

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

Approved by the Board of Directors on 8 September 2021¹

ROMANIA

**MEDIAS INFRASTRUCTURE LOAN
FRAMEWORK GRCF2W2**

[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 Expenditure
City	City of Medias
EE	Energy Efficiency
E&S	EBRD Environmental and Social Policy
EIRR	Economic Internal Rate of Return
ENPV	Economic Net Present Value
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESR	Economic solvency / profitability ration
EU	European Union
EUR	Euro
FX	Foreign Exchange
GCAP	Green Cities Action Plan
GDP	Gross Domestic Product
GET	Green Economy Transition
GrCF2 W2	EBRD Green Cities Framework 2 Window 2
HVAC	Heating Ventilation Air Conditioning
LED	Light-emitting diode technology
MEDITUR	Medias urban transport operator
PMMR	Performance based Management and Maintenance of Roads Contract
PPAD	EBRD Procurement Policy and Advisory Department
PPR	EBRD Procurement Policies and Rules
RPPL	Romanian Public Procurement Law
RON	Romanian Leu
TC	Technical cooperation
VAT	Value Added Tax
VISP	EBRD Vital Infrastructure Support Programme

CURRENCY CONVERSION

Date	RON/EUR
May 25 th , 2021	4.9253

PRESIDENT'S RECOMMENDATION

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

The facility will consist of a loan to Medias Municipality (“Medias” or the City”) in the amount of up to RON 38 million (EUR 7.7 million). This loan represents the City’s co-financing of a larger investment in total value of RON 138.4 million (EUR 28.1 million), approved under the relevant EU Regional Operational Programme in Romania.

The proceeds of the loan will enable the City to prioritise its most pressing environmental challenges and address key infrastructure needs including: (i) energy efficiency in public buildings and (ii) public transport investments supporting e-mobility (the “Project”). The investment serves as Medias’ “trigger” project under the EBRD Green Cities Framework, formally initiating their membership in the Bank’s flagship urban sustainability programme.

The expected transition impact of the Project is primarily *Green*, through significant reduction of energy consumption and greenhouse gas (“GHG”) emissions. The Project will also support the *Resilient* quality, through building the necessary institutional capacity and procedures for sustainable and efficient infrastructure asset management.

TC support for technical, economic and environmental due diligence for this operation has been provided [REDACTED]. A TC will also 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 EU Structural Funds, the Project would normally require an exception under Article 2.4 of the EBRD’s Procurement Policies and Rules (the “PPR”) to allow for the application of the Romanian Public Procurement Law (the “RPPL”). Due to recent changes to the RPPL that have the effect of restricting eligibility, the conditions for an exception under Article 2.4 of the PPR cannot be met and a derogation from Section III, Article 2.6 (Eligibility) and Article 3 (Procurement Rules for Public Sector Operations) of the PPR is therefore being sought for the Project. The request for such derogation was presented to the Financial and Operations Policies Committee (“FOPC”) at its meeting of 12 July 2021.

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

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

Odile Renaud-Basso

BOARD DECISION SHEET

ROMANIA: GRCF2 W2 MEDIAS INFRASTRUCTURE LOAN, DTM 52456 GREEN CITIES 2 WINDOW 2 FRAMEWORK, DTM 50674	
Transaction / Board Decision	Board approval ² is sought for a loan of up to RON 38 million (EUR 7.7 million) in favour of Medias Municipality (the “City”), an existing EBRD client, to co-finance key infrastructure investments alongside the EU. The proceeds of the Bank’s loan will finance priority municipal investments focused on energy efficiency (“EE”) and improved mobility, including: (i) rehabilitation of a pool of public buildings; (ii) modernisation, rehabilitation and extension of electric public transport infrastructure; and (iii) urban roads modernization, rehabilitation and extension of electric public transport infrastructure (collectively, the “Project”). The main purposes of the Project are energy savings and reduction of CO ₂ emissions in public buildings and urban transport. The Project will serve as the “trigger” investment for Medias under the Green Cities Framework, with the City committing to develop a Green Cities Action Plan (“GCAP”).
Client	Medias Municipality, a city in Sibiu County in the central Romanian region of Transylvania. The City’s financial performance has improved over the past three years, after the regulatory changes affecting municipalities in Romania and has remained stable last year despite the COVID-19 crisis.
Main Elements of the Proposal	<ul style="list-style-type: none"> • <u>Transition Impact</u>: The Project contributes to the <i>Green</i> transition quality (primary) through significant energy and CO₂ reductions in the City’s building stock and urban transportation, and development of a GCAP. The Project further supports <i>Resilient</i> quality, through building necessary institutional capacity and procedures for sustainable and efficient infrastructure asset management. • <u>Additionality</u>: The Bank is additional because of its: <ul style="list-style-type: none"> ○ Terms: The Bank will provide necessary long-term financing for energy efficiency measures in urban infrastructure. [REDACTED] ○ Attributes: The Bank’s involvement is sought due to its expertise in energy efficiency investments and ability to pursue the green agenda (including policy dialogue) with the central and local authorities as part of the GCAP development. The GCAP will cover inclusion and gender considerations. • <u>Sound banking</u>: The financial projections show that the City will be able to fulfil its commitment and maintain a sound financial position.
• <u>Key Risks</u>	<ul style="list-style-type: none"> • <u>City’s creditworthiness as a Borrower</u>: The City’s finances are conservatively managed and the EBRD is the only debt provider. • <u>Procurement/Implementation</u>: The City has a successful track-record with the implementation of EU and EBRD financed projects, and experience in management of public services operations.
Strategic Fit Summary	The Project is in line with the Bank’s Municipal and Environmental Infrastructure Sector Strategy, Strategy for Romania and Green Economy Transition (GET) Approach 2021-2025. The Project is gender additional, with the City committing to GCAP that will include gender component. The Project requires a derogation to allow use of national procurement rules, instead of the Bank’s PPR. The derogation is sought as the Project is co-financed with EU Structural Funds where the Romanian national procurement rules apply; a derogation from Section III, Article 2.6 (Eligibility) and Article 3 (Procurement Rules for Public Sector Operations) of the Bank’s PPR is required. The request for such derogation was presented to FOPC on 12 July 2021. FOPC recommended that the Board of Directors approve a derogation from the Bank’s PPR for this Project.

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

ADDITIONAL SUMMARY TERMS FACTSHEET

Client	Medias Municipality (“ Medias ” or the “ City ”), located in Sibiu County in the central Romanian region of Transylvania.
EBRD Transaction	A senior loan of up to RON 38 million (approximately EUR 7.7 million equivalent) to the City. This loan represents the City’s co-financing of a larger investment in total value of RON 138.4 million (approx. EUR 28.1 million), approved under the relevant EU Regional Operational Programme in Romania.
Existing Exposure	Direct: the equivalent of EUR 1.3 million outstanding debt in local currency RON, maturing in January 2023 (<i>Medias Urban Infrastructure Rehabilitation sub-project under Romania, Urban Road Management and Rehabilitation Framework</i>)
Maturity / Exit / Repayment	Tenor of 13 years [REDACTED].
Potential AMI eligible financing	None
Use of Proceeds	The loan proceeds will co-finance alongside the EU priority municipal investments focused on energy efficiency and improved mobility, as follows: (i) rehabilitation of a pool of public buildings; (ii) rehabilitation of electric public transport infrastructure; and (iii) modernization of urban roads. [REDACTED].
Investment / Financing Plan	[REDACTED]
Key Parties Involved	Medias Municipality, as Borrower
Conditions to subscription / disbursement	<ul style="list-style-type: none"> • All financing and Project documents are in place • A representative of the City has been assigned to develop GCAP
Key Covenants	[REDACTED] Development of the GCAP and submission for approval by the City.

Security / Guarantees	[REDACTED]
Associated Donor Funded TC and co-investment grants/concessional finance	<p><i>Pre-signing:</i></p> <ul style="list-style-type: none"> • TC1: <i>Technical, economic and environmental due diligence.</i> The cost of TC1 was EUR 74,900 [REDACTED]. <p><i>Post-signing TCs:</i></p> <ul style="list-style-type: none"> • TC2: <i>GCAP preparation.</i> The TC will assist the City with the development of a GCAP in order to identify and prioritise green investments, capacity building and policy objectives in support of the green agenda. The GCAP uses a method that takes gender and digital considerations into account to support its primary focus of green impact. The estimated cost of this assignment is EUR 275,000 [REDACTED]. <p>Reimbursement: The above assignments are non-reimbursable transactional TCs required to assist the City in project preparation and implementation.</p> <p>Cost sharing: The City will provide an “in-kind” contribution in the form of office space, communication connections, etc., for the consultants to work. It will also be responsible for paying all VAT and other indirect taxes that are applied to the post-signing TC assignment where the City is the contracting party as a parallel cost sharing contribution to the project (VAT is levied at 19 per cent in Romania).</p>

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Medias, located in the central region of Romania, is looking to revitalise its public infrastructure as pre-requisite for business and economic development in the region. The City, with a population of approximately 56,400 inhabitants, suffers from legacy infrastructure issues across its transport network, public buildings and road systems. Medias plans to address these issues through a broad programme of investments, focused on accelerating the City's sustainable development and transition to a low-carbon future.

The Project has two major objectives: (i) to improve life and environmental standards by promoting energy savings in public buildings; and (ii) to increase mobility in the region by improving public transport infrastructure and services, and to reduce CO₂ emissions.

To achieve this, the City is pursuing an investment programme to improve its public buildings, road infrastructure and transport systems. Specifically, the Project will include:

- (i) **Rehabilitation of a pool of public buildings** to be financed by the EBRD in a proportion of up to 28 per cent or the RON equivalent of approximately EUR 2.2 million, alongside EU funds (61 per cent), the State Budget and the City
- (ii) **Rehabilitation and modernization of Ighisul Nou street and urban roads in Medias' historic centre** to be financed by the EBRD in a proportion of up to 22 per cent or the RON equivalent of approximately EUR 1.3 million, alongside EU funds (67 per cent), the State Budget and the City
- (iii) **Modernization, rehabilitation and extension of electric public transport infrastructure**, to be financed by the EBRD in a proportion of up to 29 per cent or the RON equivalent of approximately EUR 4.3 million, alongside EU funds (55 per cent), the State Budget and the City

Rehabilitation works of the buildings will foremost include energy efficiency measures, such as: thermal insulation, new sanitary, electrical and thermal installations, proper interior lighting with LED and installation of photovoltaic panels. Thereafter, rehabilitation of roads will bring significant urban infrastructure improvements: wide roadway and appropriate sidewalks, modern and sustainable public lighting with LED, landscaping, urban furniture, cable infrastructure, water drainage and modernization of water supply and fire system. Nonetheless, transport component of the investment will upgrade urban mobility, improve air quality and reduce travel times with the help of new trolleybuses, extension of electric transport lines and related infrastructure, e-ticketing and traffic management modernization.

More details about the investment are included in **Annex 2 – Project description**.

The Project is part of a broader programme aiming to improve the City's sustainability. The investment serves as Medias' trigger project under EBRD Green Cities, formally initiating their membership in the Bank's flagship urban sustainability programme. The Project is eligible for the programme due to its significant energy savings [REDACTED] and CO₂ emissions reductions [REDACTED]. As a member of the EBRD Green Cities network, Medias will

develop a Green City Action Plan to identify and prioritise its most pressing environmental challenges, and layout a plan of targeted investment and policy actions to address them.

Furthermore, the Project is consistent with:

- Bank’s GET Approach 2021-2025, 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 (incl. energy efficiency of public buildings, e-mobility, smart cities and electrification of urban transport) promoting innovation through the Green Cities Programme (Cities and Environmental Infrastructure)*”;
- Bank’s Strategy for Romania that underlines the Bank’s support to promote investments in Sustainable Infrastructure and Regional Development, and
- 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*”.

1.2 TRANSITION IMPACT

The GrCF2 represents a strategic and multi-project approach seeking to help identify and address environmental 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 contribute to achieving Framework objectives through the following TI qualities:

- **Green (primary quality)** – The Project is fully in line with the GET approach and will help to promote the Green transition quality by: (i) significantly contributing to climate change mitigation through essential reduction of CO₂ emissions [REDACTED] and energy savings in public buildings [REDACTED]; (ii) decreasing water losses in network pipes along roads, as well as (iii) introducing energy efficiency LED lighting, and (iv) increasing a modal shift to public transport. Medias will also develop a GCAP identifying and prioritising environmental challenges and ways to address them through targeted investments, services and policy instruments.
- **Resilient (secondary quality)** – In addition, the Project will support the Resilient objective through training and support for the successful introduction and consistent undertaking of good asset management practices and crisis resilience planning in Medias.

The Transition Impact (“TI”) objectives and the relevance for this sub-project are detailed in Section 2. The transition qualities will be monitored at the Framework level aggregating data on each transition benchmark for all sub-projects.

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 and the Bank's ongoing policy dialogue. In addition, the City has demonstrated their commitment to adopt and implement the GCAP.

1.3 ADDITIONALITY

Identified triggers	Description
<i>No triggers identified</i>	<i>n/a</i>

Additionality sources	Description of additionality sources
Financing Structure EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, such as longer tenors and longer grace periods, etc. Such financing is necessary to structure the project.	The Bank will provide necessary long-term financing for energy efficiency measures in public infrastructure. Due to the existing market inefficiencies, such financing is not readily available from commercial banks.
Knowledge, innovation and capacity building EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the project's objectives, including support to strengthen the capacity of the client.	EBRD's involvement is sought due to its expertise in energy efficiency investments and ability to pursue the green agenda, including policy dialogue with the central and local authorities as part of the GCAP development.

1.4 SOUND BANKING - KEY RISKS

(Risks of Borrower)	Probability / Effect	Comments
Predictability and strength of the institutional and financial framework	<i>High/Low</i>	<ul style="list-style-type: none"> The City is established under and governed by the Local Public Authorities Law; Almost 34 per cent of the City's current revenues come from locally collected taxes, which demonstrate significant autonomy from the central state budget; The City exhibits strong financial performance [REDACTED].
Economic volatility	<i>Low / Medium</i>	<ul style="list-style-type: none"> On 16 April 2021, S&P changed the outlook on its BBB- sovereign rating for Romania from negative to stable. The Romanian economy is seen to return to economic growth: 5% on average in 2021-2022, with the economy returning to pre-pandemic levels in 2021; The City has a diversified economy (including food, textile and windows manufactures) and is best known for its role in production of methane gas. The City's main contributors of taxes are Romgaz (the national gas exploitation enterprise) and Transgaz (the natural gas carrier) (c. 70 per cent of share of state taxes) that will continue their activity, playing a strategic role for the Romanian energy sector; There is no Forex risk on the EBRD loan since the City collects revenues in RON, which is the chosen currency for the loan; [REDACTED].
Financial management capacity	Medium / High	<ul style="list-style-type: none"> The risk is mitigated by the conservative financial management of the City [REDACTED].
Debt burden	Low / Medium	<ul style="list-style-type: none"> EBRD is the only debt provider. The existing Bank's loan is maturing in January 2023, leaving comfortable room for additional finance as Total debt/Current surplus is currently nil; [REDACTED].
Implementation/ Procurement	Low/Medium	<ul style="list-style-type: none"> 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;

		<ul style="list-style-type: none"> This is the second project financed by the Bank; The City has a successful track-record and extensive experience in implementing EU projects, as well as and considerable experience in management of the public services operations
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2. MEASURING / MONITORING SUCCESS

The TI objectives of the GrCF2 and their relevance to the Project are presented in the Table below. The TI objectives will only be monitored at the framework level, aggregating data on each transition benchmark for all sub-projects

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 (Sub-Project)
Primary quality: Green							
1.1	Number of recommended policy or strategy agreed by relevant stakeholder(s)	Recommended policy or strategy agreed by relevant stakeholder(s)	<p>New Green City Action Plans: 30 new GCAPs finalised and submitted for approval by relevant authorities, and includes priority actions and a monitoring strategy in each participating City.</p> <p>Baseline target of the GrCF and GrCF2 combined is 20 GCAPs.</p>	Medias' GCAP sent to the City Council (or equivalent) for approval including an implementation and monitoring strategy	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Performance or action plan implemented by the client	Performance or action plan implemented by the client	<p>Strong follow-on support: 50% of transactions (under GrCF2 and future extensions) are follow-on investments addressing priority environmental challenges identified in the GCAPs.</p>	The Project is the City's first with EBRD Green Cities, and includes a GCAP that will enable follow on opportunities	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Performance or action plan implemented by the client	Performance or action plan implemented by the client	<p>Multiple green investments: Each participating city makes on average at least 3 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.</p>	The project will be signed and implemented and meets the eligibility criteria for investments under GrCF2. The Project will trigger energy savings [REDACTED] and total CO2 emissions reduction, transport component included [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Performance or action plan implemented by the client	Performance or action plan implemented by the client	<p>Effective GCAP implementation: The Framework achieves at least 50 per cent of all verifiable targets, set in the GCAP, within 5 years after the respective GCAP finalisation</p>	The Project will support the City to develop a Green City Action Plan that sets verifiable targets	[REDACTED]	[REDACTED]	[REDACTED]

			(including both investments and well-defined policy measures).				
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 has significant energy efficiency benefits, the relevant environmental improvements within the respective cities will not be monitored at project level.	[REDACTED]	[REDACTED]	[REDACTED]
Secondary quality: Resilient							
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).	Successful introduction and consistent undertaking of good asset management practices and crisis resilience planning in Medias. As a minimum this should include (i) accurate inventory of current road network assets, quantitative and qualitative, and (ii) a well-defined, and respected, planning methodology and report supporting a predictable multi-year rehabilitation, maintenance and funding programme for the road assets in Medias municipality	[REDACTED]	[REDACTED]	[REDACTED]
Gender Additionality:							
3.1	Number of Cities in which Gender-responsive GCAPs was agreed	Recommended policy or strategy agreed by relevant stakeholder(s)	The GCAP agreed by the City of Medias includes a gender assessment, which aggregates the analysis and information gathered throughout the GCAP development, and the recommendations to address gender and inclusion in the City that are the results of the analysis.	The GCAP for the City of Medias includes a gender assessment, which aggregates 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	[REDACTED]	[REDACTED]	[REDACTED]

				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.			
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<i>Monitoring Indicators</i>		
<i>Indicator</i>	<i>Projected Impact</i>	<i>Implementation timing</i>
Annual reduction in tonnes of CO2 equivalent savings	[REDACTED]	[REDACTED]
Annual energy savings	[REDACTED]	[REDACTED]
Renewable Energy Capacity Installed	[REDACTED]	[REDACTED]
Total Population benefitting from improved living conditions (individuals)	[REDACTED]	[REDACTED]

3. KEY PARTIES

a. BORROWER

Medias is the second largest industrial centre, after Sibiu in Sibiu County. Thanks to its diversified industry base including methane gas production, food, textile and windows manufactures, its proximity to Sibiu and Sighisoara, the City is attractive and growing.

The Bank has a well-established cooperation with Medias since 2011, having supported the City to address vital infrastructure needs through implementation of a comprehensive street rehabilitation programme including water and sewage infrastructure modernisation under the Urban Road management and Rehabilitation Framework. Supported by TC provided by the Bank, the City has successfully implemented the first Performance Based Management and Maintenance of Roads (“PMMR”) approach in Romania. The PMMR contract is in place to date and has entered the operational phase after the physical completion of works in 2019.

The current Mayor of Medias is Mr. Gheorghe Roman, currently serving his second mandate after being re-elected in 2020.

b. FINANCIAL HIGHLIGHTS

As reflected in the below summary, the City shows a good financial performance: [REDACTED]

The impact of COVID - 19 pandemic on Medias is expected to be **Medium/Low**. The City’s main contributors of taxes are Romgaz (the national gas exploitation enterprise) and Transgaz (the natural gas carrier) (circa 70 per cent of share of state taxes) that will continue their activity, playing a strategic role for the Romanian energy sector. 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 is starting to succeed. As of date, approximately 22 per cent of the country’s population have been administrated at least one dose, striving to achieve the EU target of 70 percent of the adult population vaccinated by July 2021 which will secure a safe return to activities and avoid other lockdown.

4. MARKET CONTEXT

The Project addresses two main sectors with the highest energy efficiency potential in the City – public buildings and urban mobility.

(i) Public buildings. The City’s municipal building stock is primarily composed of educational buildings, e.g. schools and kindergartens. There are also administrative buildings and social assistance care facilities. Almost all public buildings were designed in a time when energy efficiency was not a relevant consideration. Therefore, the major part of them require thermal insulations, modernisation of the energy distribution system, installation of individual heating substations, proper lighting, windows replacement, etc.

The City plans to carry on this investment with the scope to significantly reduce emissions from buildings and improve their thermal comfort; this is based on widely available technologies and measures such as: retrofitting building envelopes, integrating thermal insulation and efficient glazing, upgrading Heating Ventilation Air Conditioning (“HVAC”) systems, domestic hot water equipment, installing LED lighting, and automation and controls, optimised heat distribution, as well as photovoltaic renewable energy installations. The energy efficiency potential in public buildings was confirmed by external consultants employed by the Bank. The Project proposed for EBRD’s financing includes rehabilitation of a pool of public buildings, including two school buildings and two administrative buildings belonging to the City that will be reconverted into a multi-functional educational centre and, respectively a social-medical centre.

(ii) Urban Roads. The current conditions of roads proposed under the Project create a risk to vehicle and pedestrian safety, loss of productivity, and generally a diminished quality of life. The investments are needed to ensure improved mobility in the City, as well as to foster a safe and efficiently managed street environment in Medias. In addition, new technologies are proposed to reduce energy consumption with respect to water and wastewater pipes, traffic lights and public lighting by ensuring a modern and sustainable lighting level with new LED technology.

(iii) Urban mobility. There are 11 public transport lines in Medias, three of which are currently operated with trolleybuses. MEDITUR, the operator of the system owns and operates a fleet of nine trolleybuses and 38 buses and shuttlebuses. One of the main objective of the Project is to replace a part of the transport services currently operated with two diesel buses with three new trolleybuses, which will operate on the new proposed network extensions, as well as on the existing network that will be rehabilitated. The Project is also aimed to improve the technical quality of the transport network, thus leading to a better reliability of the urban transport system.

At the same time, the Project implies a new traffic management system, along the East – West axis of the City, representing a National Road and one of the main links between Transylvania (Central Romania) to Moldova (North-Eastern part of Romania). The implementation of a new traffic management system will have a direct, positive impact on the average travel speed for both, private and public vehicles, as well as pedestrians’ safety.

More details about the Project are presented in **Annex 2**.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 ECONOMIC ANALYSIS

[REDACTED]

5.4 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (ESP 2019). The Project involves continued support to EU-funded projects of energy efficiency improvements in urban infrastructure through an existing client, the City of Medias. Their past environmental and social (“E&S”) reporting and environmental and social action plan (“ESAP”) implementation under the Medias Urban Infrastructure Rehabilitation Project (, sub-project under Romania, Urban Road Management and Rehabilitation Framework) was satisfactory. Key E&S risks and impacts associated with modernisation of electric public transport infrastructure include: worker and community health and safety during construction works, labour conditions, contractor management, construction related noise, dust, vibration, electrical safety, hazardous materials and waste management, stakeholder engagement and grievance management. E&S due diligence was undertaken in line with the ESD response to COVID-19, initially through the environmental and social due diligence (“ESDD”) questionnaire and review of the available documentation, which was thereafter supplemented by the Project’s due diligence from the independent consultant. Alongside Project’s development and GCAP preparation and implementation, attention will also be paid to gender-specific inclusion opportunities, road safety and COVID-19 crisis related response plans including labour, workers and community health and safety issues and stakeholder engagement.

6.2 INTEGRITY

In conjunction with OCCO, internal integrity due diligence was undertaken on Medias Municipality and its stakeholders. As expected in municipal infrastructure projects, the City’s stakeholders are PEPs. No negative information was identified on any of the individuals that will be involved in this project. [REDACTED] The review did not identify any integrity issues and it has been concluded that this project does not pose any reputational 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.

6.3 PROCUREMENT

The Project is part of the Green Cities 2 Window 2 Framework and consists of a loan to Medias Municipality to co-finance key EU infrastructure investments for the period 2020 – 2023. As such, the Project would normally require an exception under paragraph 2.4 of EBRD's Procurement Policies and Rules (“PPR”) for contracts that are jointly co-financed with EU Cohesion/Structural Funds, to allow the use of national procurement rules. However, due to recent changes to the Romanian Public Procurement Law (under Emergency Order 25/21) that have the effect of restricting eligibility, the conditions for an exception under Article 2.4 of the PPR cannot be met. A derogation from Section III, Article 2.6 (Eligibility) and Article 3 (Procurement Rules for Public Sector Operations) of the Bank's PPR is therefore being sought for this Project.

In accordance with Emergency Order 25/21, the participation in Romanian public tenders is restricted only to firms having business registered in European Economic Area, in EU accession countries, in countries signatories of Free Trade Agreements with the EU or in countries signatory of World Trade Organization (“WTO”) Agreement on Government Procurement (“GPA”). The request for such derogation from the Bank's PPR was presented to FOPC on 12 July 2021. FOPC recommended that the Board of Directors approve a derogation from the Bank's PPR for this Project.

In addition, FOPC requested the Management to report to the Board on the competition and tendering outcomes following the application of the Emergency Order 25/21 amending the Romanian Procurement Law, when the Medias Project is brought to the Board.

ANNEXES TO OPERATION REPORT

ANNEX 1	PROJECT LOCATION
ANNEX 2	PROJECT DESCRIPTION
ANNEX 3	PROJECT IMPLEMENTATION AND PROCUREMENT PLAN
ANNEX 4	IMPLEMENTATION PROGRAMME OF GRCF / GRCF2

ANNEX 1 - PROJECT LOCATION

Figure 1: Romania map – Medias location



Figure 2: Project area

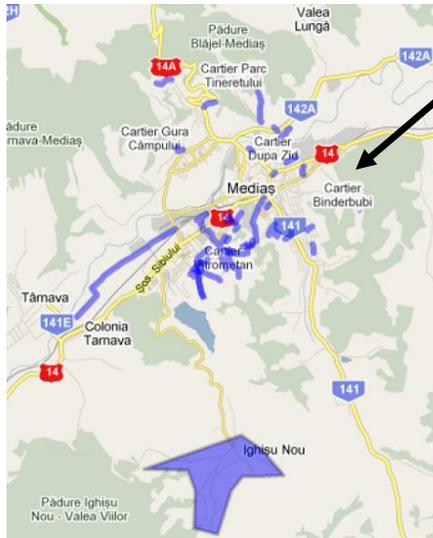
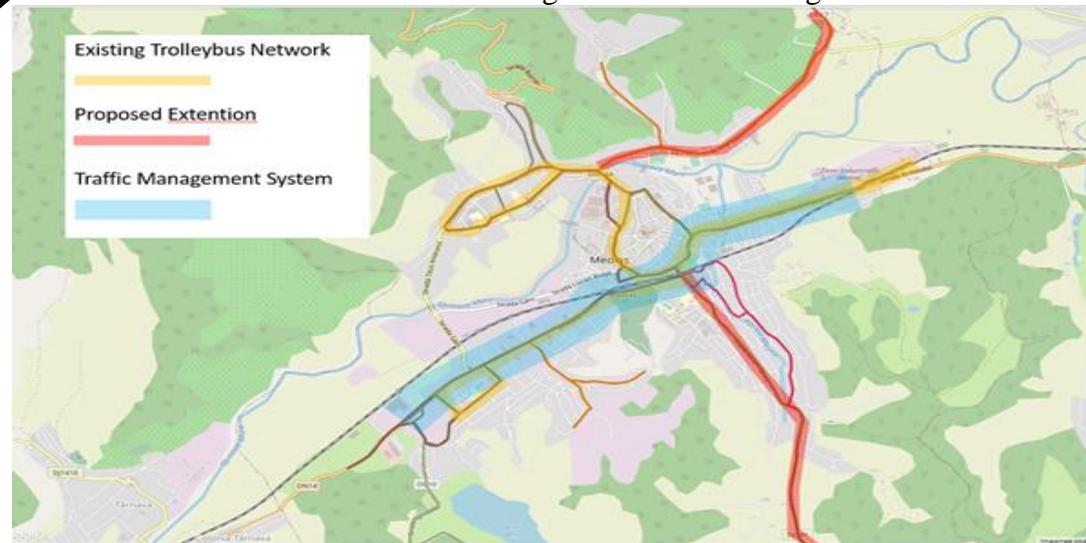


Figure 3: Traffic management corridor



ANNEX 2 - PROJECT DESCRIPTION

The Project will include the following components:

- (i) **Rehabilitation of a pool of public buildings (two schools, one multifunctional educational centre and one social – medical centre)** to be financed by the EBRD in a proportion of up to 28 per cent or the RON equivalent of approx. EUR 2.2 million, alongside EU funds (61 per cent), the State Budget and the City.

Currently the two schools are technically inadequate, as they cannot ensure the essential requirements under multiple aspects: energy efficiency, installations efficiency etc. They have structural problems and deficiencies generated by significant heat losses in the walls, carpentry and floors. Classroom's heating is done with convectors, while the preparation of hot water for consumption is made with a boiler. The lighting installation inside the building uses mainly incandescent bulbs.

Rehabilitation works of the two schools will foremost include energy efficiency measures, such as: thermal insulation, replacement of window's joinery, replacement of electrical installations, new sanitary and thermal installations, use of LED instead of incandescent bulbs and installation of photovoltaic panels. The direct beneficiary of these investments will be children studying in those institutions, as well as, indirectly the future generation of scholars and their families.

The other two buildings owned by the City, currently not in use will be reconverted into a multi-functional educational centre and respectively, a social-medical centre. Those buildings are severely degraded and basic structural and functional elements are missing. The entire population of Medias will have access and can benefit from the activities of the two buildings that will be brought into use. The multi-functional and educational centre is especially targeting the marginalized population with different disabilities representing 3.51 per cent from the population of the City and the population of Ighisu Nou village. Moreover, revamping the social-medical centre will be done for the direct benefit of inhabitants from households with high risk of poverty and social exclusion.

- (ii) **Rehabilitation and modernization of Ighisul Nou street and urban roads in Medias' historic centre** to be financed by the EBRD in a proportion of up to 22 per cent or the RON equivalent of approx. EUR 1.3 million, alongside EU funds (67 per cent), the State Budget and the City.

This Project's component is focused on Ighisul Nou street which connects Medias to Ighisu Nou village, one of the five marginalized areas in the region. The village is located in the south-western part of Medias and is connected to the City through an 8 km-long asphalt road. Currently, the traffic takes place in difficult conditions because of the deficiencies of the existing road structure. The street overlaps with a communal road and lacks basic technical and safety requirements, such as pedestrians' sidewalks.

Thereafter, the City is targeting the rehabilitation of a number of five streets in Medias' historic center, currently with various deficiencies: inefficient arrangement of public space, damaged cubic stone improper for pedestrian traffic, insufficient

street lighting, lack of an infrastructure for underground cable networks positioning, clogged and leaking sewerage network etc.

Both, rehabilitation of Ighisul Nou street and streets located in Medias' historic centre will bring significant urban infrastructure improvements: wide roadway and appropriate sidewalks, water drainage, landscaping, endowments – urban furniture, cable infrastructure, modernization of water supply and fire system. At the same time, 167 new lighting poles will be installed on Ighisul Nou street, with LED technology, and new technologies are proposed to reduce energy consumption, while ensuring modern and sustainable lighting level for Medias' historic centre as part of the modernization of the street and buildings' architectural lighting network

- (iii) **Modernization, rehabilitation and extension of electric public transport infrastructure**, to be financed by the EBRD in a proportion of up to 29 per cent or the RON equivalent of approx. EUR 4.3 million, alongside EU funds (55 per cent), the State Budget and the City.

This investment includes seven sub-components, as follows:

- Trolleybuses network rehabilitation - replacement of approx. 18.95 km of one-way electric lines for trolleybuses;
- Trolleybuses network expansion with 14.3 km of new one-way electric lines;
- Procurement of three trolleybuses;
- Modernization of three public transport stations and overhaul of two turning platforms for buses and trolleybuses;
- E-ticketing implementation;
- Traffic management system improvement;
- Rehabilitation of three bridges and one overpass.

The entire population of the City will benefit from this Project's component. The investments will significantly improve urban mobility, air quality and reduce travel times and congestions.

ANNEX 3 - PROJECT IMPLEMENTATION

Procurement classification – Public sub-sovereign

[REDACTED] **The Client’s capacity assessment related risk:** Moderate –low

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 for contracts that are financed by the EU. Despite the Client’s vast experience in implementation of similar projects and additional technical support in contract and project management and supervision, there are still noticeable risks associated with the implementation of the Project. The main risks derive from frequent modifications of the Romanian legislation that governs various aspects related to implementation of the Project. Such frequent modifications of the legislation, including the procurement legislation, often lead to divergent interpretation of the legislation by different parties involved in implementation and monitoring of the Project (i.e. the City, the Managing Authority for the EU Funds and the Audit Authorities). This typically results in delays in project implementation or in financial correction applied to contracts financed under the Project.

The contracts risks assessment: Moderate –high

None of the planned contracts can be considered as exceeding the technical capacity of the Company to manage them. There are six (6) works, two (2) consultancy services and one (1) goods contracts envisaged to be co-financed with the EU Cohesion/Structural Fund under the Project. Four (4) contracts have already been signed and are under implementation. The remaining contracts refer to small works contracts and one supervision contract and are expected to be signed by the end of 2021.

Procurement arrangements:

In common with all projects co-funded with the EU Structural and Cohesion Funds, the Project requires the use of national procurement rules for contracts to be co-financed with the EU under Cohesion and Structural Funds. As such, the Project would normally require an exception under paragraph 2.4 of EBRD’s Procurement Policies and Rules (“PPR”). FOPC issued a general recommendation in favour of such exceptions for all projects co-financed with EU Cohesion/Structural Funds in Romania at its meeting on 5 May 2011(CS/FO/11-13).

Due to recent changes to the Romanian Public Procurement Law (under Emergency Order 25/21) that have the effect of restricting eligibility, the conditions for an exception under Article 2.4 of the PPR cannot be met.

In accordance with Emergency Order 25/21, the participation in Romanian public tenders is restricted only to firms having business registered in European Economic Area, in EU accession countries, in countries signatories of Free Trade Agreements with the EU or in countries signatory of World Trade Organization (“WTO”) Agreement on Government Procurement (“GPA”).

A derogation from Section III, Article 2.6 (Eligibility) and Article 3 (Procurement Rules for Public Sector Operations) of the Bank’s PPR is therefore being sought for this Project. FOPC issued a favourable recommendation for the derogation at its meeting on 12 July 2021. The

Bank will be minority financier of each eligible EU co-financed contract. Within this maximum limit, the exact percentage of Bank's co-financing of each contract will be decided by the City based on its specific co-financing needs.

The EBRD loan proceeds will only be used for future payments under the eligible contracts and, therefore, there is no need for retroactive financing. [REDACTED].

ANNEX 4 - IMPLEMENTATION PROGRESS OF GRCF / GRCF2

Since 2016, the Green Cities Framework (“GrCF”) and Green Cities Framework (“GrCF2”) have mobilised nearly EUR 2.5 billion in EBRD and donor funding. The 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 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: (i) Window 1 for GCF co-financing; and (ii) Window 2 for non-GCF co-financing. Following the continuing successful uptake, in November 2020, an extension of EUR 950 million was approved for GrCF2 Window 2. [REDACTED].

Progress on TI objectives GrCF and GrCF2 to date:

To date, 43 transactions have been signed through the GrCF and GrCF2, or as a result of GCAPs. Out of these projects, 20 are follow-on investments (46%). So far, 29 GCAPs have been initiated, of which 18 have been completed and 13 have been approved. While it is too early to confirm the achievements under the various GCAPs, most of the TI objectives were assessed as “on track” by EPG in September 2020, and the GrCF currently has a PTI of 87, up from an ETI of 80 given in 2016 and the GrCF2 currently holds a PTI of 72 – up from an ETI of 70 given in 2018.