

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

Approved by the Board of Directors on 17 June 2020<sup>1</sup>

**SERBIA**

**VISP:  
NOVI SAD BUS COMPANY**

*[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]*

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<sup>1</sup> 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 Expenditure
CNG	Compressed Natural Gas
DSCR	Debt Service Cover Ratio
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EBRD	European Bank for Reconstruction and Development
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
E&S	Environmental and Social
EUR	Euro
GCAP	Green City Action Plan
LOS	Letter of Support
OCCO	Office of the Chief Compliance Officer
PD	Probability of Default
PIT	Personal Income Tax
PP&E	Property, Plant and Equipment
PP&R	Procurement Policies and Rules
PR	Performance Requirements
PUC	Public Utility Company
RAROC	Risk Adjusted Return on Capital
RSD	Serbian dinar
SEP	Stakeholder Engagement Plan
TI	Transition impact
VAT	Value Add Tax
VISP	Vital Infrastructure Support Programme

### CURRENCY CONVERSION

(as of 27 May 2020)

**EUR 1 = RSD 117.60**

## **PRESIDENT'S RECOMMENDATION**

This recommendation and the attached Report concerning an operation in favour of Javno gradsko saobraćajno preduzeće Novi Sad (the “Company”), a public transport company fully owned by the City of Novi Sad, Serbia, are submitted for consideration by the Board of Directors as part of the Vital Infrastructure Support Programme presented under the EBRD COVID-19 Solidarity Package.

The facility will consist of a loan to the Company in an amount of up to EUR 7 million to be split into two tranches: a committed tranche of EUR 4 million and an uncommitted tranche of EUR 3 million. The loan will be supported with a Letter of Support from the City of Novi Sad.

The operation will enable the Company, an existing client, to address its [REDACTED] needs and to ensure stable and uninterrupted transport services despite the impact of COVID-19. [REDACTED] It will also enable the Company to continue its ongoing transformation to a modern public transport provider, with an increasingly green focus. The Company is an existing client under EBRD Green Cities and the City is committed to pursue a green agenda.

The project contributes to the "Resilient" quality.

I am satisfied that the operation is consistent with the Bank’s Strategy for Serbia, Municipal and Environmental Sector Strategy 2019-2024, and with the Agreement Establishing the Bank.

I recommend that the Board approve, on a no-objection basis, the proposed loan substantially on the terms of the attached Report.

**Suma Chakrabarti**

## BOARD DECISION SHEET

<b>SERBIA – VISP: NOVI SAD BUS COMPANY - DTM 52229</b>	
<b>Transaction / Board Decision</b>	<p>Board approval<sup>2</sup> is sought for a senior loan of up to EUR 7 million in favour of Javno gradsko saobracajno preduzece Novi Sad (the “<b>Company</b>” or the “<b>Borrower</b>”), a public transport company fully owned by the City of Novi Sad, Serbia (the “<b>City</b>” or “<b>Novi Sad</b>”) as part of the Vital Infrastructure Support Programme (Window 2) presented under the EBRD COVID-19 Solidarity Package.</p> <p>The loan will consist of two tranches, a committed tranche of EUR 4 million (“<b>Tranche 1</b>”) and an uncommitted tranche of EUR 3 million (“<b>Tranche 2</b>”), and will be supported with a Letter of Support (the “<b>LoS</b>”) from the City. It is proposed that approval of commitment of Tranche 2 is delegated to Management.</p>
<b>Client</b>	<p>The Company is a public transport operator wholly owned by the City. It is an existing Client of the Bank with a loan signed in December 2019 (OpID 51441) under the Green Cities Framework. Novi Sad is the second largest city in Serbia, with a population of approximately 340,000 inhabitants. The City is committed to developing its Green City Action Plan under the Green Cities Framework and several follow-on projects are already being explored.</p>
<b>Main Elements of the Proposal</b>	<p>The COVID-19 crisis has triggered immediate [REDACTED] needs for the Company, which need to be addressed to ensure continued and uninterrupted provision of essential municipal transport services.</p> <p><u>Transition impact</u></p> <p>The Project contributes to the "Resilient" quality as it addresses the Company’s current liquidity shortages resulting from a sudden, significant decrease in passengers due to the COVID-19 pandemic. Moreover, by ensuring the Company’s liquidity, the Bank continue to promote its activities under EBRD Green Cities.</p> <p><u>Additionality</u></p> <p>Financing Structure: Crisis response - EBRD financing is provided under the extraordinary circumstances of the Covid-19 crisis and effectively bridges a liquidity gap due to adverse market conditions. The Bank's ability to respond quickly to immediate needs is also a key additionality element.</p> <p><u>Sound banking</u></p> <p>The proposed loan structure is based on detailed financial analysis, consideration of all key risks and appropriate stress testing.</p>
<b>Key Risks</b>	<p>Credit risk: the financial standing of the Company is limited, yet acceptable for the proposed loan under the envisaged financial structure. The loan will be supported by a LoS from the City [REDACTED].</p>
<b>Strategic Fit Summary</b>	<p>The Project is consistent with the Bank’s Strategy for Serbia, Municipal and Environmental Sector Strategy 2019-2024, Vital Infrastructure Support Programme presented under the EBRD COVID-19 Solidarity Package, and with the Agreement Establishing the Bank.</p>

<sup>2</sup> Article 27 of the AEB provides the basis for this decision.

## ADDITIONAL SUMMARY TERMS FACTSHEET

<b>EBRD Transaction</b>	<ul style="list-style-type: none"> <li>• A senior loan of up to EUR 7 million in favour of Javno gradsko saobracajno preduzece Novi Sad (the “<b>Company</b>” or the “<b>Borrower</b>”), a public transport company wholly owned by the City of Novi Sad, Serbia (the “<b>City</b>” or “<b>Novi Sad</b>”).</li> <li>• The loan will consist of two tranches, a committed tranche of EUR 4 million (the “<b>Tranche 1</b>”) and an uncommitted tranche of EUR 3 million (the “<b>Tranche 2</b>”), and will be supported by a Letter of Support (the “<b>LoS</b>”) from the City. [REDACTED]The Bank’s financing will cover the Company’s working capital needs due to a temporary revenue shortfall resulting from the COVID-19 crisis [REDACTED].</li> <li>• The Company is an existing client, and its project was the trigger project under the Green Cities Framework. The City is working closely with the Bank to identify and address its environmental challenges.</li> </ul>
<b>Existing Exposure</b>	<ul style="list-style-type: none"> <li>• Aggregate exposure to the Company: EUR 7 million (OpID 51441, GrCF2 W2: Novi Sad Bus Fleet Renewal approved on 10 December 2019). The loan is still undisbursed. ETI: 70</li> <li>• Aggregate exposure to the City: none.</li> </ul>
<b>Maturity / Repayment</b>	7 years [REDACTED]
<b>Use of Proceeds</b>	The proceeds of the loan will be used to cover the Company’s short-term working capital needs. Use of proceeds will not be used to cover the Borrower’s financial obligations to other lenders.
<b>Investment Plan</b>	[REDACTED]
<b>Financing Plan</b>	[REDACTED] The loan will consist of 2 tranches: committed Tranche 1 of EUR 4 million and uncommitted Tranche 2 of EUR 3 million.
<b>Key Parties Involved</b>	<ul style="list-style-type: none"> <li>• Public Transport Company of Novi Sad, as Borrower</li> <li>• City of Novi Sad</li> </ul>
<b>Conditions to subscription / disbursement</b>	<ul style="list-style-type: none"> <li>• Certified copies of all necessary authorisations and approvals for the execution and performance of the Financing Documents (Loan Agreement and the LoS).</li> <li>• Executed LoS [REDACTED].</li> </ul>
<b>Key Covenants</b>	[REDACTED]
<b>Security / Guarantees</b>	LoS with the City [REDACTED]
<b>Other material agreements</b>	[REDACTED]
<b>Associated Donor Funded TC and co-investment grants/concessional finance</b>	n/a

[REDACTED]

## INVESTMENT PROPOSAL SUMMARY

### 1. STRATEGIC FIT AND KEY ISSUES

#### 1.1 STRATEGIC CONTEXT

In light of this working relationship, the Company is seeking EBRD financing under the VISP Window 2 to address its current [REDACTED] needs linked to the COVID-19 pandemic.

The Government of Republic of Serbia declared a state of emergency on 15 March 2020 as a response to the ongoing COVID-19 pandemic. Similar to the central government, local self-government units have also been operating under a crisis response mode since the pandemic outbreak. Public transport companies were particularly affected by the crisis given the temporary suspension of their operating activities during the state of emergency.

The state of emergency, including curfew, was lifted on 7 May 2020. However, a number of containment measures have remained in place. The public transport companies resumed operational activities in accordance with the guidance issued by the Government, which includes increased operating costs due to additional cleaning and disinfection requirements. However, the number of passengers remains limited and there is an uncertainty as to when it will return to its customary levels. [REDACTED]

The Company is an existing EBRD client with its first loan signed in December 2019 as a “trigger project” under the Green Cities Framework. The Bank has a strong partnership with the City and is currently developing a number of important initiatives. Novi Sad is committed to improving the quality of its municipal infrastructure and addressing its most pressing environmental challenges, as witnessed through its enrolment in EBRD Green Cities. The preparation of the Green City Action Plan (“GCAP”) is planned to commence in the 2<sup>nd</sup> half of 2020. The City intends to proceed with a “follow-on” green investment for purchase of electric buses towards the end of the 2020.

The Project is consistent with the Bank’s Strategy for Serbia, Municipal and Environmental Sector Strategy 2019-2024, Vital Infrastructure Support Programme presented under the EBRD COVID-19 Solidarity Package, and with the Agreement Establishing the Bank.

#### 1.2 TRANSITION IMPACT

The Project contributes to the "Resilient" quality as it address the Company’s current liquidity shortages resulting from a temporary, but significant decrease in passengers due to the crisis.

In addition, the Bank’s assistance will enable the Company to continue its ongoing transformation to a modern public transport provider, with an increasingly green focus. Furthermore, the support will allow the City to use its budget funds to focus on its Green Cities agenda, which also includes further bus fleet renewal at the Company.

### 1.3 ADDITIONALITY [REDACTED]

Additionality sources	Description of additionality sources
<p><b>Financing Structure:</b></p> <ul style="list-style-type: none"> <li>- Crisis response: EBRD financing <b>effectively bridges a financing gap</b> due to adverse market conditions.</li> </ul>	<p>EBRD financing is provided under the extraordinary circumstances of the Covid-19 crisis and effectively bridges a liquidity gap due to [REDACTED] the coronavirus pandemic. The Bank's ability to respond quickly to immediate needs is also a key additionality element.</p>
<p><b>Financing Structure:</b></p> <ul style="list-style-type: none"> <li>- EBRD offers financing that is not available in the market from commercial sources on reasonable <b>terms and conditions</b>, e.g. a longer grace period that is rarely available in the market, restricted foreign currency financing etc. Such financing is necessary to structure the project.</li> </ul>	<p>EBRD is offering financing to a public transport company that is not available in the market. With the LoS from the City [REDACTED], the EBRD is willing to offer commercial financing.</p>

### 1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Credit risk	<i>Medium/ High</i>	The Company's financial performance is limited which is mitigated by strong support from the City as its owner and the envisaged LoS. The City's credit metrics are robust and its rating is equivalent to the sovereign. [REDACTED]
Demand risk	<i>Medium/ High</i>	Even though the Company resumed operational activities once Serbia's state of emergency ended, there is a risk that passenger travel will remain limited as long as pandemic risks remain. [REDACTED]
FX risk	<i>Medium/ Medium</i>	The loan is provided in euros, while the Company's and the City's revenues are in Serbian dinars. The dinar has been stable against euro with practically no change in exchange rate in the past 5 years. [REDACTED]



## 2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
- Stable financial and operational performance.	- Financial performance in line with the projections.	[REDACTED]

### Primary Quality: Resilient

<b>Obj. No.</b>	<b>Monitoring indicator</b>	<b>Details</b>	<b>Baseline</b>	<b>Target</b>	<b>Due date</b>
1	Improved financial performance	Increase of passengers revenues by min 25% vs. 2020.	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

## 3. KEY PARTIES

### 3.1 BORROWER

The Company is a transport operator in urban, suburban and inter-city traffic in Novi Sad and surrounding municipalities, with a fleet of 272 buses and 1,372 employees, based on its 2019 payroll data. The Company's list of core activities include: a) the transportation of passengers by bus, b) routine maintenance and repair of the bus fleet, including all on-board and off-board equipment, c) routine maintenance of ancillary infrastructure, and d) collection and control of revenues. [REDACTED]

### 3.2 CITY

Novi Sad is the second largest city in Serbia and the capital of the Autonomous Province of Vojvodina. It is located 90 kilometre north of Belgrade, on the banks of the Danube River, and it covers an area of 69,914 ha in the fertile Pannonia Plain. The City represents an important economic, financial and cultural centre. Novi Sad was the European Youth Capital in 2019 and will be the European Capital of Culture in 2021.

Novi Sad has a Ba3 credit rating by Moody's confirmed in February 2020. The rating matches that of the sovereign and is explained by the City's strong track record of prudent budgetary management characterised by sound operating margins, conservative debt levels and an adequate liquidity position. The City also has strong self-funding capacity, good governance and management practices, and plays a crucial role in the national economy. [REDACTED]

## 4. MARKET CONTEXT

Novi Sad has a well-developed public transport network which consists of 23 city lines, 19 suburban lines and 12 intercity lines. Buses are the only mode of public transport. The total number of passenger trips in 2019 stood at app. 82 million, while the Company realised 15 million vehicle-km on its bus routes. The City's transport department organises public transport, including traffic management and supervision.

The Company is the single operator on the urban and suburban lines, while the intercity lines are shared with other companies, both public and private. It owns 272 buses, comprised of 200 solo, 59 articulated, and 13 minibuses, with diesel and CNG fleets and depot facilities with 4 CNG fuelling points and two compressors.

At present, the City's public transport system still enjoys a high modal share (estimated to be circa 49%), but the overall demand has recorded a slightly declining trend at -2.7% year-on-year from 2012-2018. [REDACTED] The City started to address its transport and traffic related challenges through development of a Smart Plan for Sustainable Mobility in 2019. It has also recognised the need for significant investments in order to sustain the level of service required and committed to a fleet renewal programme in 2019. In addition to 29 CNG buses financed by EBRD [REDACTED] the Company also procured (with the City's support) 71 CNG buses [REDACTED]. The total of 100 new CNG buses in 2020/2021 is expected to significantly improve the quality, reliability and attractiveness of public transport and make a key contribution to new sustainable mobility solutions in the City. A purchase of 10 electric buses is also planned for 2020.

### **Regulatory framework:**

The tariff regime is complex, with nine ticketing zones (five urban and four suburban) and price incentives for users to buy multi-ride and monthly tickets/passes. The recently adopted Smart Plan proposed to simplify the zoning system, which will be done by consolidating existing zones into two zones. The City is currently introducing electronic ticketing system, which is expected to be fully functional by the end of 2020.

The fares are approved and regulated by the City. The public transport services continue to be affordable and offer good value for money to the inhabitants of Novi Sad. [REDACTED]

There is currently no public service contract between the City and the Company. The required subsidy level is proposed by the Company, then reviewed by the City's transport department, and ultimately approved by the City Assembly as part of the Company's business plan approval. [REDACTED]

## 5. FINANCIAL / ECONOMIC ANALYSIS

### 5.1 FINANCIAL PROJECTIONS

[REDACTED]

## 5.2 SENSITIVITY ANALYSIS

[REDACTED]

## 5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

# 6. OTHER KEY CONSIDERATIONS

## 6.1 ENVIRONMENT

Categorised B (2019 ESP). The proposed use of proceeds (liquidity facility) is not associated with any new environmental or social risks or impacts, since the Bank's loan will not finance capital expenditure investments. The Company is an existing client and a detailed Environmental and Social Due Diligence ("ESDD") was conducted by an independent consultant in 2019. This ESDD concluded that the Company has the institutional capacity to operate in compliance with the Bank's PRs and with national legislation, and an Environmental and Social Action Plan ("ESAP") and Stakeholder Engagement Plan ("SEP") were agreed. Limited additional ESDD for this project has been undertaken by ESD, in line with the ESD's ESDD approach to COVID-19. The Company has addressed public safety and OHS risks linked to the COVID-19 response in line with Government guidelines. The Company has reportedly implemented health and safety measures for employees and passengers, such as: disinfection of all facilities; social distancing warning signs (number of people in the buses and seating order); and requiring the wearing of protective equipment (gloves and facial masks) for employees, drivers and passengers; as well as remote working wherever possible. Communication with passengers is well managed via various channels and all bus stations and buses have guidelines for passenger behaviour. The Company does not currently plan any labour restructuring or redundancies.

This solidarity loan does not require additional monitoring or reporting above that already in place, nor are additional ESAP items required. The Company is required to continue to ensure that the new project complies with the PRs. EBRD will continue to monitor the Company's environmental and social performance via reporting for the previous transaction.

## 6.2 INTEGRITY

In conjunction with OCCO, internal integrity due diligence was undertaken. [REDACTED] No integrity issues were identified on the Company and the associated parties and no conflict of interest.

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.

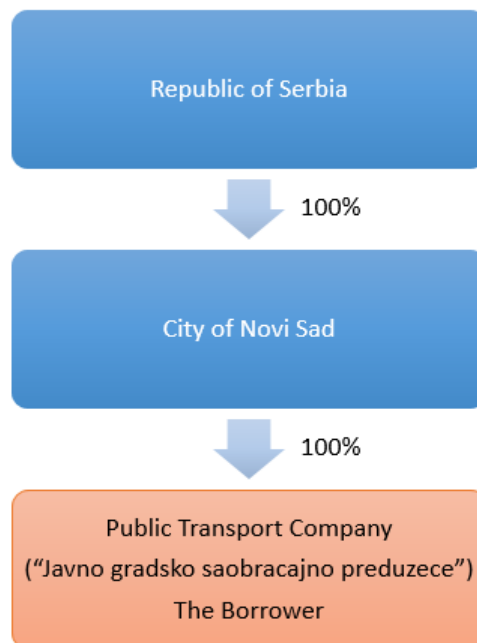
### **6.3 PROCUREMENT**

The loan proceeds will not be used for the payment of goods, works or services and therefore the PPR does not apply to this transaction.

## ANNEXES TO OPERATION REPORT

ANNEX 1	Shareholding Structure
ANNEX 2	Company's Historical Financials
ANNEX 3	City budgets

### ANNEX 1: SHAREHOLDING STRUCTURE



### ANNEX 2: COMPANY'S HISTORICAL FINANCIAL STATEMENTS

[REDACTED]

### ANNEX 3: CITY BUDGETS

[REDACTED]