co-finance alongside the EU funds, the acquisition of a modern tram fleet and rehabilitation of its T5 tram line, supporting e-mobility. The proceeds of the loan will also finance relevant studies and training in support of public transport reforms, including: (i) Sustainable Urban Mobility Plan Update for the Metropolitan Area of Timisoara and (ii) Support for Public Transport Reorganisation. The Project will serve as Timisoara’s “trigger” investment under the Green Cities Framework 2 – Window 2 (“GrCF2 W2”). The investment formally initiates the City’s participation in EBRD Green Cities. The project qualifies as 100 per cent GET.

The expected transition impact of the project includes Green as primary quality through significant reduction in CO2 emissions. The Secondary quality is Resilient – through introduction of long-term asset management practices for the public transport system.

Post-signing TC support will assist the City with the development of a Green Cities Action Plan (“GCAP”) in support of their green agenda and gender considerations [REDACTED].

As the Project involves contracts to be jointly co-financed with the EU Structural Funds, an exception under Article 2.4 of the EBRD’s Procurement Policies and Rules (the “PPR”) is also required for this project to allow for the application of the Romanian Public Procurement Law (the “RPPL”). The contracts to be co-financed by the Bank under this Project were awarded before the recent changes to the RPPL (having the effect of restricting eligibility) as presented to the Financial and Operations Policies Committee (“FOPC”) at its meeting of 12 July 2021 and to the Board at its meeting of 6th September.

I am satisfied that the operation is consistent with the Bank’s Strategy for Romania, Municipal and Environmental Infrastructure Sector Strategy the Bank’s Green Economy Transition Approach 2021-2025 and with the Agreement Establishing the Bank.

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

Odile Renaud-Basso

BOARD DECISION SHEET

Romania - GRCE2 W2 - TIMISOARA CITY TRAMS - DTM 52471 Framework: REGIONAL - Green Cities 2 - Window 2- DTM 50674	
Transaction / Board Decision	Board approval ² is sought for a senior loan of up to EUR 20.3 million in favour of the City of Timisoara (the “City”), a large municipality in Romania, to co-finance alongside the EU funds, the acquisition of a modern tram fleet and rehabilitation of its T5 tram line. The proceeds of the Bank’s loan will also finance key studies and training to support the City’s public transport reforms: (i) Update of the Sustainable Urban Mobility Plan in the Metropolitan Area of Timisoara and (ii) Support for Public Transport Reorganisation. The Project will serve as Timisoara’s “trigger” investment under Green Cities Framework 2 – Window 2 (“GrCF2 W2”), whereas the City will develop a GCAP thereafter.
Client	The City of Timisoara is the main economic, educational and cultural centre in western Romania and is one of the largest Romanian cities with the population of over 300 thousand people. The City enjoys strong financial position: in 2020 it generated EUR 151 million of own revenues and EUR 20 million of current surplus. The City’s financial performance remained stable last year despite the COVID-19 crisis.
Main Elements of the Proposal	<ul style="list-style-type: none"> • Transition impact: The Project contributes to the Green transition quality (primary) through significant CO2 reductions in the City’s urban transport system, and development of a GCAP. The Project further supports the Resilient quality, through introduction of sustainable asset management practices linked to public transport reforms. • Additionality: The Bank is additional because of its <ul style="list-style-type: none"> Terms - Financing structure: EBRD offers long-term financing for CO2 reduction and energy efficiency measures in urban infrastructure. Due to the existing market inefficiencies, such financing is not readily available from commercial banks. Attribute - Knowledge, innovation, and capacity building: The Bank’s involvement is sought due to its ability to pursue the City’s green agenda (including policy dialogue) with central and local authorities, as part of the Green Cities Action Plan development. Gender SMART: Gender additionality will be achieved by following the GCAP’s 2.1 methodology, which covers gender and inclusion considerations, as part of the Green City Action Plan. • Sound banking – the City enjoys strong and diversified economy and a robust financial position.
Key Risks	<ul style="list-style-type: none"> • City’s creditworthiness as a Borrower: The City’s has a robust financial position and the projections demonstrate that it will be able to generate sufficient cash flows to meet service its debt portfolio. • Procurement/Implementation: The City has a successful track-record with the implementation of EU and EBRD financed projects, and experience in managing public services operations.
Strategic Fit Summary	<p>The Project is consistent with the Bank’s Green Economy Transition Approach 2021-2025, supporting decarbonisation agenda for the City of Timisoara and the Strategy for the Promotion of Gender Equality.</p> <p>The Project is consistent with Bank’s strategy for Romania, supporting investments in sustainable infrastructure and regional development, the project is also consistent with the Municipal and Environmental Infrastructure Sector Strategy stresses the importance of co-financing with EU funds.</p> <p>As the Project involves contracts to be jointly co-financed with the EU Structural Funds, an exception under Article 2.4 of the EBRD’s Procurement Policies and Rules (the “PPR”) is also required for this project to allow for the application of the Romanian Public Procurement Law (the “RPPL”).</p>

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	Up to EUR 20.3 million (or RON 100 million) senior loan to the City of Timisoara (“Timisoara” or the “City”) to co-finance alongside the EU, the key infrastructure projects for the period 2020–2023, including (i) renewal of its tram fleet; (ii) rehabilitation of its T5 tram line. In addition, the loan will finance the following consultancies: (iii) Update of the Sustainable Urban Mobility Plan in the Metropolitan Area; and (iv) Support for Public Transport Reorganisation. The Project will serve as Timisoara’s “trigger” investment under Green Cities Framework 2 – Window 2 (“GrCF2 W2”), whereby the City will develop a GCAP.
Existing Exposure	There is no existing exposure to the Client. [REDACTED].
Maturity / Exit / Repayment	15-years maturity [REDACTED].
Potential AMI eligible financing	none
Use of Proceeds	The proceeds of the loan will be used to: (i) finance acquisition of trams; (ii) finance rehabilitation of tram line number 5 as part of the city tram system; and (iii) the following two consultancies: Update of the Sustainable Urban Mobility Plan Support and Public Transport Reorganisation. The proceeds of the Bank’s loan will be used to co-finance alongside the EU funds the components (i) and (ii), hence the procurement was conducted in accordance with local procurement rules. The consultancies will be procured under the Bank’s Procurement Policies and Rules (“PP&R”). Disbursements from the loan will be made upon receipt of the evidence of signed contracts and project related EU financing agreements and evidence of use of proceeds.
Financing Plan	[REDACTED]
Key Parties Involved	City of Timisoara as the Borrower.
Conditions to subscription / disbursement	All financing and Project documents are in place
Key Covenants	[REDACTED]
Security / Guarantees	[REDACTED]
Other material agreements	Project-related EU financing agreements

Associated Donor Funded TC and co-investment grants/concessional finance	<p><i>Post-signing TC:</i> Green City Action Plan (“GCAP”). The TC will assist the City with the development of a GCAP 2.1 in order to identify and prioritise green investments, capacity building and policy objectives in support of the green agenda. The Timisoara GCAP will be developed under the GCAP2.1 methodology which takes gender and digital considerations into account to support its primary focus of green impact. The estimated cost of this assignment is EUR 350,000 [REDACTED].</p> <p>Reimbursement: The above assignments is a non-reimbursable transactional TC required to assist the Project with its Transition Impact in the City.</p> <p>Cost sharing: The City will not provide a cash contribution towards the cost of the TC based on the qualifying consideration that the City is a public entity with limited budgetary resources to contribute to the Project. The City will, however, finance the Update of the Sustainable Urban Mobility Plan and Support for Public Transport Reorganisation consultancies in total amount of EUR 1 million, whereas EUR 0.6 million will be financed from the proceeds of the Bank’s loan.</p>
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[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

In line with the European Union's Regional Operational Programme for Romania, targeting green and mobility investments, Timisoara City ("City") has a key objective to improve its public transport infrastructure and services as a pre-requisite for business and economic development in the region. The City's infrastructure programme includes several priority investments in electric transport systems that need own/local co-financing alongside EU funds. These investments have two objectives: (i) to increase mobility in the region by improving public transport infrastructure and services, and (ii) to improve life and environmental standards by promoting energy efficiency, reducing CO₂ emissions and improving public transport quality.

In this context, the City asked the Bank's support: (i) to cover the financing gap of its priority infrastructure programme and (ii) to introduce long-term sustainable urban planning, with focus on green, resilience and mobility. EBRD's loan will enable the City to fill the financing gap and access EU funds for its key investments, while supporting the transition towards a low-carbon economy and improvements in urban mobility.

The tram fleet renewal and the rehabilitation of its T5 tram line will strengthen the public transport attractiveness and will allow the City to further rely on a low-emission, electric transport facilitating GHG reductions. The project will result in an estimated annual reduction [REDACTED] of CO₂e (or 22.2 per cent savings on current emissions) following the completion of the Project. The Project is aligned with the mitigation goals of the Paris Agreement due to its support for "electric and non-motorised urban mobility" as recognised in the joint-MDB list of "aligned" use of proceeds. The Project is aligned with the adaptation goals of the Paris Agreement, following a flood risk assessment, relevant climate resilience measures are determined for the Project.

To pursue the transition towards a greener future across all urban sectors, the City also takes a strategic approach by joining EBRD Green Cities. With this project serving as the City's "trigger" investment under the programme, EBRD will support the City to develop a Green City Action Plan, through which the City will identify and prioritise its most pressing environmental challenges, and develop targeted investment and policy actions to address them.

The Project is consistent with the *Bank's GET Approach*, noting that the Bank can play a crucial role in supporting green low-carbon transition focusing on supporting "cities decarbonising and improve efficiency of municipal utilities (including energy efficiency in public buildings, e-mobility, smart cities and electrification of urban transport), promoting innovation through the Green Cities Programme (Cities and Environmental Infrastructure)". In addition, the Project is consistent with the *Bank's Strategy for Romania 2020–2025*, which states that "*The Bank will promote investments in Sustainable Infrastructure and Regional Development*", as well as with the *Municipal and Environmental Infrastructure Sector Strategy*, which states that "*In Romania, EBRD will continue to support EU Cohesion Fund*

projects to building on existing transition". The Project is also in line with the Strategy for the Promotion of Gender Equality, the GCAP will include gender and inclusion aspects.

1.2 TRANSITION IMPACT

The project is proposed for approval under Green Cities 2 Window 2 Framework and will become a "trigger" investment under EBRD Green Cities programme.

The GrCF2 represents a strategic and multi-project approach seeking to help identify and address environmental and climate change challenges in selected large cities in our countries of operation. The primary goal is to achieve significant environmental improvements and to promote the **Green** transition quality within the relevant cities. In addition to the environmental objective, the GrCF2 also promotes sustainable cities through inclusive, resilient, well-governed and smart urban development. Depending on which area can generate the strongest and most relevant transition impact, either **Well-governed, Inclusive, Resilient or Competitive** will be pursued and presented as the secondary transition quality for each sub-Project under the framework. These transition objectives are supported by the development and implementation of a city-specific Green City Action Plan ("GCAP") aiming to identify environmental challenges, facilitate better coordination and buy-in among stakeholders and help to prioritise and develop the best ways to address the environmental challenges through targeted investments, services and policy instruments.

This Project will primarily help to promote the **Green** transition quality by supporting electric transport development, that is envisaged to result in reduction of GHG emissions by 22.2per cent compared to the baseline (thus eligible to be included under GrCF2). This is resulting from modal shift due to track rehabilitation and elimination of replacement buses as well as the fleet renewal. The tram fleet renewal and the rehabilitation of Timisoara's tram infrastructure will strengthen the public transport attractiveness and will allow the City to further rely on a low-emission, electric transport. The Project is anticipated to improve user experience and thus induce a modal shift towards public transport while also realising a concrete plan for further improvements in the urban landscape which would support 'soft' modes and public transport uptake.

In addition, the Project will serve as Timisoara's "trigger" investment under Green Cities Framework 2 – Window 2. The investment formally initiates the City's participation in EBRD Green Cities. The GCAP will benchmark the city's environmental performance, identify the priority environmental challenges and will define the measures, namely investments and policy actions, needed in order to address these challenges.

The Project will also support the **Resilient** objective through introduction of long-term asset management practices for public transport assets, which will be supported by the following consultancies to be commissioned by the City of Timisoara and partially financed from the Bank's loan: (i) Update of the Sustainable Urban Mobility Plan, and (ii) Support for Public Transport Reorganisation, thus facilitating a more comprehensive and strategic approach to the urban transport sector in the City.

1.3 ADDITIONALITY

Identified triggers	Description
"No triggers identified"	n/a

Additionality sources	
Financing Structure	EBRD offers long-term financing for CO2 reduction and energy efficiency measures in urban infrastructure. Due to the existing market inefficiencies, such financing is not readily available from commercial banks.
Knowledge, innovation, and capacity building	The Bank's involvement is sought due to its ability to pursue The City's the green agenda (including policy dialogue) with the central and local authorities, as part of the Green Cities Action Plan development.
Standard-setting: helping projects and clients achieve higher standards	The City seeks/makes use of EBRD expertise on higher inclusion and gender standards and will pursue higher inclusion and gender standards as part of the GCAP development.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Predictability and strength of the institutional and financial framework	Low/Medium	The Municipality of Timisoara is one of the largest cities in Romania, having one of the top positions in the budgetary hierarchy of the country; the City is established and governed under the Local Public Authorities Law. Historically there has been some volatility with regards to transfer of revenues and costs to cities from the State budget that do not affect the debt service capacity but do affect their total revenues and expenses. The Bank closely monitors such developments and its impact on the City.
Economic volatility	Low/Medium	Timisoara is the main economic, educational and cultural centre in western Romania and has a robust and diversified economy well positioned for COVID 19 recovery. The City demonstrated resilience to the effects of COVID-19 pandemic with its Current Surplus decreasing insignificantly in 2020, reflective of the city's diversified economy.
Financial Management Capacity	Medium / High	The City has strong internal budget procedures and effective use of multi-year planning, which is evidenced by the strong historical financial indicators.
Debt burden	Low/Medium	The City's existing debt consists of local banks' loans and loan from the Ministry of Finance. Historically, the City demonstrated its ability to manage its debt portfolio without defaults. Internal due diligence assessed the City's creditworthiness and the loan agreement will contain specific financial covenants to mitigate any potential risk. The results of the due diligence demonstrate that the City can comfortably service new debt.
Implementation/ Procurement	Low/Medium	The City has a successful track-record and experience in implementing EU projects. The loan will co-finance contracts procured through open tender in accordance with local procurement rules. The loan financed contracts will be reviewed by the Bank's procurement expert.
Volatility of energy prices	Medium/ Medium	The effect of increased energy prices has been assessed in course of the due diligence as there may be an indirect effect through the subsidies the City has to pay to local district heating company. The [REDACTED] City's financial position is sufficiently resilient to withstand increased energy prices.

Climate risk	Low / Medium	Climate Risk is considered to be low [REDACTED].
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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 - On-time project implementation 	<ul style="list-style-type: none"> - Satisfactory financial indicators of the Borrower - Completion according to the timeline and within the budget 	[REDACTED]

This sub-project will be monitored individually. Information collected at sub-project level will be aggregated and used to inform Framework level monitoring. The TI objectives of the GrCF2 Framework and the relevance for this sub-project are detailed in the tables below:

Transition Impact Monitoring Indicators and Benchmarks (FW)								
Primary quality: Green								
Obj. No.	FW Monitoring Indicator	Corresponding Sub-Project Monitoring Indicator	Details (FW)	Details for Specific Sub-Project	Baseline (Sub-Project)	Target (Sub-Project)	Due date (FW)	TC-related ?
1.1	Number of recommended policy or strategy agreed by relevant stakeholder(s)	Recommended policy or strategy agreed by relevant stakeholder(s)	New Green City Action Plans: [REDACTED] new GCAPs finalised and submitted for approval by relevant authorities, and includes priority actions and a monitoring strategy in each participating City. Baseline target of the GrCF and GrCF2 combined is [REDACTED] GCAPs.	GCAP sent to the City of Timisoara for approval including an implementation and monitoring strategy.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Performance or action plan implemented by the client	Performance or action plan implemented by the client	Strong follow-on support: [REDACTED] transactions (under GrCF2 and future extensions) are follow-on investments addressing priority environmental challenges identified in the GCAPs.	Project is a “trigger” for the EBRD Green Cities in Timisoara, and includes a GCAP development that will enable follow on opportunities.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Performance or action plan implemented by the client	Performance or action plan implemented by the client	Multiple green investments: Each participating city makes [REDACTED] investments (with or without EBRD financing) that address priority environmental challenges identified by the GCAP, where all EBRD financed projects will meet the extended Framework’s eligibility criteria for investments.	The project will be signed and implemented and meets the eligibility criteria for investments under GrCF2 due to, among others, significant GHG reductions. It envisages annual reduction [REDACTED] of CO2e (or 22.2 per cent savings on current emissions) following the	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

				completion of the Project.				
1.4	Performance or action plan implemented by the client	Performance or action plan implemented by the client	Effective GCAP implementation: The Framework achieves at least 50 per cent of all verifiable targets, set in the GCAP [REDACTED] (including both investments and well-defined policy measures).	The Project is a trigger investment under GrCF2 and will support Timisoara to develop a GCAP that sets verifiable targets.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.5	Improved environmental standards	Improved environmental standards	Environmental impact: The Framework achieves significant environmental improvements for at least one priority environmental challenge, i.e. the promotion or protection of certain performance levels (colour codes) for priority environmental challenges as specified in the GCAPs, for more than 50 per cent of the Green Cities.	While the Project addresses climate mitigation and other environmental issues, the relevant environmental improvements within Almaty will not be monitored at the project level.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Secondary quality: Resilient								
Obj. No.	FW Monitoring Indicator	Corresponding Sub-Project Monitoring Indicator	Details Sub-Project level	Details for Specific Sub-Project	Baseline (Sub-Project)	Target (Sub-Project)	Due date (Sub-Project)	TC-related ?
2.1	Number of institution-level capacity strengthened in target area	Institution-level capacity strengthened in target area	Promote and help implement priority policy actions, as identified in the GCAP, or key capacity needs to enhance urban resilience (including better asset management, risk assessment and mitigation, warning systems or emergency response planning and processes).	Transition will be derived from introducing long term asset management practices for public transport assets. This shall include: [REDACTED] the city/client to undertake (i) an adequate inventory of relevant assets and (ii) an approved multiyear predictive maintenance plan/approach, which (iii) [REDACTED] shall have demonstrated adequate funding and implementation [REDACTED].	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Additional indicators							
Objective	FW level aggregate indicator	Indicator (sub-Project)	Details (sub project)	Baseline (Sub-Project)	Target (Sub-Project)	Due date (Sub-Project)	TC-Related?
Core client indicators	Total Population benefitting from the Project (individuals)	Number of individuals with improved transport services and access to new tram line and tram fleet	Fleet component – benefiting [REDACTED] daily passengers; Track components benefiting [REDACTED] daily passengers.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	Total CO2 emissions reduced	Annual reduction in tonnes of CO2 equivalent savings (tonnes CO2 eq / yr)	Annual reduction of [REDACTED] CO ₂ e (or 22.2 per cent savings on current emissions).	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Gender SMART Indicator	Cities in which Gender-responsive GCAPs was agreed	Recommended policy or strategy agreed by relevant stakeholder(s)	The GCAP for the City of Timisoara will include a gender assessment, which will aggregate the analysis and information gathered throughout the GCAP development (such as gender-disaggregated data, and the analysis the gender specific needs and barriers in access to services and infrastructure in cities in the various sectors covered by the GCAP 2.1 methodology), and the recommendations to address gender and inclusion in the City (as subset of Green city actions) that are the results of the analysis.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Delivery Risks: A risk to achieve the transition impact is the failure to implement the GCAP effectively. This is mitigated by the City's interest in pursuing a green agenda; in addition, the City has demonstrated a commitment to develop GCAP, based on examples recently set in other countries with the Bank's support.

3. KEY PARTIES

3.1 BORROWER

The Borrower is the City of Timisoara. It is one of the largest cities in Romania with over 300 thousand inhabitants, and is a key cultural and economic centre of Transylvania. It has a diversified economy, including chemical, automotive, electronic and textile industries well represented by large international companies. Timisoara is an important educational centre with four universities and five research institutes.

The City's location close to the Hungarian and Serbian borders, with good transport links to Bucharest, Budapest and Belgrade, makes it an important logistics hub, featuring large logistics centres in and around the city. Timisoara is an important tourist and cultural centre in the country with eight art galleries, three multilingual theatres, a philharmonic and five state museums. Timisoara is also designated 'European Capital of Culture in 2023, and the proposed project will improve the public transport network, a key element in the City's preparation to host a year-long celebration of art and culture in the European Union.

Over the past three years, the City has recorded financial standing characterized by solid revenue base with current revenues reaching EUR 170 million in 2020, robust level of current surplus (reaching EUR 20.5 million in 2020 equivalent to 12 per cent margin) and sufficient capacity to manage existing debt obligations. The City's main revenue sources are locally collected taxes (including income tax), which accounted for over 85 per cent of current revenues in 2020 and 93 per cent in 1H 2021, showing a relatively high level of autonomy. The City's robust financial position is driven by its diversified economy and younger aged profile of the population, among other factors.

Since September 2020, the City has a new management team in place. The new Mayor of Timisoara, Dominic Fritz, is a dynamic new leader with commercial and public administration background determined to modernise operational practices in the City. The City Manager, Matei Creiveanu, is former regional head of one of the European banks and is an economist with extensive experience in international finance.

The impact of COVID - 19 pandemic on Timisoara is expected to be **Low**. The City demonstrated resilience to the effects of COVID-19 pandemic with revenues increasing and good level of current surplus in 2020 and 1H 2021 reflecting the city's diversified economy. The City is not dependent on tax payers from sectors highly impacted by the crisis, such as tourism and hospitality. On the other hand, Romania's vaccination strategy improved in the past 2 months and Timisoara is one of the top vaccination rate cities.

4. MARKET CONTEXT

The municipal infrastructure in Romania is broadly financed from EU grants, state budget, and external loans. Despite significant EU funds made available for Romania, the local infrastructure is often lagging behind other EU regions, given the limited number of feasible projects in the country and the over-regulated investment environment in the public sector. The cities have generally no long-term financing strategies in place, but rather seek project-by-project financing when the need arises. Investment priorities are driven mainly by EU objectives reflected in the specific EU Sectoral Operational Programmes.

Timișoara's public transport network consists of nine tram lines, eight trolleybus lines (70.5km) and 18 bus lines and is operated by Societatea de Transport Public Timișoara ("STPT"). Overall, about 13 per cent of residents use trams regularly, and the maximum distance to a tram stop within the urban area is 1km (i.e. tram lines serve all neighbourhoods and residential areas of the city). Timisoara also has a low rate of vehicle ownership (less than a half of the EU average), highlighting its citizens' reliance on public transport.

STPT operates the third largest tram network in Romania at 142km (after Bucharest and Arad). It operates 71 trams, all of which are second-hand purchases from Germany. The average age of the trams is 41.5 years, and they operate beyond their envisaged life expectancy. The oldest operating trams (eight) date from 1966. Currently, half of Timisoara's trams would legally need to be retired, but the City maintains them for lack of newer vehicles. The trams in operation are not suitable for child prams or disabled persons, as the entrance is 85cm above platform level and use two steps. The advanced age of the tram stock lead to significant operating costs.

Therefore, the City plans to gradually replace its existing stock with new trams, and plans to acquire 21 modern low floor trams of 30 meter length through the proposed Project. This would be the first stage in its acquisition programme, which at its completion aims to bring 40 new trams on Timisoara's streets within a total fleet of 70 trams to serve the city tram network.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

5.4 ECONOMIC ANALYSIS

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (ESP 2019). The project will mainly have environmental and social benefits and will contribute to improving accessibility and mobility for all user groups, air quality in the City, traffic safety and efficiency of urban transportation. The project will bring an estimated average annual reduction in CO₂ emissions [REDACTED] of CO₂e (or 22.2 per cent savings on current emissions). The public and commercial enterprises currently using Timisoara public transport systems will benefit from improved services and the tram line and street infrastructure will be extended to accommodate disabled people currently not served. The Bank will also support the City with the update of the Sustainable Urban Mobility Plan and Public Transport Reorganisation Plan.

The Environmental and Social Due Diligence (“ESDD”) for the Project has been undertaken by an independent consultant and included an environmental and social (“E&S”) assessment of the project (including tram track rehabilitation and fleet renewal) including gender specific impacts, review of the current operations, as well as the E&S management systems and the capacity of City of Timisoara as it relates to trams and tram line operations. The assessment also included an analysis of environmental and social impacts and benefits associated with the Project.

As part of the ESDD, Flood Risk Assessment has been prepared and the City has developed emergency preparedness and response plans to mitigate risks of potential floods and frost events.

The due diligence has indicated that current environmental, occupational health and safety, and stakeholder engagement practices are in line with the national legislation. The City has an established environmental policy and environmental management procedures which are part of its Quality and Management System; environmental performance is subject of regular review by the management. There is currently one manager appointed as responsible for environmental management at City level including the implementation of the environmental policy, environmental procedures, and legal compliance. The City monitors and reports on waste generated at construction sites and ensure appropriate management of all hazardous wastes by the contractors. The City follows legal requirements along with its policies and procedures on Occupational Health and Safety. The City has developed overall OHS procedures and work instructions which are monitored to assess OHS performance in relation to Romanian legal requirements.

The ESDD has also identified potential areas for improvement including E&S management system, stakeholder engagement, improvements and enforcement of safe labour practices, opportunities to enhance gender and inclusion, develop and implement measures to manage Gender Based Violence and Harassment risk to workforce and tram service users, traffic and fire safety, waste management, and also good practice pandemic resilience measures and relevant mitigation measures were included into an Environmental and Social Action Plan (ESAP) and Stakeholder Engagement Plan (SEP). The ESAP has been largely agreed and outstanding points will be finalised prior to Board. The Bank will monitor the Client's activities through annual E&S monitoring reports and site visits if necessary.

6.2 INTEGRITY

In conjunction with OCCO, internal integrity due diligence was undertaken on all parties to this Project. [REDACTED]. Based on the integrity assessment it was concluded that this project does not present an unacceptable reputational or integrity risk to the Bank.

[REDACTED]. 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

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ANNEX 2	Project Description
ANNEX 3.	Implementation progress of GRCF / GRCF2
ANNEX 4	Project Implementation
ANNEX 5	Historical Financials
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ANNEX 1- GREEN ASSESSMENTS

Introduction

The Green Assessment Annex presents the results of the following assessments which were undertaken for the Project:

- a. Paris Agreement alignment (PA) determination – showing the project is **aligned** for both BB1 (mitigation) and BB2 (adaptation).
- b. GET finance attribution –showing that the project is considered as **100 per cent GET**.

In addition, it should be noted that the Climate-related financial risk screening showed that no further assessment was required as the project counterparty is considered low risk in terms of both Carbon Transition and Physical Climate Risk.

Paris alignment assessment

The Project was assessed as Paris Aligned for both BB1 (mitigation) and BB2 (adaptation).

1. Paris Agreement determination for mitigation (BB1)

The project falls under the category of ‘universally aligned’ activities (Zero-emission transport), thus it is aligned under BB1 (mitigation).

2. Paris Agreement determination for adaptation (BB2)

The project was determined as BB2 aligned. Results of the assessment are described below.

Alignment with the adaptation goals of Paris Agreement	
Evaluation of the physical climate risk and vulnerability context	<p>A screening of this project indicated potential exposure to flood risk. Given that flooding occurs across large parts of the city including the area for track renewal and the wider network on which the trams will run, a project specific flood risk assessment was undertaken as part of the technical due diligence for the project.</p> <p>The sensitivity, exposure and resulting vulnerability of the project to flood risk was assessed, looking at historical and future conditions, incorporating climate change. For any material risk to the Project involving disruption and damage, relevant resilience measures are evaluated based on the flooding history of the site, climate change literature and data / analytics for the region - future evolution of flood risk for the site, vulnerability of the Project, climate resilience measures in the context of national adaptation/resilience policies and plans in place.</p> <p>The assessment concluded that whilst flooding has been a historical risk for the city, Timisoara has in place a Preparedness Plan against floods and ice flows, which includes preventive and operational actions to manage emergency situations in case of flooding events, including a warning system for flood risk preparedness and clear responsibilities of</p>

	intervention teams. Flood risks are managed with the definition of climate resilience measures.
Definition of climate resilience measures	<p>City wide and Project level measures are proposed and in place to manage the flood risk, these include:</p> <ul style="list-style-type: none"> ▪ Monitoring of weather, including flood risk and rainfall by the City; ▪ Early warning systems are included in Emergency Plans. ▪ Rainwater collection systems are in place. ▪ Flood defence systems, including barriers are included for protection, and intervention teams are deployed from the City companies for: public transport services (Societatea Transport Public Timisoara – STPT). ▪ Drainage ditches and systems will be regularly cleaned from branches, leaves and debris in ditches to prevent water runoff on and near the tramline and road. ▪ The City water company (Aquatim) acts in flood-prone locations, we have the resources in place to enable us to quickly pump flood water away when needed. ▪ The tram lines renewal includes the installation of the signalling equipment at a higher level above flood prone areas. <p>The measures are considered to be suitable and proportional to address the identified risks. Any project specific measures are integrated into the Project's ESAP.</p>
Appraisal of broader climate resilience context	The Project is not inconsistent with the applicable national climate resilience strategies and policies articulated in the NDC and National Communication. The Project is not expected to impact the wider resilience of the system in which it operates.

GET attribution

The Project consists of acquisition of modern tram fleet and rehabilitation of a tram line for the period 2020–2023, including (i) renewal of tram fleet; (ii) rehabilitation of tram line, (iii) development of sustainable urban mobility and transport reorganisation plans and (iv) development of a Green City Action Plan.

As such the Project is considered to be 100 per cent GET Mitigation and 100 per cent GET 'other environmental' (Totalling 100 per cent GET Finance considering appropriate override), as per Annex 5.3 of the EBRD GET Handbook, section A.5.3.1.1. Zero-direct-emissions fleet and related infrastructure: 'Projects involving new vehicles with zero tailpipe emissions and infrastructure for zero-carbon transport systems (for example, electric and hydrogen) are 100 per cent GET'.

The Project will lead to annual average savings [REDACTED] of CO₂eq (22.2 per cent from baseline), [REDACTED] SO₂ [REDACTED], [REDACTED] NO_x [REDACTED] and [REDACTED] PM [REDACTED].

This project is compatible with the new joint multilateral development bank ("JMDB") mitigation methodology being the category that fits this project best: Urban and rural public transport projects.

Criteria:

- The entity applying the Common Principles shall demonstrate a modal shift from a higher-carbon mode.

Guidance:

- Modal shift includes prevention of future shifts to higher-carbon modes.
- Both fleets and infrastructure that are fundamental to the operation of public transport services are eligible.
- Potentially eligible activities include buses, bus rapid transit, tram, cable car, monorail, rail transit, and ferry used in public transport.

This project is also aligned with the EU Taxonomy mitigation delegation act (“DA”) released in April 2021 as it is compliant with the substantial contribution criteria and does not contradict any do no significant harm (“DNSH”) principles.

6.3. Urban and suburban transport, road passenger transport

Criteria for substantial contribution (“SC”): the activity provides urban or suburban passenger transport and its direct (tailpipe) CO₂ emissions are zero

GHG and other pollutants assessment:

There are 2 material components in this project that were assessed in terms of the GHG emissions and emissions of other pollutants: renewal of tram fleet and rehabilitation of Tram Line Route 5: Calea Bogdăneștilor. The development of sustainable urban mobility and transport reorganisation plans and development of a Green City Action Plan are expected to bring environmental benefits [REDACTED].

The project will save annually [REDACTED] CO₂eq per annum (22.2 per cent from baseline) over the life of the project.

The project will also save annually [REDACTED] NO_x, [REDACTED] SO_x and [REDACTED] PM over the life of the project.

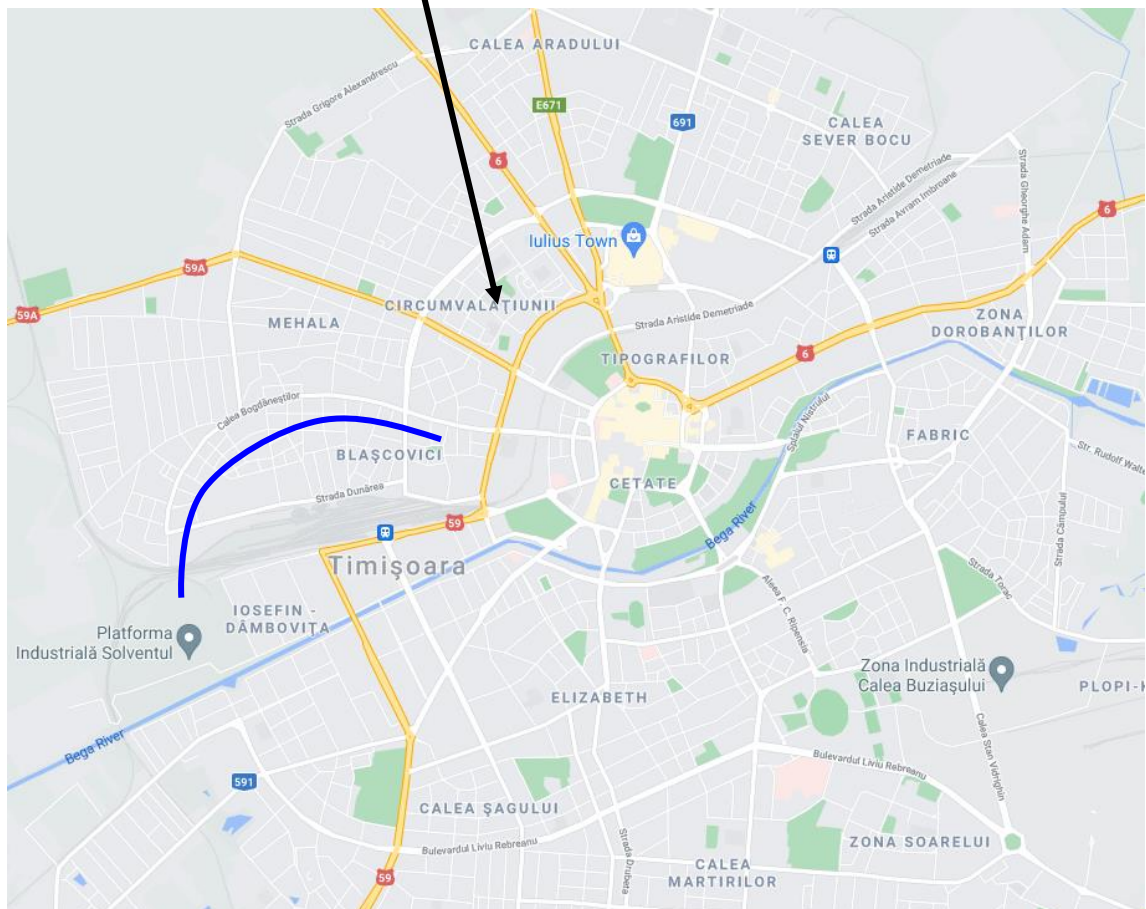
ANNEX 2 – PROJECT DESCRIPTION

The location of the Project is presented on the Maps 1 and 2 below.

Map1. Map of Romania



Map 2. Section of Route 5 to be rehabilitated, Calea Bogdăneștilor, Timisoara



Tram transport in Timisoara, managed by the Public Transport Company of Timisoara (“STPT”) has a significant importance given that, currently, approximately 53 per cent of the total number of public transport trips are made by this means of transport. From the fleet point of view, the tram fleet consisted, as of 2017, of 154 units, 71 of which were in operation, the rest of 83 being in need for major repair works or due for scrapping, all of which were second-hand purchases or donations from Germany.

The average age of the tram park currently used by STPT is 43 years, the trams being produced between 1962 and 1973. As a result, the tram network requires significant costs associated with are represented by by spare parts, maintenance and repair expenses - 53.66 per cent, of total operating costs of running the tram network.

Starting with 2015, the Municipality of Timisoara started a project to modernise the second-hand GT4d trams, resulting in ARMONIA trams. The maximum number of trams available in the GT4d category (type) is limited to 30 units, all of which are, as of 2021 transformed, based on a framework agreement and subsequent contracts in progress, into ARMONIA type trams. The modernisation of the other types of trams is not feasible due to the age and the accentuated wear/corrosion of the basic structure of the older trams.

Figure: Modernised ARMONIA tram



In order to modernise its tram fleet, the City of Timisoara is intending to purchase 40 modern trams of which 21 tram will be financed from the proposed Project. The new trams will increase passenger comfort, improve accessibility for people with disabilities, reduce operating, maintenance and repair costs, increase the average speed of travel, which can reduce energy consumption, so that public transport becomes more attractive, encouraging the shift from private cars to public transport, creating the conditions for reducing CO2 and other GHG emissions generated by the transport sector.

The introduction of modern tram fleet is expected generate the following benefits:

- Improved traffic flow;
- improving traffic safety by reducing the risk of accidents;
- improving the degree of comfort for passengers;
- improving the environmental parameters affected by public transport through noise, vibration, pollutant emissions (CO₂, NO_x, SO_x);
- general improvement of urban traffic in Timisoara.

The Project also includes rehabilitation of the tram route T5. Due to the deterioration of the tram line, the tram service on route T5 has been interrupted since September 2017 and currently replaced by two bus lines (L5a and L5b).

The Municipality of Timisoara, together with STPT - Societatea de Transport Public Timisoara has initiated the proposed project to resume tram traffic on the T5 line and create convenient sidewalks, green areas, landscaped parking spaces and cycle lanes for alternative environmentally friendly transport.

ANNEX 3 – IMPLEMENTATION PROGRESS OF GRCF / GRCF2

Since 2016, the GrCF and GrCF2 have mobilised nearly EUR 5 billion in EBRD and donor funding. 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’. [REDACTED] [I]n October 2018 a new Framework was approved by the Board, Green Cities Framework 2 (“GrCF2”) [REDACTED].

ANNEX 4 - PROJECT IMPLEMENTATION

Procurement classification – Public sub-sovereign

[REDACTED]. The City has over 15 years of successful experience in implementation of similar EU financed projects. For this purpose, the City has set up permanent dedicated project implementation structure which is adequately staffed with technical, legal, financial and procurement staff. Additionally, the City benefits from independent technical assistance for project implementation support and work supervision, contracts that are financed under the EU Project. The investment contracts to be financed under the Project are signed and under implementation. There are only two consultancy contracts that are yet to be procured under the Project. These contracts will be procured in accordance with EBRD PP&R. The PIU has no experience in procurement in accordance with the MDBs procurement procedures and in English. Such risks will be mitigated through ongoing support in the tendering process to be provided the EBRD Project Implementation Advisor to the PIU.

The contracts risks assessment: Low

The Project envisages financing of four contract. The two investment contracts, more specifically one for procurement of 21 trams and the other one for the rehabilitation of tram infrastructure have been already awarded and are currently under implementation.

The[re] are only two consultancy contracts that are yet to be procured under the project: The update of the Sustainable Urban Mobility Plan and Support for public transport (M6) reorganisation in the metropolitan area.

None of these contracts to be financed under the project are considered as complex or high risk.

Procurement arrangements:

In common with all projects co-funding with the EU Structural and Cohesion Funds, the sub-project will require an exception from EBRD's Procurement Policies and Rules ("PP&R") to allow national procurement rules for the two investment contracts co-financed with EU Cohesion Funds: Rehabilitation of the T5 tram line and modernisation of Calea Bogdăneștilor street - Preparation of design and perform the works (Design-build) and Acquisition of 21 trams.

On 6 April 2011 the Board has approved a general endorsement from FOPC that requests for exception to allow the use of national procurement rules for any projects co-financed with Cohesion or Structural funds granting an exception under paragraph 2.4 of the PP&R for eligible contracts jointly co-financed by EBRD in Romania subject to Board's approval.

The two investment contracts to be co-financed under the Project alongside the EU Cohesion funds have been tender out and awarded in accordance with the Romanian Public Procurement Law, prior to its modification in April 2021. Therefore the award of these

contracts meets in full the conditions prevailing at the time the FOPC recommended the exception under paragraph 2.4 of the PPR.

It is to be mentioned that although both investment contracts are under implementation, the City does not intent to request retroactive financing for any of these contracts. The EBRD loan proceeds will be used for financing upcoming payments and for covering the cost overruns resulting from the application of price adjustment formula set up in accordance with relevant legislation in Romanian.

The consultancy contracts to be financed under the Project will be procured through Single Stage Competitive Selection in accordance with Chapter 4 of PPR. [REDACTED].

ANNEX 5 – HISTORICAL FINANCIALS

[REDACTED]

ANNEX 6 - EIRR

[REDACTED]