

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

Approved by the Board of Directors on 30 November 2022<sup>1</sup>

**ROMANIA**

**GRCF2 W2 – IASI GREEN BUILDINGS**

*[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.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

## TABLE OF CONTENTS

	Page
<b>TABLE OF CONTENTS</b> .....	2
<b>ABBREVIATIONS / CURRENCY CONVERSIONS</b> .....	3
<b>PRESIDENT’S RECOMMENDATION</b> .....	4
<b>BOARD DECISION SHEET</b> .....	5
<b>ADDITIONAL SUMMARY TERMS FACTSHEET</b> .....	6
<b>1. STRATEGIC FIT AND KEY ISSUES</b> .....	7
<b>1.1 STRATEGIC CONTEXT</b> .....	7
<b>1.2 TRANSITION IMPACT</b> .....	8
<b>1.3 ADDITIONALITY</b> .....	8
<b>1.4 SOUND BANKING - KEY RISKS</b> .....	9
<b>2. MEASURING / MONITORING SUCCESS</b> .....	10
<b>3. KEY PARTIES</b> .....	12
<b>3.1 BORROWER</b> .....	12
<b>4. MARKET CONTEXT</b> .....	12
<b>5. FINANCIAL / ECONOMIC ANALYSIS</b> .....	13
<b>5.1 FINANCIAL PROJECTIONS</b> .....	13
<b>5.2 SENSITIVITY ANALYSIS</b> .....	13
<b>5.3 PROJECTED PROFITABILITY FOR THE BANK</b> .....	13
<b>6. OTHER KEY CONSIDERATIONS</b> .....	14
<b>6.1 ENVIRONMENT</b> .....	14
<b>6.2 INTEGRITY</b> .....	14
<b>ANNEXES TO OPERATION REPORT</b> .....	15
<b>ANNEX 1 – HISTORICAL FINANCIAL STATEMENTS</b> .....	16
<b>ANNEX 2 – GREEN ASSESSMENTS</b> .....	17
<b>ANNEX 3 - Implementation Progress of GrCF / GrCF2</b> .....	19
<b>ANNEX 4 – Project Implementation</b> .....	20
<b>ANNEX 5 - EIRR</b> .....	22

## ABBREVIATIONS / CURRENCY CONVERSIONS

CAPEX	Capital Expenditures
City	of Iasi
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 City Action Plan
GDP	Gross Domestic Product
GET	Green Economy Transition
GHG	Green House Gas
GrCF2 W2	EBRD Green Cities Framework 2 Window II
PPR	EBRD Procurement Policies and Rules
RPPL	Romanian Public Procurement Law
RON	Romanian Leu
TC	Technical cooperation
VAT	Value Added Tax

### CURRENCY CONVERSION

**Date : 28/10/2022      1 EUR = 4.92 RON**

## PRESIDENT'S RECOMMENDATION

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

The facility will consist of a EUR 30 million extension to the Bank's existing EUR 20.5 million senior loan for the Iasi Green Buildings project. Approved under delegated authority under the Green Cities Framework 2 – Window 2 ("GrCF2 W2") in July 2021 and signed in October 2021, rising costs have delayed project implementation. The proposed loan increase is linked to escalating prices for equipment supply and works across the region and legislative changes for construction works that require further investment in the project. The increased loan amount will enable the City to complete construction but also to achieve the goals of its trigger project under the GrCF2 W2.

This project contributes to energy efficiency improvement, pollution reduction and resource savings by implementing key investments in a pool of 15 buildings and reconstructing a new bus and tram depot which will host the City's new electric bus fleet. This investment will focus on accelerating the City's sustainable development and transition to a low-carbon future.

A client of the Bank since 2005, Iasi is keen to promote green investments and to address both its climate change and environmental challenges through EBRD Green Cities.

TC support for the initial operation with Iasi was provided by the Taiwan Business Fund for the preparation of a Green City Action Plan ("GCAP"). Iasi's GCAP is drafted and currently under consultation with key stakeholders.

In line with the Green Cities Framework, the project's primary transition quality is Green, thanks to significant energy savings and CO2 reductions due to investments in the bus and tram depot as well as energy efficiency investments in public buildings. The Project is 100 per cent GET eligible. Its secondary quality is Resilient as a result of training and capacity building to enhance urban resilience, through better asset management and risk assessment. As part of the loan extension, an asset inventory and maintenance plan covering transport infrastructure beyond buildings will be developed.

I am satisfied that the operation is consistent with the Bank's Strategy for Romania, Municipal and Environmental Infrastructure Sector Strategy, the Bank's GET Approach 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

<b>ROMANIA - GrCF W2 – Iasi Green buildings - DTM 51703</b> <b>Framework: REGIONAL - Green Cities Framework 2 Window 2 - DTM 50674</b>	
<b>Transaction / Board Decision</b>	Board approval <sup>2</sup> is sought for a EUR 30 million loan extension in favour of the City of Iasi (the “City”) to finance estimated higher cost under the original project, which was approved under delegated authority and signed in October 2021. This project entails critical energy efficiency investments in public buildings, primarily schools, and reconstruction of the City’s existing bus and tram depot. Procurement will be carried out in accordance with the Bank’s PP&R. In line with the original project, the extension will fall under the Green Cities Framework 2 - Window 2 (“GrCF2 W2”) and will enable the City to complete its trigger project.
<b>Client</b>	The City of Iasi (the “City” or the “Client”) is one of the largest cities in Romania, with a population of around 400,000, and the administrative seat of Iasi County (population of around 773,000). The Bank has a long-standing relationship with the City, dating back to 2001, financing projects in district heating, water and urban transport.
<b>Main Elements of the Proposal</b>	<p><b>Transition impact:</b> Transition impact continues to be derived from the Project’s original objectives: (i) <i>Green</i> quality, through significant energy savings and CO2 emissions reduction associated with investments in public buildings and the depot, and (ii) <i>Resilient</i> quality, through training and support better asset management, and risk assessment to enhance the City’s resilience.</p> <p><b>Additionality:</b> <i>Financing Structure:</i> EBRD offers long-term financing for CO2 reduction and energy efficiency measures in urban infrastructure. Due to existing market inefficiencies, such financing is not readily available from commercial banks. <i>Standard-setting:</i> EBRD’s extensive energy efficiency knowledge and long-standing relationship (including policy dialogue) with the City and ability, through the GCAP process, to pursue the green agenda. <i>Standard-setting:</i> 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 Actions.</p> <p><b>Sound banking:</b> The City’s financial standing has been consistently solid with prudent financial management. In 2021 the City’s current revenues rose to EUR 178.4 million generating a current surplus of EUR 18.1 million.</p>
<b>Key Risks</b>	The main risk is the City’s financial management in light of increasing economic volatility. This risk is mitigated by the City’s excellent track record since 2001 in both managing its finances and implementing its investments. The City’s debt profile is conservative.
<b>Strategic Fit Summary</b>	<p>The Project is consistent with:</p> <ul style="list-style-type: none"> <li>• Bank’s Green Economy Transition Approach 2021-2025, which identifies Cities and Environmental Infrastructure and Green Buildings as key themes to accelerate the decarbonisation;</li> <li>• Strategy for Romania that promotes investments in sustainable infrastructure and regional development by looking at improved quality of sustainable infrastructure for effective/ efficient economy interactions;</li> <li>• MEI Strategy which notes that the Bank “invest in essential municipal infrastructure and drive Green Cities initiative”.</li> <li>• Strategy for the Promotion of Gender Equality and Equality of Opportunity Strategy</li> </ul>

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

**ADDITIONAL SUMMARY TERMS FACTSHEET**

<b>EBRD Transaction</b>	EUR 30 million loan extension to the City of Iasi with a 15-year tenor, [REDACTED] to financed increased project costs for the trigger investment under the Green Cities Framework 2 – Window II (“GRCF2 W2”).
<b>Existing Exposure</b>	EUR 29.1 million: (Op ID 48296 SMART: Iasi Urban Transport, approved on 15 November 2016, fully disbursed and repaying. [REDACTED] and Op.ID: 51703 GrCF2 W2 Iasi Green Buildings [REDACTED]).
<b>Maturity / Exit / Repayment</b>	15-year tenor [REDACTED].
<b>Potential AMI eligible financing</b>	<i>None</i>
<b>Use of Proceeds</b>	The proposed extension will be used to cover higher investment costs, enabling Iasi City to complete the project, it will also finance higher share of the City’s envisaged contribution providing the City in with more flexibility to address the current economic volatility in the region. The higher costs are due to legislative changes for construction works [REDACTED] and rapidly rising prices for materials, energy, equipment and labour force following the onset of the War on Ukraine. The use of proceeds will be controlled via covenants and monitored through documentary evidence, progress reports and regular monitoring visits.
<b>Investment Plan</b>	The loan extension will be part of the original GrCF2 W2 Iasi Green Buildings investment plan, targeting energy efficiency in public buildings, including: <b>Rehabilitation of public buildings</b> [REDACTED]. <b>Construction of a new bus and tram depot</b> [REDACTED].
<b>Financing Plan</b>	[REDACTED]
<b>Key Parties Involved</b>	The City of Iasi as Borrower
<b>Conditions to subscription / disbursement</b>	<ul style="list-style-type: none"> <li>All financing and Project documents are in place.</li> </ul>
<b>Key Covenants</b>	[REDACTED]
<b>Security / Guarantees</b>	[REDACTED]
<b>Other material agreements</b>	None
<b>Associated Donor Funded TC and co-investment grants/concessional finance</b>	No additional TC needs.

[REDACTED]

## INVESTMENT PROPOSAL SUMMARY

### 1. STRATEGIC FIT AND KEY ISSUES

#### 1.1 STRATEGIC CONTEXT

EU cities and urban agglomerations have an essential role to play in mitigating climate change, given that they consume three-quarters of the energy produced in the EU and are responsible for a similar percentage of CO<sub>2</sub> emissions. The City of Iasi, one of the largest industrial and commercial centres of Romania, is committed to addressing climate change. To date it has implemented a broad programme of investments to move a low-carbon future. Given this importance, the City asked the Bank to finance critical energy efficiency and mobility investments in Iasi, as a trigger project for an entry into EBRD Green Cities.

Although the loan was signed in 2022, rising costs and legislative changes updating Romania's construction norms resulted in a material increase in project costs. The most critical item, the new bus and tram depot for the City's new electric bus fleet, experience a 75% cost increase due to escalating prices for both equipment supply and works. In light of these increases and increasing economic volatility, the City asked the Bank to increase the size of its loan from EUR 20.5 million to EUR 50.5 million. This request was twofold: first, to cover high project costs, and second, to cover more of the City's own contribution, given the City's need to maintain budget flexibility during these uncertain times. The increased loan amount will enable the City to complete construction, but also to achieve the goals of its trigger project under GrCF2.

Despite delays in physical implementation, the City has been proactive in developing its GCAP. Although it is still under consultation with key stakeholders, its GCAP identifies poor air quality, need to improve old and inefficient building stock and to address the use of fossil fuels in transport, energy and heating as priority environmental challenges in the City. The Project, which is the City's trigger project under the Green Cities Framework, aims to improve energy efficiency, reduce pollution and save resources by implementing key investments in a pool of 15 public buildings and by building a new bus and tram depot, preparing it for the new electric fleet. The existing bus and tram depots are no longer fit for purpose and inadequate for necessary maintenance or parking of tram and bus fleets, when not in use. Additionally, all public buildings targeted by the project and the existing depot have a low energy performance, leading to significant energy losses and emissions.

[REDACTED]. The Project will result in energy savings of 4,205 MWh per year and total CO<sub>2</sub> emissions reduction, transport component included of 1,037 t/year. The Project also saves around 34 per cent primary energy.

At the same time, the Project will play an instrumental role in the development and implementation of the GrCF2 W2 (DTM 50674). As the first sub-project under the GrCF2 in the City, it will support the development of strategic and multi-project approach helping the City to identify, prioritise and address its environmental and climate change challenges. The Project is compliant with the GrCF2, given that it will help Iasi to complete its trigger investment. Moreover, the revised project remains GET compliant and will contribute to significant energy savings and CO<sub>2</sub> reductions [REDACTED].

More information and an update on the Framework is included in **Annex 3**.

The Project is consistent with:

- Bank’s Green Economy Transition Approach 2021-2025, which identifies Cities and Environmental Infrastructure and Green Buildings as key themes to accelerate the decarbonisation;
- Strategy for Romania that promotes investments in sustainable infrastructure and regional development by looking at improved quality of sustainable infrastructure for effective/ efficient economy interactions;
- MEI Strategy which notes that the Bank “invest in essential municipal infrastructure and drive Green Cities initiative”.

## 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.

The Project will *primarily* help to promote the **Green** transition quality through significant energy savings and CO2 emissions reduction via investments in energy efficiency renovation of public buildings and rehabilitated e-bus and trams depot. [REDACTED] [T]he project is 100 per cent GET. Further details can be found in **Annex 2**.

The Project will also support the **Resilient** transition quality through training and support for the implementation of key capacity needs to enhance urban resilience, including better asset management, risk assessment and mitigation. As part of the loan extension, new TI indicators for the Resilient quality have been added to the original ones to complete an asset inventory and a maintenance plan beyond real estate and covering the transport infrastructure.

## 1.3 ADDITIONALITY

Identified triggers	Description
<i>A subsequent/consecutive transaction (issuance) with the same client/group either with the same use of proceeds or in the same destination country (repeat transaction).</i>	<i>This is a loan extension to the original loan signed in October 2021 to cover the cost increases due to rising prices driven by the war in Ukraine and legislative changes updating Romania’s construction regulations.</i>

Additionality sources	Evidence of additionality sources
<b>Financing Structure</b> EBRD offers financing that is not commonly available in the market from commercial sources on reasonable <b>terms and conditions</b> , e.g. a longer grace period. Such financing is necessary to structure the project.	The Bank will provide necessary long-term financing to cover the cost increase of the project allowing the City to complete the originally envisaged trigger project under Iasi’s GCAP. [REDACTED][T]his financing is not readily available from commercial banks.
<b>Standard-setting: helping projects and clients achieve higher standards</b>	EBRD’s extensive energy efficiency knowledge and long-standing relationship (including policy dialogue) with the City and ability, through the GCAP process,



Client seeks/makes use of EBRD expertise with <b>energy and resource efficiency and climate resilience</b> financing via provision of energy and climate audits, minimum performance standards of technologies, climate-related strategies and policies, monitoring, reporting and verification (MRV) systems etc.	to pursue the green agenda. This loan extension will help to complete the trigger investment under Iasi's GCAP.
<b>Standard-setting: helping projects and clients achieve higher standards</b> Client seeks/makes use of EBRD expertise on <b>higher Equality of Opportunity /inclusive standards</b> (e.g. adherence to labour standards which goes beyond the provisions set in PR2 of the environmental and social policy, development of comprehensive and institutional corporate social responsibility programmes).	The Client will pursue higher inclusion and gender standards as part of GCAP. This loan extension will help to complete the trigger investment under Iasi's GCAP.

#### 1.4 SOUND BANKING - KEY RISKS

Risks of Borrower	Probability / Effect	Comments
Predictability and strength of the institutional and financial framework	Low / Medium	The Municipality of Iasi is one of the largest cities in Romania, with a top position in the country's budgetary hierarchy; the City is established and governed under the Local Public Authorities Law. [REDACTED]
Economic volatility	Low / Medium	Iasi is one of the most important economic, academic and cultural centre of Romania. It hosts a wide range of industries, from IT to pharmaceutical granting it the highest level of GDP per capita in the Moldova region of Romania (EUR 8,700 per capita) and according to the National Prognosis Committee was anticipated to grow, pre-COVID 19 at more than 4.7 per cent per annum for the next 4 years <sup>3</sup> . The City demonstrated sound financial and economic management during COVID-19. Economic activity in the City is gradually resuming.
Financial management capacity	Low / High	The City has been a client of the Bank since 2001 with an excellent track record. It benefits from a highly capable and long-standing financial management team that has kept a conservative financial debt profile for the City.
Debt burden	Low / Medium	The City's total debt stock has been gradually falling since the peak of 2017 when it drew down on the Bank's RON 67.5m facility to finance the acquisition of EURO-6 buses. [REDACTED].

<sup>3</sup> [http://www.cnp.ro/user/repository/prognoze/Prognoza\\_profil\\_teritorial\\_toamna\\_2019.pdf](http://www.cnp.ro/user/repository/prognoze/Prognoza_profil_teritorial_toamna_2019.pdf)

Implementation/ Procurement	Low/Medium	This is the fourth project financed by the Bank with the City. Despite certain delays caused by the War on Ukraine, the City has a successful track-record and extensive experience in implementing municipal infrastructure projects, as well as considerable experience in management of public services operations.
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## 2. MEASURING / MONITORING SUCCESS

### Project Monitoring Indicators

Indicator	Projected Impact	Implementation Timing
<b>Green</b>		
Annual reduction in tonnes of CO <sub>2</sub> equivalent savings (tonnes CO <sub>2</sub> eq / yr)	1,037 tonnes CO <sub>2</sub> eq/yr	[REDACTED]
Annual energy savings (MWh/yr)	4,205 MWh/yr	[REDACTED]

### Frame work TI monitoring

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)	<b>New Green City Action Plans:</b> [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.	lasi's GCAP sent to the City Council (or equivalent) 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	<b>Strong follow-on support:</b> 50% of transactions (under GrCF2 and future extensions) are follow-on investments addressing priority environmental challenges identified in the GCAPs.	The Project is the City's first with EBRD Green Cities, and includes a GCAP 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	<b>Multiple green investments:</b> 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. The project achieves GHG savings above 1,000 tonnes of CO <sub>2</sub> eq per year and will produce over 500 MWh of renewable electricity.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Performance or action plan implemented by the client	Performance or action plan implemented by the client	<b>Effective GCAP implementation:</b> 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 will support the City to develop a Green City Action Plan that sets verifiable targets.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.5	Improved environmental standards	Improved environmental standards	<b>Environmental impact:</b> The Framework achieves significant environmental improvements for at least one priority environmental	N/A	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

			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.					
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**Secondary quality: Resilient**

Obj. No.	FW Monitoring Indicator	Corresponding Sub-Project Monitoring Indicator	Further Details Sub-Project level	Details for Specific Sub-Project	Baseline (Sub-Project)	Target (Sub-Project)	Due date (Sub-Project)	TC-related?
4.1	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, to enhance urban resilience (including better risk assessment and mitigation, warning systems or emergency response planning).		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
4.2	Number of institution-level capacity strengthened in target area	Institution-level capacity strengthened in target area	Necessary capacity and procedures for sustainable and cost-efficient asset management of assets related to tram and e-bus operations will be developed and implemented. As part of the asset management plan, an asset inventory (beyond real estate and covering transport infrastructure) is to be completed		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
4.3	Number of institution-level capacity strengthened in target area	Institution-level capacity strengthened in target area	Necessary capacity and procedures for sustainable and cost-efficient asset management of assets related to tram and e-bus operations will be developed and implemented. As part of the asset management plan, a maintenance plan (beyond real estate and covering transport infrastructure) is to be developed and submitted for approval by the City Council		[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
<b>Core client indicators</b>	Total Population benefitting 140,000 (individuals)	Total Population benefitting from the Project (individuals)	CTP Iasi carries an average of 140,000 passengers a day.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	Annual reduction in tonnes of CO <sub>2</sub> equivalent savings (tonnes CO <sub>2</sub> eq / yr)	Annual reduction in tonnes of CO <sub>2</sub> equivalent savings (tonnes CO <sub>2</sub> eq / yr)	Annual reduction of 1,037 tonnes of CO <sub>2</sub> emissions.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	Annual energy savings (GJ/yr)	Annual energy savings (GJ/yr)	Annual energy savings of 15,138 GJ	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	Annual renewable energy generated (MWh/yr)	Annual renewable energy generated (MWh/yr)	Annual energy generated of 500 MWh	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	Renewable Energy Capacity Installed (MW)	Renewable Energy Capacity Installed (MW)	Renewable installed capacity of 1.14 MW	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Gender SMART</b>	Number of Cities in which Gender-responsive GCAPs was agreed	Recommended policy or strategy agreed by relevant stakeholder(s)	The GCAP for the City of Iasi includes a gender assessment, which aggregates the analysis and information gathered throughout the GCAP	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

			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.				
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### 3. KEY PARTIES

#### 3.1 BORROWER

Iasi is one of the largest cities of Romania, with a population of approximately 400,000, and is the administrative seat of Iasi County. The economy is evenly split between the industrial and service sectors, with a focus on the pharmaceutical industry, metallurgical production, industrial equipment, textiles, clothing and IT.

The current City's management team is experienced with international financing and implementing projects, having successfully worked with the Bank on previous projects.

The Bank has a long-standing relationship with the City, dating back from 2001, having worked closely with the Bank on district heating, water and urban transport projects.

Public transport services are provided by CTP Iasi, a public transport company owned by the City, on the basis of a 10-year public service contract ("PSC"), developed with the Bank's assistance. CTP Iasi operates a fleet of 126 trams and 140 buses, with [REDACTED] new electric buses completing the fleet. A replacement of [REDACTED] outdated trams is also planned.

Iasi's financial statements can be found in Annex 1

### 4. MARKET CONTEXT

Romania, one of the most energy and carbon-intensive economies in the EU, is committed to reduce its primary energy consumption by 30 per cent by 2030. In spite of these ambitious targets, the current level of energy efficiency market in Romania is generally low for certain reasons, such as reduced capacity for project preparation and prioritisation, limited access to finance for such investments, public procurement delays etc. According to Romania's National Strategy on Climate Change, the highest energy efficiency potential is identified in buildings (42 per cent) and transport (32 per cent).

The City of Iasi is one of the largest Romanian urban agglomerations that, due to its frequent breaches of air quality limits (sulphur dioxide, dioxide nitrogen and nitrogen oxides, suspended particulate matter, PM10, and lead), was part of an infringement procedure by the EC, together with Bucharest and Brasov. The City's NOx and PM10 emissions are estimated at 1,800.334 and 398.725 tonnes per annum. In 2018 the City commissioned a study with respect to its PM10 emissions and approved an action plan aimed at dealing with this issue. The study discovered that the main reasons for air pollution are buildings, road transport, industry and heating.

The City has actively prepared sector plans (water, waste, transport, etc.) that provide for environment and energy efficiency improvements. However, prioritisation of relevant investments among multi-sector needs is challenging [REDACTED]. Therefore, the City approached EBRD to request help in identification and prioritisation of investments under the GrCF2, as part of a GCAP that will help the City reduce pollution and improve resource efficiency. The GCAP builds on the previous support offered by EBRD to the City, including: (i) preparation of a Sustainable Urban Mobility Plan and the (ii) preparation of energy audits for selected public buildings stock (including the buildings to be rehabilitated under this project). The GCAP will help the City to define a plan on how resources can be allocated to improve the overall energy performance of the City.

The proposed Project addresses areas with high energy efficiency potential in the City, public buildings, and includes: (i) rehabilitation of 15 public buildings (school, kindergartens and a public cinema) and (ii) construction of a new bus and tram depot, which will accommodate the fleet of electric buses the City is to acquire from EU grants.

More details about the proposed project and project implementation are presented in **Annex 4**.

**Buildings.** The City's municipal building stock is primarily composed of educational buildings - e.g. schools and kindergartens, including additional facilities, such as sport halls, dorms, performing arts halls, etc. There are also administrative buildings headquartering the City Hall, offices, cultural centres, hospitals and social assistance care facilities. The City plans to carry on rehabilitation works in public buildings with the aim to significantly reduce emissions from buildings and improve their thermal comfort. The Project proposed for EBRD's financing includes rehabilitation of a pool of 15 public buildings, which will significantly reduce energy consumption and subsequently CO<sub>2</sub> emissions.

**Public transport.** Public transport planning in Iasi is currently based on the Sustainable Urban Mobility Plan ("SUMP") prepared with EBRD's support in 2016 (as part of a Memorandum of Understanding on EU funds absorption with the Government of Romania). The latest studies as well as the SUMP confirm that one of the greatest polluters in Iasi is urban traffic, responsible for CO<sub>2</sub> emissions and other pollutant emissions with considerable effect on the environment, human health and on local sustainable development. In this context, the SUMP aims to improve the public transport services in Iasi and promote cleaner transport modes. The proposed Project will further assist the public transport operator, CTP Iasi, by constructing a new bus and tram depot for its new electric bus fleet. The Project will enhance CTP Iasi's ability to maintain and operate its public transport fleet efficiently and therefore contribute to the overall improvement of public transport services in the City. Buildings included in the proposed investment will meet high energy efficiency standards.

## 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). Environmental and social due diligence (“ESDD”) of the proposed investment was undertaken by independent consultants as part of the Feasibility Study. The ESDD showed that the energy efficiency measures will bring substantial environmental and social benefits. The ESDD confirmed that the Project is structured to meet EBRD’s Performance Requirements (“PRs”). The City is an existing Client and has the institutional capacity to implement the project in compliance with the Bank's PRs and with national legislation. ESDD also concluded that any adverse environmental and social impacts of the project will be site-specific, mainly restricted to the construction phase. These include occupational health and safety risks, waste management and temporary loss of access to parts of public buildings, and they will be addressed through appropriate mitigation measures.

An Environmental and Social Action Plan (“ESAP”) has been developed and agreed with the City. The ESAP includes requirements to appoint environmental and safety managers and development of EHS and waste management plans. Information on sub-projects will be disclosed at sites and online, including the grievance mechanism. For buildings where asbestos is identified, an asbestos management plan will be developed and implemented as part of the project. The City will also pursue higher inclusion and gender standards as part of GCAP. Monitoring of the project and ESAP implementation will be carried out via annual environmental and social reports provided by the client. The project is considered aligned with Paris Agreement adaptation and mitigation objectives; its GET Share is 100 per cent.

### 6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on the Municipality of Iasi, CTP Iasi and its senior management. The [REDACTED] project does not pose an unacceptable integrity or reputational risk to the Bank. The municipality has been a client of the Bank since 2001 and the experience to date has been positive. [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**

ANNEX 1	Historical Financial Statements
ANNEX 2	Green Assessments
ANNEX 3	Implementation progress of Framework (GrCF /GrCF2)
ANNEX 4	Project Implementation
ANNEX 5	EIRR

## ANNEX 1 – HISTORICAL FINANCIAL STATEMENTS

As reflected below, the City has a good financial standing:

Financial Summary (EUR million)	2017	2018	2019	2020	2021
Current Revenues	164.3	108.3	130.8	148.1	185.5
Current Expenses	-135.0	-92.0	-105.9	-117.6	-167.4
<b>Current Surplus (Deficit)</b>	<b>29.3</b>	<b>16.3</b>	<b>25.0</b>	<b>30.5</b>	<b>18.1</b>
Capital Revenues	2.9	11.5	15.4	39.0	10.7
Capital Expenditures	-38.7	-23.5	-32.1	-53.2	-16.7
Debt Service	-10.1	-8.5	-8.9	-7.1	-7.0
<b>Total Debt</b>	<b>70.6</b>	<b>65.9</b>	<b>57.7</b>	<b>50.7</b>	<b>52.0</b>
Cash & Liquid Assets	18.9	17.2	11.1	11.8	25.8
Current Surplus / Debt Service (min 1.2x)	3.0	2.1	3.0	4.5	2.8
Total Debt / Current Surplus (max 5.0x)	2.3	3.6	2.1	1.6	2.6
Debt Service / Eligible Revenues (max 30%)	0.1	0.1	0.1	0.1	0.0

Over the past years, the City has seen an increase of its current revenues (+21 per cent in 2019, +14 per cent in 2020 and +25 per cent in 2021). [REDACTED]. In 2021, the City achieved EUR 185.5 million in current revenues, surpassing the peak set up before the legislative changes of 2018.

The City has maintained a current surplus over the years (with a Current Surplus/ Current Revenues ratio of around 15 per cent) [REDACTED]. In 2021, the City registered a current surplus of EUR 18.1 million confirming the sensible management of the city accounts.

Capital revenues usually consist of EU grants and subsidies received from the Government for specific investment projects. [REDACTED].

Capital expenses are CAPEX programs implemented by the City. In 2021, CAPEX mainly focused on transport, district heating, cultural projects and education. [REDACTED].



## ANNEX 2 – GREEN ASSESSMENTS

### Introduction

The Project, approved in 2021, addresses priority investments in the City's public transport and public buildings sector, areas with the highest energy efficiency potential identified by the City. The scope of the Project remains unchanged and it involves two parts:

1. financing the energy efficiency renovation of 15 public buildings, and
2. financing the improvement of a depot for trams and buses.

**The present extension of EUR 30 million covers mostly the costs overruns associated with** the tram and bus depot, but also the rehabilitation of Dacia Cinema, one of the public buildings included in the project. The investments were reviewed by due diligence Consultants employed by the Bank that confirmed significant energy and resource saving and CO2 reduction. The physical risk assessment was not part of the external due diligence process undertaken for the original transaction; following a second stage assessment carried out by CSD experts, flooding risk, flagged through the BB2 Step 1 screening, is assessed as non-material.

**The project qualifies for 100 per cent GET attribution and is assessed as Paris Agreement-aligned for both mitigation and adaptation goals.** Further details are provided below.

[REDACTED].

### Paris alignment assessment

#### *General screening of alignment with the mitigation goals of Paris Agreement*

- The project/economic activity is **included** in the 'aligned list'.
- Regarding project/economic activity(ies), there are **no** activities included in the 'non-aligned list'. The new buildings of the bus and tram depot are going to comply with relevant national and EU regulations for climate and sustainability objectives (e.g., national building code; EU Energy Performance of Buildings Directive, EPBD). In the context of the EU taxonomy, compliance of new buildings with national regulation is considered as Do No Significant Harm to mitigation goals and therefore Paris Agreement aligned. Regarding existing buildings (Dacia Cinema), energy efficient retrofit is compliant with national EPBD regulations for major renovation and is also Paris Agreement aligned. The EPBD was designed explicitly to drive transition of the buildings sector toward decarbonisation and hence compliance with provisions and minimum performance criteria set up according to methodologies developed under the EPBD are Paris Agreement aligned.

*The project is assessed as **aligned for BB1 (mitigation)**.*

#### *Alignment with the adaptation goals of Paris Agreement*

**Step 1:** Under EBRD's BB2 framework, flood was identified as a potentially material physical climate risk for the depot project site.

**Step 2:** Due to a history of flooding caused by the Bahlui river, adaptation measures were taken at both the city and the wider region level (upstream of Bahlui river) to regularise the stream and prevent future flooding: upstream hydrotechnical installations and dams to regulate the river discharge; EU-funded dredging of the riverbed; and installation of protective embankment at the city level. Together, these measures are estimated to protect the city against flood events with 1 in 100 year return periods. Based on this second-stage assessment, flood is assessed as a non-material risk for the project site.

**Step 3:** This project is unlikely to undermine the climate resilience of the system in which it operates. *The project is assessed as **aligned for BB2 (adaptation)**.*

### GET attribution

The new depot buildings will be designed to perform [REDACTED] better than the national requirement of the relevant building category (nZEB level). The investment is part of the infrastructure necessary to operate and maintain the public transport system in the city, it will serve the fleet of [REDACTED] electric buses and [REDACTED] trams. Therefore, the total investment is dedicated to low-carbon transport and is **100 per cent GET eligible**, as the first transaction (Op. ID 51703, Fac. ID 77825). Since the scope of the project remains unchanged, no additional GET benefits are claimed. The renovation of the Dacia Cinema is also 100 per cent GET eligible, since energy demand is reduced by 39.80 per cent (i.e., over the eligibility threshold of 30 per cent).

**Green Finance Project Monitoring Plan**

For the monitoring and verification, the client will provide among others the energy performance certificate for all buildings after modernisation and construction, indicating the achievement of the relevant energy performance class or energy consumption. This can be used a verification of targeted energy performance and allows determination/update of environmental benefits.

### **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 an operational dedicated procurement department that cooperates with other relevant departments for all procurement activities conducted by the City. They also have an EU Projects Department that is managing all the EU Grants. For this specific project the City will set up an ad hoc PIU that will include expertise from the EU Projects Department, which has expertise in EE in Building projects and the City's owned public transport company which has expertise in operation and maintenance of rolling stock and will be the final beneficiary of the deport .

Although the City has successfully implemented two EBRD financed projects, due to the long period of time that has passed between these project and the current project well as the high personnel turnover in the procurement departments, there is no sufficient institutional memory on how to tender out and administer contracts under Multilateral Development Bank's Procurement Rules.

Thus the main risk for the implementation of the Project is the capacity of the City to administer the procurement processes in accordance with the EBRD PPR and in the English language.

#### **Contracts risk assessment:** *Moderate*

The scope of the contract covered by the Project is includes three (3) works contracts and two (2) supervision contracts.

The works contracts that covers the Energy Efficiency in Public buildings are not technically challenging being simple construction contracts with designs prepared by the Employer (under FIDIC Red Book). However, the previous similar tenders in Romania has resulted in low competition and over the budget contract prices.

With respect to the design and build of the multimodal depot, this is a technically challenging contract which requires a high level of specialization from the participants to the tendering process. Such expertise is not widely available in Romania and therefore participation of foreign companies could be crucial for the success of a tendering process.

Such risks shall be mitigated by the City and its consultants through conducting market scoping and appropriate advertisement in order to attract the appropriate level of interest and competition.

#### **Procurement arrangements:**

The Project is classified as a public sector operation for procurement purposes. The City will set up a PIU to manage the project. The City employ a Procurement Consultant to assist with the procurement processes. The Bank's Due Diligence Consultant will also review the technical specifications and evaluation report and provides ad hoc support and technical advice during the tendering process.

All works contracts financed from the Bank's loan proceeds will be procured by Open Tendering procedures in accordance with the Section III of Procurement Policies and Rules ("PPR") for the public sector and the City will use the Bank's Standard Tender Documents.

The Energy Efficiency in Public Buildings will be tender out as single state open tender for Works under FIDIC Red Book General Conditions of Contract while the Design and Build of the Depot will tender out as multiple stage tendering process under FIDIC Yellow Book General conditions of Contract

Additionally, using the loan proceeds, the City will appoint two Supervision Consultants: one for the supervision of Energy Efficiency Contracts under Red FIDIC General Conditions of Contract and the second for the supervision of the Design and Built of the depot under Yellow FIDIC General Conditions of Contract. These consultancy contracts will be subject to single stage competitive procedure in accordance with the Chapter V of PPR. [REDACTED].

## **ANNEX 5 - EIRR**

[REDACTED]