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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A PROPOSED

DISASTER RISK MANAGEMENT
DEVELOPMENT POLICY LOAN WITH
A CATASTROPHE DEFERRED DRAWDOWN OPTION

IN THE AMOUNT OF EUR 400 MILLION

(US$493.06 MILLION EQUIVALENT)

TO

ROMANIA

FOR THE

BUILDING DISASTER AND CLIMATE RESILIENCE PROGRAM

May 25, 2018

Social, Urban, Rural And Resilience Global Practice
Europe And Central Asia Region

Public Disclosure Authorized

ROMANIA - GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of March 31, 2018)

Currency Unit = Euro

EUR 1.00 = US$ 1.23

US$1.00 = EUR 0.81

US$1.00 = RON 3.81

ABBREVIATIONS AND ACRONYMS

AROPE	People at Risk of Poverty and Social Exclusion methodology
Cat DDO	Catastrophe-Deferred Drawdown Option
CIT	Corporate Income Tax
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
DES	Department for Emergency Situations
DRM	Disaster Risk Management
DPL	Development Policy Loan
DSTI	*Debt Service to Income*
EC	European Commission
EIB	European Investment Bank
ESA	European System of Accounts
EU	European Union
FDI	Foreign Direct Investment
FRL	Fiscal Responsibility Law
FX	Foreign Exchange
GD	Government Decision
GDP	Gross Domestic Product
GNP	Gross National Product
GEM	Global Economic Monitor
GIES	General Inspectorate for Emergency Situations
GRS	Grievance Redress System
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion & Results Report
IDA	International Development Association
IEG	Independent Evaluation Group
IMF	International Monetary Fund
IPF	Investment Project Financing
LCU	Local Currency Unit
MoE	Ministry of Environment
MFMOD	Macro Fiscal Model
MoIA	Ministry of Internal Affairs
MoPF	Ministry of Public Finance
MoRDPA	Ministry of Regional Development and Public Administration
MRV	Most Recent Value
MoWF	Ministry of Water and Forests
MTO	Medium-Term budgetary Objective
NATO	North Atlantic Treaty Organization
NBR	National Bank of Romania
NCSES	National Committee for Special Emergency Situations
NPL	Non-Performing Loans
PAID	Insurance Pool against Natural Disasters
PIT	Personal Income Tax
PDO	Program Development Objective
PFM	Public Finance Management
PPP	Purchasing Power Parity
PSIA	Poverty and Social Impact Assessment
RO-RISK	Government of Romania Risk Assessment
SCD	Systematic Country Diagnostic
SME	Small and Medium Enterprise
SMISU	National Management Information System for Emergency Situations *(Sistemul de Management Informațional pentru Situații de Urgență)*
SOE	State-Owned Enterprises
UN	United Nations
UNISDR	United Nations Office for Disaster Reduction
VAT	Value Added Tax
WDI	World Development Indicator

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ROMANIA

BUILDING DISASTER AND CLIMATE RESILIENCE PROGRAM (P166303)

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic
P166303	No

Proposed Development Objective(s)

The Program Development Objective (PDO) is to strengthen Romania's institutional and legal framework to effectively manage the physical, social and fiscal impacts of natural disasters and climate change

Organizations

Borrower:	ROMANIA (THROUGH ITS MINISTRY OF PUBLIC FINANCE)
Implementing Agency:	MINISTRY OF INTERNAL AFFAIRS - DEPARTMENT OF EMERGENCY SITUATIONS, MINISTRY OF REGIONAL DEVELOPMENT AND PUBLIC ADMINISTRATION, MINISTRY OF PUBLIC FINANCE

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**493.06**

DETAILS

International Bank for Reconstruction and Development (IBRD)	493.06

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Moderate

Results

Indicator Name	
Prior Action 1. The Borrower has established the National Platform for Disaster Risk Reduction and the platform is in effect.	A1. The Government of Romania has reported on progress achieved under the international Sendai Framework for Disaster Risk Reduction.
	A2. Romanian citizens have enhanced understanding of the potential impacts of disasters and how they can prevent, prepare and respond to disasters through public awareness campaigns, drills and digital media.
Prior Action 2. The Borrower has adopted a national emergency management information system for emergency and disaster response (SMISU) and the system is effective nationwide.	A3. Reports are available annually on the impact of disasters in Romania.
Prior Action 3. The Borrower, through the National Commission for Earthquake Engineering, the Technical Commission for Actions on Buildings, and the Technical Commission for Structural Systems, has endorsed the draft, revising the building design code for seismic risk in existing buildings (P100-3/2008).	B1. The national building code for seismic risk in existing buildings is strengthened.
Prior Action 4. The Borrower has (i) in line with EU Regulation No.1303/2013, submitted to the European Commission the national assessment of disaster risks in order to access the EU Structural Investment Funds Program (2014-2020) for enhanced emergency response, and (ii) made available to the public on the Ro-Risk Platform data and reports on disaster risk assessment.	B2. Disaster risk reduction action plans are prepared and approved by the relevant responsible authorities.
	B3. The fiscal and budgetary strategy is informed by main disaster risks and their potential fiscal impact, taking into consideration publicly available Ro-Risk data.

IBRD PROGRAM DOCUMENT FOR A PROPOSED DEVELOPMENT POLICY LOAN (DPL) WITH A CATASTROPHE-DEFERRED DRAWDOWN OPTION (Cat-DDO) TO ROMANIA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **Drawing from the lessons learned from past hydrometeorological and geophysical disaster events, the Government of Romania is shifting toward a more robust and systematic approach to manage disaster and climate risks.** The Government has identified contingent financing as a critical component to ensure immediate post-disaster liquidity to meet emergency and recovery needs, ensuring that budget resources are not diverted from other ongoing development programs. Romania is also currently on the verge of passing decisive legislative, policy and institutional reforms, that will strengthen disaster and climate resilience over the long-term. The proposed instrument provides a platform to advance urgent policy reforms as well as to provide predictable access to post-disaster financing. Policy reform areas include (a) strengthening the Borrower's national framework for disaster risk management (DRM), and (b) strengthening the Borrower's capacity to systematically identify and reduce disaster and climate risks and to manage disaster related fiscal impacts.

2. **Romania is one of the fastest growing economies in the European Union (EU), with growth of 6.9 percent in 2017**[1]. Growth was led by private consumption (up to 9 percent annually), which was fueled by the reductions of the standard value added tax (VAT) rate and of the personal income tax (PIT) and the corporate income tax (CIT) and by increases in the minimum and public-sector wages and pensions. Despite its fast-economic growth over the last years, Romania still faces the twin challenges of inclusion and consolidating the sustainability of its growth model by focusing on better quality investments, and higher productivity and exports, rather than only domestic consumption. Investment growth increased by 5.4 percent following a resurgence in private investment, but public investment underperformed declining by 9.5 percent.

3. **Romania is still among the poorest countries in the EU.** With more than a third of its population living on less than US$5 per day, measured in 2005 purchasing power parity (PPP) terms, Romania has the highest share of population living in moderate poverty in the EU. While growth was broadly inclusive over the past 10 years, the 2008 financial crisis halted progress in poverty reduction and growth in income for the bottom 40 percent. While income of the bottom 40 percent increased by an annualized 12.6 percent between 2006 and 2008, despite the relevant measures taken by the Government to overcome the crisis effect, the income growth was negative on average for all households and the incomes of the bottom 40 percent were hit by some of the largest shocks in the region from 2009 to 2013, due to large-scale employment losses and reductions in pension benefits.

4. **Thus, the Government's program for 2017-2020 is focused on further investments in infrastructure, healthcare, education, supporting job creation and small and medium enterprise (SME) development, in addition to tax and pension reforms**. The Government's program reconfirms Romania's roadmap for achieving the Europe 2020 objectives for smart, sustainable and inclusive growth. It prioritizes the use of EU funds for investment in line with the European Structural and Investment Funds

[1] http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=nama_10_gdp&lang=en
http://www.insse.ro/cms/sites/default/files/com_presa/com_pdf/pib_tr4r2017_2.pdf

envelope for 2014-2020, which amounts to approximately EUR 40 billion.

5. **Geophysical and hydro-meteorological disasters pose a considerable threat to Romania's poverty alleviation efforts and its sustainable economic growth, with disaster losses growing with climate change and urbanization.** Romania is prone to a range of natural disasters, particularly earthquakes, floods, drought and extreme weather, which have resulted in significant physical, social and financial impacts over recent decades. Since 1990, 77 severe disaster events[2] were recorded in Romania, including 44 floods, 15 extreme temperature events, 7 storms, 2 strong earthquakes, 1 drought and 1 landslide[3], resulting in over US$3.5 billion of direct damage[4]. At the same time, disaster impacts are increasing including due to (i) increased exposure of people and economic assets in vulnerable areas; (ii) insufficient funding for risk reduction; and (iii) climate change effects. This is particularly concerning given that the poor and near-poor are disproportionately more affected by disasters[5].

6. **Romania is one of the countries most at risk from earthquakes in the EU, with hundreds of lives lost and tens of thousands of buildings damaged in earthquakes in the last 200 years[6].** In the last five centuries, there have been on average two magnitude 7+ earthquakes each century, with five earthquakes since 1802 with magnitudes higher than 7.5.[7] The vulnerability of the Romanian economy to earthquakes is exacerbated by more than 75 percent of the population (or 65 percent of urban population), and 45 percent of all critical transport, energy, water, communication services are in areas with high earthquake hazard.[8] Furthermore, 60–75 percent of Romania's fixed assets which contribute to 70–80 percent of the country's gross domestic product (GDP) are in seismic zones.

7. **Bucharest is one of the most earthquake-prone capital cities in the EU due to its proximity to the Vrancea earthquake zone which is capable of producing earthquakes as high as magnitude 8.1.[9]** In 1977, a 7.4 magnitude earthquake caused more than over 1,500 fatalities, left 11,321 injured and collapsed or severely damaged 156,000 residential apartments. More than 2,000 schools were damaged and 274 completely collapsed, 448 hospitals and polyclinics were damaged and 11 hospitals collapsed. In 1978, a World Bank report estimated a total loss of US$2 billion (1978 value), with Bucharest accounting for 70 percent of the total (approximately US$1.4 billion)[10]. Scientists and engineers estimate that a similar event today might have direct damage costs of EUR7-11 billion, with economic losses exceeding EUR25 billion. They also estimate that the fatalities might range from 700 to 4,500[11] with functionality and access

[2] To be classified as a disaster, it must conform to at least one of the following criteria: 10 or more dead, 100 or more affected, declaration of state of emergency, and/or call for international assistance (EM-DAT).
[3] Smaller, more frequent landslides occur annually, but are not recorded in this database.
[4] EM-DAT Disaster Database: *www.em-dat.be*
[5] Hallegatte et al. 2017. *Unbreakable: Building Resilience of the Poor in the Face of Natural Disasters*. World Bank.
[6] Vulnerability to seismic risk is due to Romania's geographical location on the Vrancea subduction zone. Proximity to the fault and poor soils mean that Bucharest is among Europe's capital cities with the highest disaster risk and one of the 10 most vulnerable cities to seismic risks in the world.
[7] Romania National Institute for Earth Physics Earthquake Catalogue
[8] *https://www.igsu.ro/documente/RO-RISK/Raport_Final_de_tara.pdf*
[9] Văcăreanu, R., A. Aldea, D. Lungu, F. Pavel, C. Neagu, C. Arion, S. Demetriu, and M. Iancovici. 2016. "Probabilistic Seismic Hazard Assessment for Romania." In: D'Amico, S. (ed.) *Earthquakes and Their Impact on Modern Society*. Springer, 137–170.
[10] *http://documents.worldbank.org/curated/en/253051468297560801/pdf/Loan-1581-Romania-Post-Earthquake-Construction-Assistance-Loan-Agreement.pdf*
[11] Fatality ranges are so wide because the timing of the earthquake (day/night) significantly changes the number of people who

to housing in Bucharest reduced to 30 percent, and rising slowly to 65 percent after a year and 90 percent after two years.[12] The increased concentration of economic assets and population growth in earthquake-prone areas, such as Bucharest, means that the risk will continue to increase over time, almost doubling by 2080, unless urgent action is taken to reduce and manage earthquake risks.[13]

8. **Romania's vulnerability to natural disasters will be further exacerbated by climate change**. Romania's climate is predicted to change considerably over the next 50-100 years. Increases in air temperatures vary between climate models, but increases in the annual average temperature are expected to be in the range of between 0.5°C – 1.5°C by 2029; and 2.0°C – 5.0°C by 2099 (depending on the global climate scenario used). Projected increases in temperature and changes are expected to lead to more frequent and persistent heat waves, and wide spread droughts. The total amount of annual precipitation is projected to decrease by 10 percent to 20 percent (depending on climate model scenarios and geography within Romania) by the end of the century. Precipitation patterns are also expected to become more irregular, with more frequent shorter, intense, localized rainfall events, increasing flood risk. Observed and anticipated climate change impacts include the increased incidence of severe inland flooding and frequency of flash floods, the increased intensity and frequency of droughts, and an increased risk of soil erosion and desertification.

9. **The effects of climate change are already being felt with more frequent landslides, wildfires, drought, and extreme heat/cold events**. The frequency of wildfire events doubled from approximately 175 per year (1956 – 2005) to approximately 341 events per year in the last decade, with 25 percent increase in burn area per event. While snowfall has generally decreased overall across the country, snow fall events are becoming more intense, as demonstrated by the 2014 blizzard. During the 1980 –2012 period, drought occurrences increased, with more than half of the years having amounts of precipitation below normal. For example, the 2011–2012 drought resulted in 40–60 percent decline in crop yields. Landslides are frequent in some areas, associated with snowmelt and spring rain, intense rainfall in summer, and earthquake activity. Most of the damage is related to homes and road infrastructure.

10. **Romania is already one of the most flood-prone countries in Europe[14] with over 1 million hectares (ha) of land exposed to flooding; nearly 1 million Romanians living in high flood risk areas; and over 900 communities in the country are situated in high flood risk areas.[15]** In 2006, the extreme floods resulted in economic damage equivalent to 1 percent of gross national product (GNP). Romanian officials ordered the controlled flooding of thousands of hectares of unused agricultural spaces to prevent further damage in cities across Romania. Estimates show that during the April-May interval, 10,000 homes across 160 localities were affected; about 600 km of roads, and 300 bridges were damaged; and total 21,000 ha of farmland were affected. Today, experts anticipate that a 100-year flood along the Danube River would affect more than 800,000 inhabitants, 3,550 communities, 5 percent of national highways, 700 km of major roads, more than 2,000 km of county and local roads, 100 nationally protected areas, and more

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could be inside buildings when they collapse.

[12] Modeling undertaken by the Technical University of Civil Engineering of Bucharest.

[13] World Bank 2016. *Country Risk Profiles for Floods and Earthquakes in Europe and Central Asia.*

[14] From 1987 to 2002 Romania had the greatest area in the EU impacted by repeated floods - European Spatial Planning Observation Network (2004).

[15] Romanian Waters National Administration 2013.

than 300 cultural heritage buildings. For a 1,000-year flood, more than 1.8 million inhabitants would be affected.[16] Moreover, by 2080 (considering change in socioeconomic and climate conditions) GDP losses from floods could quadruple (depending on the mitigation pathway selected). Across Romania, flood risk is the highest in Ialomita and Satu Mare followed by Arad, Teleorman, Giurgiu, and Calarasi.[17]

11. **The annual average risk to assets in Romania is 0.41 percent GDP and well-being risk is 0.58 percent GDP.[18]** Compared to other EU countries, Romania has high asset risk, significant risk to social well-being and relatively lower resilience. For example, Romania (a) faces double the risk to assets and socio-economic activity from disasters compared to Poland; (b) 70 percent of assets of the poor[16] are vulnerable to destruction as compared to 43 percent in Poland; and the assets of the non-poor in Romania have three times the vulnerability as compared to Poland; and (c) 80 percent of the population have access to early warning in Romania, as compared to 100 percent in Poland. Considering actions that could be taken, **polices aimed at reducing private asset losses – including reducing exposure and vulnerability of assets and improving access to early warning systems – could reduce asset losses by 13 percent and well-being losses by 16 percent.** Policies aimed at increasing resilience such as access to savings, insurance, and finance; accelerating reconstruction through access to predictable finance and streamlined processes, and post-disaster support; can reduce asset losses by 2.8 percent and well-being losses by 14 percent.

12. **Disasters represent a significant financial shock for the Government and can reverse years of growth and poverty reduction efforts.** For example, the 1977 earthquake resulted in damage costs that would have been 547 times greater than budget allocations typically made available through the Government Intervention Fund. Humanitarian aid for disaster relief has been unpredictable, with over US$7 million provided for disaster relief from 2000 to 2014. Romania has also received support for disaster reconstruction through the EU Solidarity Fund, with over EUR 119 million between 2005 and 2016, primarily for floods. Both humanitarian aid and Solidarity Fund payouts, while supporting long-term recovery and reconstruction, represent a small fraction of the overall damage and loss from disaster events,[19] and the timing and amount of payout are unpredictable.

13. **Insufficient catastrophic insurance for households represents a significant burden for the Government.** Romania is among the few EU countries that have introduced compulsory catastrophe property insurance for homeowners, Insurance Pool against Natural Disasters (PAID). Under the law, PAID manages the compulsory home insurance system which currently covers earthquake[20], flood, and landslide damage. However, the insurance penetration remains low (at about 20 percent of insurable housing stock) due to legal and regulatory challenges.

14. **This increased incidence of natural disasters, coupled with the projected climate outlook for Romania, highlights an urgent need to increase the country's physical, social and financial resilience to climate and disaster risks.** This can be achieved through a combined approach of:

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[16] Risk Assessment conducted by the Government of Romania, known as Government of Romania Risk Assessment (RO-RISK).
[17] World Bank, 2016.*Country Risk Profiles for Floods and Earthquakes in Europe and Central Asia.*
[18] World Bank and Global Facility for Disaster Reduction and Recovery "Resilience Indicator". World Bank 2017, *Unbreakable*.
[19] EU Solidarity Fund payouts are typically less than 5 percent of reported damages.
[20] The PAID system does not cover the existing building that are identified as at high earthquake risk in Bucharest.

a. Prioritizing urgent investments in risk reduction, preparedness and response, particularly in public buildings with critical functions before, during, and post-disaster;

b. Accelerating policy reforms aimed at building disaster and climate resilience; and

c. Access to predictable post-disaster financing and enhancing the Government's capacity to manage the fiscal impacts of natural disasters.

15. This Program will support progress on (b) and (c), with a proposed parallel Investment Project Financing (IPF) focused on ensuring the resilience of critical disaster and emergency response buildings, namely Disaster Risk Management Project (P166302). While the Cat DDO and broad policy program aims to improve climate and disaster resilience in the country, the IPF has a single-sector (seismic risks) and single-agency focus to establish a platform for, and to initiate risk reduction in priority sectors identified by the government. The proposed IPF is designed with a Series of Projects approach, which would enable programmatic risk reduction through follow up investment operations in other sectors which strongly show government commitment and capacity to reduce risk in priority sectors.

16. This Program supports the elevation and prominence of the disaster risk management within the government and society of Romania, and how critical this agenda is to ensure the resilience and sustainability of development in Romania in the long term. Romania is currently compliant with EU Directives relevant to resilience; however, these Directives are targeted to specific areas and discussions are ongoing in the EU on how to build a broader culture of ex-ante resilience to disasters and climate – from an infrastructure, people and financial perspective[21]. Therefore, the focus on broader resilience in this Cat DDO will also provide a model for other EU countries and ongoing reforms. Moreover, the Cat DDO is complementary to the EU Solidarity Fund, and together these two instruments build a robust financial protection for the government in the event of a disaster.

17. **The PDO is to strengthen Romania's institutional and legal framework to effectively manage the physical, social, and fiscal impacts of natural disasters and climate change.** This objective will be achieved by supporting policy actions that are aimed at: (a) strengthening the Borrower's national framework for DRM, and (b) strengthening the Borrower's capacity to systematically identify and reduce disaster and climate risks and to manage the fiscal impacts of disasters. The proposed program will support multi-sectoral and cross ministerial engagement to improve disaster and climate preparedness in Romania.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

18. **The 2008 global economic crisis affected Romania severely, but decisive government action restored market confidence and reignited growth.** Cyclical fiscal policies and sizeable capital inflows in the run-up to the 2008 crisis led to important macroeconomic imbalances that required a sharp correction in 2009. The Romanian government acted decisively, implementing one of the largest post-crisis fiscal

[21] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017PC0772

consolidation efforts in the EU during 2009-2015. Relying heavily on spending cuts, but also on tax increases, the consolidation helped to rapidly reduce imbalances and place economic growth on a strong footing. During 2014-2017 Romania's growth averaged 4.7 percent.

Table 1. Key Macroeconomic Indicators and Projections

SELECTED INDICATORS*	Avg. '00-15	2016	2017	2018 F	2019 F	2020 F	2021 F
REAL ECONOMY							
GDP growth (annual %)	3.7	4.8	6.9[1,4]	5.1	4.5	4.1	3.9
GDP per capita growth (annual %, real)	4.5	5.4	7.7	5.8	5.1	4.7	4.6
GDP per capita (US$, nominal)	6,479	10,078	10,849	..	..	..	..
GDP per capita, PPP (current international $)	13,802	..	..	..	..	..	..
Private consumption growth (annual %)	4.9	7.3	9.0[1]	8.1	7.2	6.6	6.1
Gross investment (% of nominal GDP)	25.7	23.0	22.7	24.6	25.7	26.8	26.9
Gross investment - public (% of nominal GDP)	4.8	4.7	3.7	3.6	3.4	3.3	3.3
Unemployment rate[1]	7.0	5.9	5.0	..	..	...	...
MONEY AND PRICES							
Inflation, consumer prices (annual %, period average)	11.5	-1.5	1.3	3.7	3.2	3.0	2.8
M2 (% of GDP)[2]	32.9	41.2	42.7	..	..	..	..
Domestic credit to the private sector (% of GDP)[3]	26.3	28.2	..	..	..	..	..
10-year interest rate (annual average)[3]	5.5	3.3	3.8	..	..	..	..
Nominal exchange rate (local currency per USD) [2]	3.1	4.1	4.1	..	..	..	..
FISCAL ACCOUNTS							
Revenue (% of GDP)	31.0	29.5	29.9	30.7	30.3	29.5	29.3
Expenditure (% of GDP)	34.2	31.9	32.8	34.0	33.3	32.5	32.2
Interest payments (% of GDP)	1.7	1.3	1.2	1.3	1.3	1.3	1.3
Non-interest expenditure (% of GDP)	32.5	30.6	31.6	32.7	32.0	31.2	30.9
Overall fiscal balance (% of GDP)	-3.1	-2.4	-2.9	-3.3	-3.0	-3.0	-2.9

Primary fiscal balance (% of GDP)	-1.4	-1.1	-1.7	-2.0	-1.7	-1.7	-1.6
General government debt, ESA terms (% of GDP)	25.41	37.0	35.0	35.4	35.8	35.5	34.6
EXTERNAL ACCOUNTS							
Export growth, f.o.b (nominal US$, annual %)	14.8	9.6	13.5	11.0	9.8	9.7	8.9
Import growth, c.i.f (nominal US$, annual %)	14.4	9.8	12.0	10.9	9.6	9.3	9.1
Merchandise exports (% of GDP)	25.3	31.0	32.9	33.6	34.2	34.7	34.7
Merchandise imports (% of GDP)	34.3	36.9	38.3	38.9	39.5	40.2	40.2
Services, net (% of GDP)	2.1	5.2	5.0	5.0	5.1	5.3	5.4
Current account balance (% of GDP)	-5.6	-2.4	-3.4	-4.3	-4.7	-4.9	-4.1
Foreign direct investment (% of GDP)	3.8	2.4	2.5	3.1	3.0	3.0	3.0
OTHER							
GDP (current LCU, millions)	412,591	762,342	856,351	933,908	1,015,803	1,103,605	1,198,997
GDP (current US$, millions)	132,774	186,691	195,600	..	..	..	..
GDP per capita LCU (real)	5,568	7,459	8,003	8,462	8,894	9,312	9,749

Notes: ".." indicates not available. E = estimate, F = forecast. Data from MFMOD unless otherwise noted
1/ National Institute of Statistics (NIS) update
http://www.insse.ro/cms/sites/default/files/com_presa/com_pdf/pib_tr4r2017_2.pdf
2/ National Bank of Romania
3/ World Bank Global Economic Monitor (GEM) database; MRV = Most recent value
4/ NIS and Eurostat update (April 23th)
http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=nama_10_gdp&lang=en
Sources: MFMOD Database, World Bank World Development Indicator (WDI) and GEM databases, IMF

19. **Romania underwent one of the largest fiscal adjustments in the EU between 2009 and 2015.** The budget deficit[22] declined from 9.5 percent of GDP in 2009 to 0.8 in 2015 allowing the country to reach its medium-term objective of a structural deficit of 1 percent of GDP in 2014 and maintained it in 2015.

20. **Pro-cyclical fiscal policies have however widened the fiscal deficit since 2016.** Following a cut in VAT in early 2016, from 24 to 20 percent, an additional fiscal stimulus was passed in 2017, including a further VAT rate cut to 19 percent, a minimum wage increase of 16 percent, and tax reductions for pensions below a certain threshold. Nevertheless, the government maintained the fiscal deficit at 2.9 percent of GDP in 2017, but this came at the cost of a decline in public investment spending. The widening of the deficit in 2017 reflected a 14 percent increase in public expenditure and a lower than expected

[22] Measured based on the European System of National ***and*** Regional Accounts (ESA) methodology. As member of the EU, Romania's fiscal and debt reports (and commitments) to Eurostat and EU institutions follow the ESA methodology. For this reason, we report fiscal and debt figures both in cash and ESA. Unless otherwise specified, figures are in cash.

revenue collection, particularly from VAT. The increase in the current spending was mainly driven by hikes in compensation of employees (up 22 percent) and social assistance spending (up 13.1 percent).

21. **Romania has low fiscal revenues compared with the EU, partly reflecting low tax collection rates.** Romania's total tax revenues accounted for 25.1 percent of GDP in 2017, while the EU average was around 40 percent. The EU has stressed the limited progress made in strengthening tax compliance and tax collection. Undeclared work and under-declared earnings weigh on tax revenue. In 2012, for example, around 1.6 million people were reported to be working without any legal arrangements[23]. Since 2000, the average VAT gap exceeds 40 percent, while the EU average has been around 16 percent, leaving considerable room for improving the efficiency of VAT tax collection.

22. **Public debt is among the lowest in the EU, but it is not stabilized by the fiscal policies pursued currently.** Public debt (in ESA terms) amounted to 35.0 percent of GDP at end-2017, one of the lowest in the EU, but it increased significantly after the economic crisis, from 12.4 percent of GDP in 2008. Pro-cyclical fiscal policies coupled with an eventual slow-down in economic growth could lead to an increase in public debt. However, Romania's public debt remains well below the Maastricht criteria.

Table 2. Romania - Fiscal Developments and Prospects

	Avg. '10-15	2016	2017	2018 F	2019 F	2020 F	2021 F
Revenue, % of GDP	**32.7**	**29.5**	**29.9**	**30.7**	**30.3**	**29.5**	**29.3**
Taxes, of which:	27.7	26.1	25.1	25.9	25.5	24.7	24.5
VAT	8.2	6.8	6.4	6.3	6.2	6.2	6.2
Social security contributions	8.7	8.1	8.5	8.6	8.6	8.6	8.6
Nontax revenue	3.1	2.4	2.6	2.6	2.6	2.6	2.6
Capital revenue	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants 1/	1.7	0.9	2.1	2.1	2.1	2.1	2.1
Expenditure, % of GDP	**35.9**	**31.9**	**32.8**	**34.0**	**33.3**	**32.5**	**32.2**
Current expenditure, of which:	32.8	29.4	30.6	31.7	31.0	30.2	29.9
Compensation of employees	7.4	7.5	8.3	8.9	8.8	8.8	8.7
Goods and services	5.9	5.4	4.8	4.9	4.6	4.2	4.1
Interest	1.6	1.3	1.2	1.3	1.3	1.3	1.3
Subsidies	1.0	0.9	0.7	0.7	0.7	0.7	0.7
Transfers, of which:	16.7	14.2	15.5	15.9	15.6	15.2	15.1
Pensions	7.6	7.2	7.4	7.7	7.5	7.5	7.4
Capital expenditure	3.2	2.5	2.3	2.3	2.3	2.3	2.3
Fiscal balance, % of GDP	**-3.2**	**-2.4**	**-2.9**	**-3.3**	**-3.0**	**-3.0**	**-2.9**
Other items (% of GDP):							
Primary balance	-1.6	-1.1	-1.7	-2.0	-1.7	-1.7	-1.6
Gross financing needs	11.2	9.0	7.5	7.4	6.7	4.7	3.3

Source: World Bank staff estimates

1/ Includes -financed capital projects

[23] Fiscal Council, Annual Report 2013.

23. **Romania's external position improved after the crisis, but the recent consumption boom has reversed the trend of the current account deficit.** The current account deficit fell from a peak of 13.5 percent of GDP in 2007 to 0.5 percent in 2014, before widening to 3.4 percent in 2017. The evolution of the deficit partly reflects the dynamics of imports, sensitive to the pro-cyclical behavior of the domestic demand, and partly ongoing structural rigidities in the functioning of the markets. Net foreign direct investment (FDI) inflows averaged 1.9 percent of GDP per year between 2010 and 2017 and more than covered Romania's current account deficits since 2013.

24. **Romania has been slow in absorbing EU funds, but the absorption rate picked up in 2016.** From 2007–2013, Romania was allocated around EUR 19 billion in structural and cohesion funds and EUR 13.8 billion under the Common Agricultural Policy. Romania absorbed over 90 percent of the available funds under the 2007-2013 programming period. Romania also benefits from 30.8 billion EUR in EU funds for the period 2014-2020, but the start has also been slow in terms of absorption levels, hampered by endemic administrative constraints.

25. **The National Bank of Romania (NBR) has started to tighten the monetary policy conditions in response to the pick-up in inflation.** In response to the rapidly accumulating inflationary pressures, the NBR hiked its policy rate in two consecutive meetings in January and February 2018 by 25 percentage points each time to 2.25 percent. NBR has signaled that the tightening will continue, and around 150 percentage points of hikes are estimated in 2018, bringing the policy rate to around 3.25-3.5 percent at year-end.

26. **The financial sector in Romania is underdeveloped in terms of depth**. The financial sector is bank-dominated, with banking sector assets representing 75.3 percent of total financial sector assets in Q3 of 2017. Although the non-bank financial sector continues to have a secondary role in the Romanian financial system, the importance of nonbank financial institutions has grown in recent years. As of Q3 of 2017, total assets of private pension funds, investment funds, and non-bank financial institutions amounted to 6.8, 7.7 and 6 percent of financial sector assets, respectively.

27. **The banking sector is well capitalized, but credit remains subdued.** The banking sector is well capitalized and the tier-one average capital adequacy ratio was 17.1 percent in September 2017. Non-Performing loans (NPLs) declined from a peak of 21.9 percent of total loans at end-2013 to 8 percent at end of Q3 2017 aided by measures to facilitate their resolution, such as NPL sales and write-offs. Credit to corporations shows signs of recovery at 2.2 percent in December 2017 annually from -3.1 percent at end-2016, while credit to households increased by 7.8 percent year-on-year in nominal terms.

28. **Romania's capital market is undeveloped.** The key inhibiting factor to capital markets development for Romania is centered around the fact that the Bucharest Stock Exchange has not yet been upgraded to emerging market status.[24] The upgrade depends on progress regarding market liquidity facilitated by the presence in the market of large companies with significant individual liquidity. Potential

[24] The Bucharest Stock Exchange is in the process of becoming an emerging market (from a frontier market). As per the decision of FTSE Russell published on September 29, 2017, the Romanian capital market has been put on the list of countries that have a substantial potential to be upgraded to the status of the Emerging Market. Emerging market status would attract funds estimated to be $1,500 BN (30 times those for frontier markets).

privatizations or IPOs[25] (e.g. Hidroelectrica, Bucharest Airport) would represent important steps for achieving emerging market status and could unleash the potential for international investors.

29. **The degree of financial inclusion and access to finance is among the lowest in EU.** According to the Global Findex, only 61 percent of the adult population have an account at a formal financial institution. In the NBR's survey on the access to finance published in December 2016, access to finance is a pressing problem for 16 percent of companies. Access to finance for Small-Medium Enterprises (SME) is significant lower than for large companies. The share of large companies which applied for financing and received amount in full was 41 percent versus 14 percent for SMEs.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

30. **It is expected that economic growth will slow down in 2018, but it will stay above potential**. GDP will likely expand by around 5.1 percent in 2018, driven by the fiscal stimulus and aided by improvements in the European economy. The pickup in consumption is expected to widen the current account deficit to 4.3 percent in 2018, from 3.4 percent in 2017[26].

31. **The expansionary fiscal policy is expected to continue in 2018. The expansionary fiscal policy is expected to continue in 2018.** A new government was appointed in January 2018 and the budget for 2018 was approved with a 3 percent of GDP deficit. However, risks remain that the government may not be able to keep the deficit under 3 percent. The government has however repeatedly stated that it would be ready to promote adjustment measures should the deficit threaten the 3 percent ceiling. As a result of economic growth and budget deficits below 3% of GDP on medium term, the public debt according to EU methodology is expected to decrease from 37.4 percent of GDP in 2016 to 35.5 percent of GDP by the end of 2020.

32. **Total external debt has declined rapidly but external vulnerabilities remain**. External debt came down from a peak of 75.5 percent of GDP in 2012 to 52.3 percent in 2017. Still, external vulnerabilities persist, which can expose Romania to a sudden stop in capital inflows in the case of a large adverse shock such as that of 2008-09. External financing needs remain high at around 29.4 percent of GDP in 2017, down from 34 percent in 2012, and Romania's negative net international investment position, at around 48 percent of GDP in 2017, is sizeable. Reserves remain adequate at EUR 39.1 billion at end-2017, covering more than five months of imports.

33. **Increasing Romanian's growth potential requires attention to the structural reforms agenda**. Public administration reforms and measures to combat corruption, boosting tax revenues through administrative reforms, improving the efficiency and efficacy of public spending, and implementing the new legal framework for the SOE corporate governance agenda remain reform priorities. Renewed efforts are needed to improve labor participation and generate broad-based employment, as unemployment remains high among youth and the low-skilled, and to ensure that all Romanians obtain access to high quality public services. Gradually, the focus of fiscal policy should be rebalanced away from boosting consumption towards supporting a sustainable EU convergence path.

[25] Initial Public Offering.
[26] Bank's projections.

34. **The macroeconomic framework is adequate for this operation.** Although the fiscal policy stance weakened in 2016 and 2017 and the current account deficit is widening, macro-economic imbalances remain manageable. Inflation is expected to peak at around 5 percent in mid-2018, reflecting the excess domestic demand and the fading out of the base effect of the tax cuts. However, the NBR expects however inflation to return to 3.5 percent by the end of 2018 as consumption slows down and borrowing costs increase. Keeping the fiscal deficit below 3 percent of GDP in 2018 requires good quality fiscal management. Risks arise also from Romania's relatively large negative net international investment position, from a weak medium-term export capacity and from fatigue towards the unfinished structural reforms agenda. The banking system is well capitalized and able to withstand adverse shocks, as asset quality gradually improved and NPLs declined. The Government has also taken steps to strengthen debt management, reducing rollover risks.

2.3. IMF RELATIONS

35. **Currently, Romania does not receive financing support from the International Monetary Fund (IMF).** The IMF's precautionary standby arrangement with Romania expired in September 2015. The first and second reviews were completed in March 2014; no subsequent reviews were completed. The IMF program supported fiscal consolidation and reforms in health, capital expenditure, government and SOE arrears, and tax administration. It also supported structural reforms in energy and transport. The IMF concluded its Article IV consultations in March 2018, noting the pro-cyclical character of the recent fiscal relaxation measures and the need to accelerate structural reforms, especially in the areas of corporate governance of the SOEs, tax administration, prioritization of public investment and quality of the business environment.

3. GOVERNMENT PROGRAM

36. **Romania is committed to improving DRM, with improvements to the country's emergency response system a national priority.** This includes enhancing early warning systems, information management, modernizing equipment for search and rescue operations,[27] integrating preparedness and response procedures for medical and non-medical emergency situations and developing information campaigns aimed at citizens. In addition to national public awareness campaigns, local responders for emergency situations promote disaster risk actions at all levels with brochures, posters and flyers. Recently the Government, through the MoIA and the DES, has actively engaged local civil society to improve preparedness, response capability and has started training volunteers to support response.

37. **Romania is also committed to achieving long term adaptation to climate change, and especially to extreme weather events.** The 2016-2020 National Action Plan on Climate Change[28] lays out key areas of focus in adaptation, including:

1. Promoting risk management to ensure agriculture and rural development are able to quickly

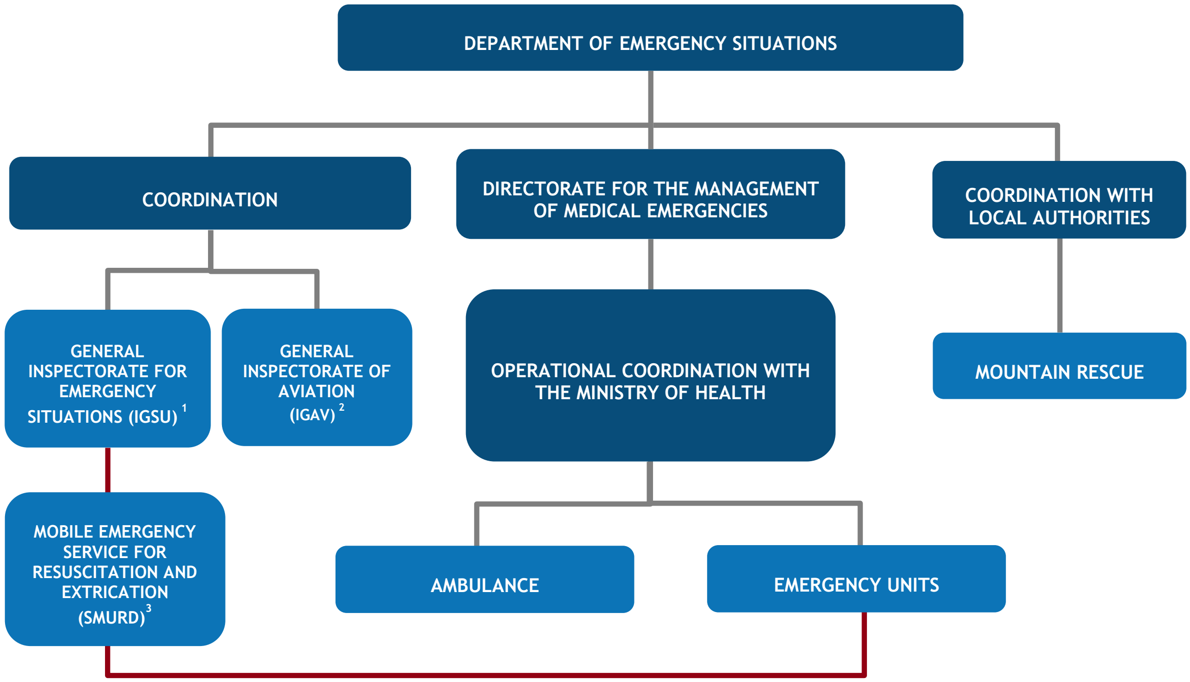
[27] An Urban Search and Rescue Team, with the GIES, received accreditation in 2014 from the International Search and Rescue Advisory Group (INSARAG) for disaster response in accordance with United Nations (UN) and EU standards.
[28] World Bank. 2016. *Romania Climate Change and Low Carbon Green Growth Program: Opera-Clima*. Romania 2016-2020 National Action Plan on Climate Change.

respond to, and recover from, extreme weather events and to collect data on the economic losses from weather-related events;
2. Implementing effective policy and investment to ensure water resources are available during dry periods and to reduce flood risk through improved access to data and more resilient infrastructure;
3. Ensuring that national building codes are updated and well consider the risks from flood and earthquake;
4. Accessing data on the hazards and risks to transport and energy sectors so that prioritized efforts can be taken to build resilience;
5. Investing in the management of risks to forestry such as extreme heat and wildfire;
6. Strengthening the Romanian emergency management system through policy and regulatory reform;
7. Developing a national risk reduction strategy and mitigation measures to reduce natural disaster cases and vulnerability in critical areas of Romania;
8. Taking urgent actions to raise awareness among the public of the impact to climate change and actions that can be taken by citizens; and
9. Improving the penetration and sustainability of the insurance sector for short- and long- term resilience.

38. **The structure for emergency and disaster response in Romania has undergone significant changes in recent decades.** Since 1989, Romania has been going through a major transition with associated re-organization of the disaster and emergency response structure.[29] Major changes were taken in 2004 through the Government Emergency Ordinance No. 21/2004 which set up the National System of Emergency Situations Management and created the General Inspectorate for Emergency Situations by merging the Fire Brigade Military Corp and the Civil Protection Command. **In 2014 an update of the legal framework (Government Emergency Ordinance 1/2014) led to the creation of the DES, within the MoIA, which is in charge of national coordination of emergency prevention and management actions, the provision and coordination of human, material, financial and other resources needed to restore normality, including specialist first aid and emergency medical care in Emergency Care Units and Centres.** The DES coordinates the GIES, the General Inspectorate of Aviation (with regard to medical missions), and performs the operational coordination of territorial ambulance services in counties and in Bucharest, Emergency Rooms from the Emergency Hospitals, and of public mountain rescue services (Figure 1).

[29] Before 1989, the National Government took full responsibility for the reconstruction work in the aftermath of disasters. The Government mobilized military and other public/private resources through top-down directives to manage large-scale damages. All related financial consequences of large-scale disasters were managed by the state.

Figure 1. DES Organizational Chart



[1] IGSU - Inspectoratul General Pentru Situații de Urgență
[2] IGAV - Inspectoratul General de Aviație
[3] SMURD - Serviciul Mobil de Urgentă, Reanimare si Descarcerare

39. **The DES and the GIES have made considerable progress since their creation**, including: leading Romania’s commitment to the international policy for disaster risk reduction (in line with the 2015 Sendai Framework for Disaster Risk Reduction); creation and operationalization of the multi-sector, multi-institutional National Platform for Disaster Risk Reduction that also brings together Government, civil society, private sector and academia; implementation and operationalization of the SMISU emergency management information system that enables reporting of disaster and emergency situations and deployment of appropriate rescue and emergency services; and creation and training of volunteer emergency responders. Moreover, under the leadership of these institutions, Romania recently completed a multi-hazard risk assessment of Romania.[30] These institutions have also recently embarked on a significant program to upgrade and modernize its emergency and response equipment. In the last two years, the Department for Emergency Situations has performed a series of actions regarding communications with civil society and early-warning systems.

40. **The Ministry of Water and Forests (MoWF) is the line ministry in charge of strategic planning on water resources management and flood management.** This includes hydrology, flood protection of population, economic activities and environment, and conservation of aquatic ecosystems. The MoWF is also in charge with mobilization of funds and management of investment programs to improve the quality

[30] To enhance the understanding of the risks, in all their dimensions, the level of vulnerability, capacities and exposure of persons and assets, and characteristics of the hazards, Romania has recently completed a risk assessment (RO-RISK) process at the national level, which will represent the base of the whole process of understanding and risk awareness to elaborate strategies and programs for reducing and maintaining risks at an acceptable level.

of water bodies, the safety of hydraulic infrastructure in the river basins, and management of emergency situations occurring within the river basins.

41. **The MoWF has responsibility for compliance with the EU Floods Directive** which involves: (a) a preliminary assessment of flood risk in river basins and coastal zones; (b) development of flood hazard maps and flood risk maps in high risk zones; and (c) development of flood risk management plans in these zones. These plans must include measures that will reduce the potential adverse consequences of flooding for human health, the environment, cultural heritage and economic activity, and should focus on prevention, protection and preparedness. Romania is currently compliant with the Flood Directive and under the flood management plans, more than EUR3.7 billion of investments in flood protection were identified. A recent World Bank report[31] highlighted that there is an urgent need to invest in dam storage and flood protection to reduce flood risk and increase storage for droughts. As it stands, many dams are structurally unsafe and need to be operated below their original design to ensure the safety of downstream residents.

42. **The Ministry of Environment (MoE) is the authority responsible for administrating the National System for Climate Change.** The MoE is also responsible for the estimation of greenhouse gas emissions. The National Strategy on Climate Change (2005-2007) of Romania is focused on meeting its obligations and duties on climate change including adapting to the impact of climate change, reducing carbon intensity in the national economy and increasing its competitiveness. This strategy was updated to the National Climate Change Strategy for 2013-2020. This strategy refers to the effects of climate change on water safety, agriculture, energy, transport, industry, insurance, biodiversity, health, tourism, forestry, infrastructure, and recreational activities.

43. **The MoRDPA is responsible for seismic risk reduction and the integration of disaster and climate risks in sub-national urban, land-use and regional plans.** The National Program for Local Development covers infrastructure (roads, bridges, water treatment plants, schools, hospitals, cultural buildings) and a series of smaller programs are dedicated to sports buildings. The MoRDPA also has the responsibility for programs aimed at the reduction of seismic risk. The MoRDPA is also working towards an improved strategy to address seismic risk in multifamily residential buildings, as part of its broader housing reform agenda. Finally, the MoRDPA has responsibility for strengthening of building codes for seismic risk for new and existing buildings, and has recently commissioned further upgrades. The MoRDPA also holds the responsibility to support sub-national authorities to integrate climate and disaster risk into development and urban plans.

44. **The DES plays a central role in coordinating and integrating all functions and services in case of emergencies.** According to the legal framework that govern overall emergency management system in Romania DES is responsible for operational coordination of all services to be provided or functions to be performed by all relevant agencies and institutions including primarily General Inspectorate for Emergency Situations, General Inspectorate of Aviation, ambulance services and Emergency Departments as well as Mountain Rescue Services in case of in emergency situations, including disasters or calamities.

45. **The Ministry of Health (MoH)** is the main policy maker for the healthcare system in Romania and for certain parts of the emergency system (ambulance service and regional and county-level emergency

[31] World Bank. 2018. *Romania Water Diagnostic Report: Moving towards EU Compliance, Inclusion and Water Security.*

departments), and ensures the funding and the administrative framework for such services. All integrated emergency services, including SMURD and mixed mountain rescue teams, are operationally coordinated by the Department for Emergency Situations. SMURD is an emergency rescue service established in 1990 and the name stand for the Romanian acronym for "Serviciul Mobil de Urgență, Reanimare și Descarcerare", which means Mobile Emergency Service for Resuscitation and Extrication.

46. **To better manage the potential financial impacts of disasters, the Government has started to shift toward a more comprehensive and proactive approach to post-disaster financing.**[32] Romania currently uses a combination of ex-ante and ex-post financing mechanisms. First, it has the Intervention Fund, a budget line dedicated to post-disaster expenditure. Should disaster costs exceed the allocation made to the Intervention Fund at the start of the fiscal year, the Intervention Fund can also be supplemented throughout the year from the government State Reserve Fund; or it can be topped up through budgetary rectifications per Article 30 of Law No. 500/2002. For example, the initial 2007 allocation of EUR3.6 million was eventually increased to a total of EUR174.9 million. Following major disasters (which in the case of Romania means disaster causing total direct damages exceeding 0.6 percent of gross national income in 2011 prices, or EUR986 million)[33], the government can also access the EU Solidarity Fund for critical infrastructure repair, rescue, and temporary shelter, cultural heritage repairs, and debris removal/clean up.

47. **In 2008, the Government of Romania also introduced a compulsory indemnity home insurance to cover losses caused by earthquakes, floods and landslides – the most prominent hazards in the country.** The insurance is managed by the Insurance Pool against Natural Disasters – a commercial insurance and reinsurance company - that was established in 2009 with the purpose of: (a) providing timely pay-outs to the affected households, (b) providing an accessible product, (c) reducing budgetary impact of natural disasters, (d) and, contributing to financial education of the public on the insurance as an indispensable mean of protection. The government strengthened the mandate of the catastrophe insurance by the decision to not provide financial benefits after disasters to any un-insured household. It has also penalized non-compliance with the compulsory insurance law by a fine.[34]

48. **As an EU member state and signatory to the Paris Agreement, Romania is a party to the mitigation and adaptation commitments made in the EU's collective National Determined Contribution (NDC).** Romania also adopted a National Climate Change Strategy for 2013-2020 in 2013, followed by the National Climate Change and Low Carbon Green Growth Strategy for 2016-2030 and the associated Action Plan on Climate Change for 2016-2020 in 2015. Each of these documents establishes sectoral priorities for responding to climate change, including energy, transport, agriculture and rural development, forests, biodiversity, urban Development, and water and waste management. Greater disaster preparedness, improved response capabilities, and specific investment and development actions to reduce hydro-meteorological disasters are critical to the short and long-term management of climate risks.

49. **In the event of a major emergency that exceeds response and disaster management capacity at sub-national level, the National Committee for Special Emergency Situations (NCSES) can be convened**. The main piece of legislation regulating the emergency situations is the Government Emergency

[32] http://www.daaam.info/Downloads/Pdfs/proceedings/proceedings_2011/1127_Zelinschi.pdf
[33] http://ec.europa.eu/regional_policy/sources/thefunds/doc/thresholds_2018.pdf
[34] *https://paidromania.ro/en/description*

Ordinance No. 21/2004 on the National Emergency Situations Management Sysstem (NESMS, in Romanian: SNMSU - Sistemul Național de Management al Situațiilor de Urgență), as subsequently amended, and its secondary legislation and supplemented by the Government Decision (GD) (Ordinance) No. 94/2014 on certain measures for emergency situation management.

50. **The NCSES is formed of representatives of all Government ministries at the Minister or State Secretary level, including the MoIA and the MoPF, and is chaired by the Minister of Internal Affairs.** The NCSES will convene and the Chief of the DES will report on the disaster parameters. According to GD No. 94/2014, the NCSES will issue decisions with respect to actions that should be taken to respond to the disaster event calamity/emergency situations related to natural, technological, biological (such as pandemics), or radiological phenomena occurred or imminent threat of natural disaster. The decisions are voted on by all its members, according to process outlined in GD No. 94/2014. The resulting legal evidence is a Decision of the NCSES, which is signed by the President of the NCSES (currently Minister of Internal Affairs).

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

51. **The PDO is to strengthen Romania's institutional and legal framework to effectively manage the physical, social and fiscal impacts of natural disaster and climate change.** This objective will be achieved through reforms under two pillars:

- Pillar A: Strengthen the Borrower's national framework for disaster risk management

- Pillar B: Strengthen the Borrower's capacity to systematically identify and reduce disaster and climate risks and to manage the financial impact of disasters.

52. **The proposed operation contributes to the national objective to reduce disaster risk as articulated in the Sendai Framework for Disaster Risk Reduction 2015-2030, adopted by the Government at the Third UN World Conference for Disaster Risk Reduction in Sendai, Japan in March 2015**. The policy measures supported by this DPL will support the Borrower's ongoing efforts to strengthen the national framework for DRM. In addition, the catastrophe risks deferred drawdown component of the Program will provide predictable post disaster financing in the event of a natural disaster or health emergency in Romania.

53. **The design of this DPL with a Cat DDO builds on the experience of the 16 Cat DDO's approved and implemented by the World Bank since 2008 as well as robust research on disaster risk management and climate change adaptation.** In summary: (a) disasters must be managed instead of being treated as exogenous shocks to development that cannot be proactively addressed, (b) DRM is most efficient when based on adequate risk identification, (c) an ex-ante strategy to finance response, recovery and reconstruction is essential for faster recovery after a disaster event, (d) prevention pays and governments can take many actions to reduce disaster risk without incurring additional costs, (e) it is important to secure the availability of a flexible source of funding to cover early disaster response and recovery, (f) the

implementation of a DPL with a Cat DDO should be set in a broader assessment of the fiscal risks from disasters and climate change, (g) improvements in budget execution mechanisms are critical to successful implementation, and (h) proactively managing the contingent liabilities from disasters can protect the Borrower's budget and fiscal balance. The total amount of the DPL is Euro 400 M (US$ 493.06 M equivalent).[35]

54. **Drawdown conditions and the trigger.** The key legislation regulating the management of the emergency situations is the Government Emergency Ordinance No. 21/2004 on the National Emergency Situations Management System (Sistemul Național de Management al Situațiilor de Urgență), as subsequently amended[36], the Government Decision No. 557/2016 regarding the management of all types of risk and its secondary legislation the GD No. 94/2014 on certain measures for emergency situation management[37].

55. According to GD No. 94/2014, the NCSES is responsible for issuing decisions on actions that should be taken to respond to the emergency situations which are generated by the existing risks[38]. **From the perspective of the loan disbursement procedure, the Bank is satisfied that in response to a Catastrophe Event[39] that NCSES has issued a decision in accordance with Emergency Ordinance No.21/2004, as subsequently amended, mobilizing financial and/or other resources to respond to such an event.** The legal evidence for the trigger will be a Decision of the NCSES[40], which is signed by the President of the NCSES (currently Minister of Internal Affairs).

56. **Romania also has a system in place for the possibility of a declaration of emergencies at the presidential level, which will not be used as the trigger mechanism for the purposes this Cat DDO** as this declaration has not been used in decades and it is not the main mechanism in the country to manage and respond to natural catastrophe and health emergencies. The "Declaration of State of Emergency in Romania" (Emergency Ordinance of the Government no 1/1999 as approved and amended through Law No. 453/2004) represents an exceptional act that can only be enforced by decree of the President of Romania with approval from Parliament, and would allow the application of a series of political, economic and public order measures covering the entire country (or parts of it)[41]. Under this Declaration,

[35] The limit to a DPL with a Cat DDO is US$500 million or 0.25 percent of GDP (whichever is smaller). For the Romania Cat DDO, the loan amount is within both limits respectively, and satisfies this aforementioned condition. As per OPCS Guidance, the control data used are as follows:
GDP = Euro 199,528 million *(by 2018 data, 0.25% of which is Euro 498.82 million)*
US$ Equivalent= US$ 493.06 million *(using March 31, 2018 exchange rate as noted in Minutes of Negotiations)*
[36] Government Emergency Ordinance No. 1/2014 regarding the creation of the Department for Emergency Situations
[37] Government Decision No. 557/2016 regarding the management of all types of risk.
[38] According to the main types of risk generating emergency situations within the competence of the NCSES, specified in Annex 2 to GD No. 94/2014.
[39] Catastrophe Event means, for the purpose of this Program, an imminent or occurring emergency situation that requires the Borrower to promptly mobilize its capacity and/or financial resources, pursuant to the Borrower's Emergency Ordinance No.21/2004, as subsequently amended. For the purposes of the loan, a Catastrophe Event, in addition to the natural hazard risks, may include, the public-health related emergencies, such as the threat or outbreak of fatal or highly infectious diseases including endemics, epidemics, or pandemics or the spread of biological or chemical agents. But a Catastrophe Event does not include any emergency that is predominantly political, technological, security, military, or fiscal in nature.
[40] In Romanian this decision is referred to as "HOTĂRÂRE"
[41] According to Emergency Ordinance No. 21/2004 (OUG 21/2004), the NCSES also has the ability to convene and propose to the Government the necessity of the President of Romania to "declare a state of emergency", if the NCSES decides that a state of emergency is appropriate for adopting special measures regarding the management of the situation.

the military authorities would undertake some of the responsibilities/tasks of the local and/or central public administrations and the civilian population would be subject to strict regulations. However, since its introduction (as mentioned above) the Declaration of Emergency has not been used in Romania, and instead the government mechanism for responding to disasters is through the NCSES.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar A: Strengthen the Borrower's national framework for disaster risk management

57. Management and reduction of disaster and climate risks requires actions from all segments of society – Government action across ministries and sectors and at the national and sub-national levels, academic contributions, private sector commitment, and civil society engagement. Traditionally many sectors have viewed DRM as the sole responsibility of entities such as the DES, and therefore disaster and climate risks are rarely considered in short- and long-term development planning. Compounding this issue is the segregation of responsibility for different hydro-meteorological and geophysical hazards across different ministries, which compounds the challenge of integrating multiple risks in planning at national and local levels. Thus, the creation of an inter-ministerial, private and civil society mechanism for coordination of disaster and climate risks is a critical action to accelerate resilience to disasters and climate change. Moreover, such mechanisms are recommended under international policy frameworks such as the Sendai Framework (Annex 5) and the Romania 2016–2020 National Action Plan on Climate Change.

58. Through the NCSES, an inter-ministerial coordination mechanism was created in 2014 and this provides coordination at the highest levels in the event of an emergency. However, this mechanism needed to be supplemented by a coordination mechanism that functioned outside of emergency situations, which strengthened the engagement with academia, civil society, media and the private sector and enabled the wide dissemination of knowledge, good practice and guidelines. In 2016, a GD was taken to create the National Platform for Disaster Risk Reduction, and in 2017 the first meeting of the National Platform was held. This commitment by the government is captured in **Prior Action 1 – The Borrower has established the National Platform for Disaster Risk Reduction and the platform is in effect.**

59. The National Platform for Disaster Risk Reduction ("the Platform") will vastly enhance multi-sectoral coordination, support the development and dissemination of guidelines, standards, best practices for the assessment and management of disaster and climate risks, and will ensure that information on the climate and disaster risks and actions to reduce these risks are available to all sectors and more important, to the public through a website known as "Be Prepared". The Platform will meet at least once per year, will produce yearly detailed activity plans, and will establish working groups that cover the most prevalent disaster risk types specific for Romania. Each working group is coordinated by the responsible ministry (e.g. MoRDPA for earthquakes) and includes experts and specialists from government, academia and the private sector.

60. The effective operation of the Platform will strongly contribute to the reduction of Romania's vulnerability to disaster and climate risks, as well as enable the Government to meet its commitment under the Sendai Framework to provide reporting alongside the Global Platform for Risk. Therefore, Prior

Action 1 will support achievement of the following results indicators:

A.1. The Government of Romania has reported on progress achieved under the international Sendai Framework for Disaster Risk Reduction.

A.2. Romanian citizens have enhanced understanding of the potential impacts of disasters and how they can prevent, prepare and respond to disasters through public awareness campaigns, drills and digital media.

61. Monitoring of the Results from Prior Action 1 will be undertaken, with support of MOIA, DES and GIES, through:

1. Result A.1: A report submitted on progress of Sendai Framework;
2. Result A.2: i) Surveys to assess citizen awareness on disaster risks conducted in 2018 and 2021; ii) number of citizens accessing the government digital platform for DRM "Be Prepared"; iii) number of downloads of DES mobile app for DRM; iv) number of disaster emergency drills conducted by DES and GIES; and v) number of citizen awareness campaigns conducted by the DES and GIES.

Reports will be used to identify areas where limited progress has been achieved, and this will be then discussed in future meetings of the National Platform to identify resource and capacity constraints.

62. Rapid, efficient and effective management of hydro-meteorological and geophysical disasters and emergency situations more broadly requires responsive information system that systematically collects information on the emergencies in real or near-real time and provides emergency responders with data on the response assets available in the vicinity. Moreover, the robust and systematic collection of data on the disaster parameters – event, location, number of affected people, damage to infrastructure and so forth – is critical to quantitative measurements of the long-term impacts of disasters and climate change. This data and information can be influential in national and international policy dialogue around damage and loss under the Paris Agreement and Sendai framework.

63. Starting in 2004, the Government – through the GIES – initiated the process to create a national information system for emergency situations (SMISU)[42] as part of a World Bank Investment Project (P075163). When this investment project closed in 2012, the SMISU system had been designed and hardware and software procured for 48 sites across the country. Between 2012 and 2017, the Government continued to develop and expand the SMISU system, ensuring acceptance from all stakeholders at the national and sub-national levels, providing critical training and developing standard operating procedures. On January 5, 2018, the government issued an order to the national and sub-national General Inspectorate centers that the SMISU system was fully operational and should be used nationwide. In January 2018, the first emergencies recorded in the system rendering it fully operational. Recognizing the six years of government commitment to this system[43], its implementation nationwide and

[42] The SMISU is defined as an integrated system that manages and coordinates the response in case of disaster, a system that integrates the key elements needed for the decision-making process and for the complete management in emergency situations, namely information on all types of emergency situations, institutional integration of all stakeholders at the national, regional, and local levels.
[43] Post closure of the investment project P075163

its potential for monitoring disaster and climate risks is captured in **Prior Action 2 - The Borrower has adopted a national emergency management information system for emergency and disaster response (SMISU) and the system is effective nationwide.**

64. This system enables local emergency services to provide data on disaster and emergency situations, to determine support and resources available, and for this information to be monitored in near real-time with support ready at the national level should it be needed. Moreover, this system will enable the Government to collect and aggregate data which is critical for articulating the scale of social, physical and financial impacts from disasters and climate change – also a key recommendation under the 2016-2020 National Action Plan on Climate Change. This system also enables the government to meet commitments under the Sendai Framework around the collection of disaster damage and loss information, without requiring a separate and additional investment in a damage and loss system. The result to be monitored for this Prior Action is:

A.3. Reports are available annually on the impact of disasters in Romania

65. The Government is also committed to continual improvements of the SMISU system in the next few years. For example, there are opportunities to increase its integration with other emergency management and early warning systems. Further improvements in this system will increase its effectiveness and efficiency for disaster and emergency response, and a source of critical data on disaster and climate impacts.

66. This Results Indicator will be monitored, with support of MOIA, DES and GIES, through annual reports (2018, 2019 and 2020) on the number of people affected by disasters each year, disaggregated by gender and age, as well as the damage to buildings and infrastructure.

Pillar B: Strengthen the Borrower's capacity to systematically identify and reduce disaster and climate risks and to manage the financial impact of disasters

67. The risk from earthquakes to society, buildings and infrastructure in Romania is extremely high. Romania also has over 1 million ha of land exposed to flooding with nearly 1 million Romanians living in high flood risk areas. Drought, landslides, extreme weather and heat/cold events are also increasing. Fortunately, a disaster is not the inevitable consequence of a natural hazard and measures can be taken to protect vulnerable populations, strengthen buildings and infrastructure and to reduce the financial shock on household and sovereign budgets. To achieve this, almost all Government institutions at the national and sub-national levels must take responsibility for the systematic reduction in disaster risks and establish coordination mechanisms with other institutions.

68. Analysis has highlighted the risk to existing building stock in Romania, with a magnitude 7.5 earthquake (such as the 1977 Vrancea earthquake) immediately reducing the functionality and access to housing in Bucharest to 30 percent, with functionality only rising to 65 percent after a year and 90 percent after two years[44]. The high earthquake vulnerability of the Bucharest building stock primarily comes from buildings built before the first official seismic code in 1963. Buildings constructed between 1964 and 1977 are also considered to have high vulnerability as the code was weak for consideration of seismic

[44] Modeling undertaken by the Technical University of Civil Engineering of Bucharest.

resistance. Building codes from 1978 to 2012 had moderate or good seismic resistance, so buildings constructed in this period have elements of seismic resistance, depending on the maintenance of the building and any building alterations through time. The risks to housing and options for Government to reduce the risks to citizens were highlighted in the World Bank's 2016 completed 'Reimbursable Advisory Services to the MoRDPA on the housing sector.[45] For buildings constructed following the 2013 building code for earthquake resistance (harmonized with EUROCODE 8) and which adhere to this standard, the likelihood of severe damage or collapse in an earthquake is low. Ensuring local and national building codes affecting construction represent best practices and seismic resistance is also mentioned as key action under "Human Environment: Infrastructure and Urban Planning" in the 2016–2020 National Action Plan on Climate Change.

69. Given that a high proportion of Romania's buildings were constructed prior to 2014, there is an urgent need to accelerate efforts to improve seismic resistance in existing buildings. However, damage could still occur and the building may still need significant repair before reoccupation. However, the process to issue upgrades to the building code for existing constructions is a rare step taken by governments around the world. Actions taken by the government to strengthen regulations for existing buildings and represents a significant forward in the reduction of seismic risk in Romania. This is also an important step to guide government investments in public buildings to ensure optimized seismic resistance, as well as to support owners of private buildings to ensure safety of building residents. With respect to potential policy reforms in the DRM field, a building code revision is one of the most significant policy reforms that a government can take to improve resilience, especially as it can have significant financial cost as building improvements need to meet higher standards (and therefore costs) and it has an impact on key driver sectors (i.e. construction, labor etc.).

70. Given the seismic risk to existing structures in Romania and the need for new guidelines and regulations around the retrofitting/strengthening of existing structures, the MoRDPA initiated the process to upgrade the building code for existing structures in April 2017. The process to revise existing building codes is extensive including *inter alia*: i) order from MoRDPA to initiate revision of building codes; ii) commission of new research from the Technical University of Civil Engineering of Bucharest on seismic risk to existing building; iii) development of draft building code guidelines; iv) public consultations, v) endorsement of the draft by relevant national technical commissions; vi) publication of draft building code for no-objection on EU website for three months; and vi) issuance of Ministerial Order for the new revised building code for existing buildings in Government Gazette. The Government has recently had endorsement of the draft to revise the building design code (P100-3[46]) for existing structures by relevant national technical commissions. Therefore, **Prior Action 3 - The Borrower, through the National Commission for Earthquake Engineering, the Technical Commission for Actions on Buildings, and the Technical Commission for Structural Systems, has endorsed the draft, revising the building design code for seismic risk in existing buildings (P100-3).**

71. This Prior Action will support the achievement of the following result:

B1. The national building code for seismic risk reduction in existing buildings is strengthened.

[45] World Bank. 2015. *Housing in Romania: Towards a National Housing Strategy.*
[46] The building code is comprised of three regulations: B100-1 guides the construction of new buildings; B100-2 guides interventions in cultural heritage buildings; and B100-3 guides improvements/interventions in existing buildings.

72. This achievement of this result will be monitored with support from MORDPA through: i) publishing of the revised building design code of seismic risk for existing buildings in the Official Gazette; ii) number of engineers certified as experts on the basis of the new regulation; and iii) the number of new buildings designed and built using the new regulations, and the number of old buildings refurbished on the basis of the revised design code for seismic risk for the existing buildings.

73. The assessment of disaster and climate risk at the national level is a critical first step to quantify disaster and climate risks, prioritize them and to develop actions across different sectors to manage and improve resilience to identified risks. The Government of Romania – coordinated by the DES and GIES across multiple government and academic institutions – has recently completed a national risk assessment process known as RO-RISK which articulated the risk from 10 natural, technical and biological hazards. The successful conclusion of this process represents years of research into different hazards and their expected impact on populations, infrastructure and the economy.

74. The RO-RISK Report, data and information has been uploaded onto a Geographic Information System (GIS) and is available to different stakeholders through managed levels of access – with ministries accessing all data and the public accessing non-sensitive data[47]. The RO-RISK assessment was assessed as meeting EU standards by DG REGIO in 2017 and the sharing of the data supports the Government of Romania's commitment to the EU-INSPIRE Directive. RO-RISK represents a strong starting point which will be updated regularly through periodical revisions, additional strategies and further policies, as recommended by the European Decision No 1303/2013 on a Union Civil Protection Mechanism, article 6 (c) stating that "Member States shall: (c) make available to the Commission the assessment of their risk management capability at national or appropriate sub-national level every three years following the finalization of the relevant guidelines as referred to in point (f) of Article 5(1) and whenever there are important changes". Moreover, through the completion of this action, the Romanian Government has been able to access EU funds for important DRM actions including the recent updates of critical emergency and disaster response equipment. This action represents **Prior Action 4 - The Borrower has (i) in line with EU Regulation No. 1303/2013, submitted to the European Commission the national assessment of disaster risks in order to access EU funds under the European Structural Investment Funds Program (2014-2020) for enhanced emergency response, and (ii) made available to the public on the Ro-Risk Platform data and reports on disaster risk assessment.[48]**

75. Achievement of this Prior Action will support the provision of fundamental data to other sectors, as well as a demonstrating Government capacity to undertake the analysis at higher resolution and with consideration of climate change effects into the future. Moreover, it will set the basis for reducing vulnerability to disaster and climate risks in key sectors. It also highlights recent progress in inter-ministerial coordination around the management of disaster and climate risks. This Prior Action will also support the Government to develop in-depth risk assessments for different disaster and climate risks.

[47] *www.ro-risk.ro/sitepages/pornire.aspx*

[48] European Structural Investment Funds refers to Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund. The European Structural Investment Funds aim to provide support to countries to create more and better jobs, and a socially inclusive society, as well as undertake other Fund-specific missions including economic, social and territorial cohesion.

This Prior Action will also be fundamental to defining potential fiscal impacts of disasters and climate change which would eventually inform the Borrower's fiscal and budgetary strategies and in the future help developing disaster risk financing strategies. Because of this Prior Action, the following results are expected:

B2. Disaster risk reduction action plans are prepared and approved by the relevant responsible authorities.

B3. The fiscal and budgetary strategy is informed by main disaster risks and their potential fiscal impact, taking into consideration publicly available Ro-Risk data.

76. Disasters create fiscal shocks that need to be managed, and given the magnitude of climate change impacts, these shocks are expected to grow in scale and frequency over time. Access to predictable, rapid, and flexible financing for disaster response, recovery, and reconstruction has been shown to reduce the social, physical, and fiscal impacts of disasters.[49] Increasing the financial response capacity enables governments to meet post-disaster funding needs without compromising fiscal balances and development objectives.[50] Disaster risk financing and insurance is also an integral part of climate risk management, especially as quantifying the financial and fiscal impact of risk can elevate this risk management agenda to ministries that control public investment. The Romanian authorities' have shown commitment to managing the fiscal shocks triggered by disasters, for example through its efforts to increase catastrophe insurance penetration (PAID).

77. Managing disaster related contingent liabilities requires sound risk information and analysis on how disasters impact key fiscal indicators such as fiscal balances, public debt, and debt sustainability. The disaster risk assessments conducted and made available through Ro-Risk platform therefore constitute an important initial input into analysis of disasters' potential fiscal impacts. Going forwards, the government will be able to use Ro-Risk data and risk assessments for fiscal analysis and incorporate the results into its future fiscal and budgetary strategies. This could be a basis for considering other financial instruments to manage the fiscal impact of disasters towards a more comprehensive disaster risk financing strategy. The MoPF recognized the need for better information on the (potential) fiscal impacts of disasters, and has highlighted a need for increased and more systematic information collection and sharing on disaster related expenditures by line ministries with the MoPF.

78. Progress and achievement of Results B2 and B3 will be monitored through ongoing dialogue and discussion with MoIA and MoPF, respectively. Under B2, at least three action plans to reduce disaster risks (sectorial and/or by hazard) will be prepared and approved by relevant responsible authorities by 2021. Under B3, financial impact of the main disaster risks will be reflected in the government fiscal and budgetary strategies by 2021.

Table 2: DPF Prior Actions and Analytical Underpinnings

[49] World Bank 2016. *Shockwaves* Report

[50] World Bank Group. 2014. *Financial Protection Against Natural Disasters: An Operational Framework for Disaster Risk Financing and Insurance*. Washington, DC. World Bank. https://openknowledge.worldbank.org/handle/10986/21725 License: CC BY 3.0 IGO.

Prior Actions	**Analytical Underpinnings** (be specific about the ***key findings*** informing the prior action)
Operation Pillar 1: ***Strengthen the Borrower's national framework for disaster risk management***	
Prior Action 1	• *World Bank. 2016. Romania Climate Change and Low Carbon Green Growth Program: Opera-Clima. Romania 2016-2020 National Action Plan on Climate Change. Washington, DC: World Bank.* This report highlights that the participation of relevant stakeholders is a key principle for development and implementation of the action plan, and the establishment of the national platform is a key contribution to the implementation of the action plan. Moreover, it strongly stresses the need for awareness raising and media campaigns to increase resilience. • *International Federation for Red Cross and Red Crescent Societies. 2011. Public Awareness and public education for disaster risk reduction.* This report highlights how important public awareness is in galvanizing action for disaster risk management. • *Intergovernmental Panel on Climate Change. 2012. Managing the Risks of Extreme Events and Disasters to Advance Climate Change Adaptation.* This report highlights how effective risk management, from improving institutions to ensuring better education and awareness is critical to managing disaster and climate risks. • *UNISDR (United Nations Office for Disaster Reduction). 2015. The Sendai Framework for Disaster Risk Reduction 2015–2030. New York: United Nations.* Under the Sendai Framework, to which Government of Romania is a signatory member, governments are encouraged to institutionalize multi-stakeholder platforms for disaster reduction and climate change to ensure all stakeholders – academia, government, private sector, non-government sector – are contributing to risk management. • *Government of Romania. 2015. Romanian Government Statement of Commitment to the Sendai Framework.* This statement highlights progress made in DRM, and government commitment to future efforts.
Prior Action 2	• *Intergovernmental Panel on Climate Change. 2012. Managing the Risks of Extreme Events and Disasters to Advance Climate Change Adaptation.* This report specifies actions that need to be taken to improve governance and technology to reduce risk from climate extremes, particularly around the collection of robust data. • *UNISDR (United Nations International Strategy for Disaster Reduction). 2015. The Sendai Framework for Disaster Risk Reduction 2015–2030. New York: United Nations.* Under this Framework, the Government of Romania has committed to the collection of robust data on the damage from disasters and the number of people and communities affected. • *World Bank. 2016. Romania Climate Change and Low Carbon Green Growth Program: Opera-Clima. Romania 2016-2020 National Action Plan on Climate Change.* A key action under this program is to ensure that mechanisms are developed to compensate for economic losses associate with weather related events, and under this prior action, this data and information can be developed. • *Romanian Government Statement of Commitment to the Sendai Framework. 2015.* This statement highlights progress made, and government commitment to DRM. • *Government of Romania. 2017. Romanian Government. Sendai Framework Data Readiness*

	Report. This report highlights the data on damage from disasters that the Government needs to collect to better manage disasters.
Operation Pillar 2: ***Strengthen the Borrower's capacity to systematically identify and reduce disaster and climate risks and to manage the fiscal impacts of disasters.***	
Prior Action 3	• *World Bank. 2016. Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters.* Washington, DC: World Bank. This report demonstrates how important it is to reduce the exposure and vulnerability of buildings to reduce the risk to the poor and near poor, and that improved building regulations is a key action to be taken. • *World Bank. 2015. Building Regulation for Resilience: Managing Risks for Safer Cities.* This report clearly articulates how important modern and enforced building codes are for disaster risk reduction and climate change adaptation. • *World Bank. 2015. Housing in Romania: towards a National Housing Strategy.* This report highlights the risks from earthquakes to existing apartment buildings in Romania and highlights urgent reforms to be taken by the Government to reduce seismic risk – including the linking of seismic strengthening to energy efficiency programs. • *World Bank. 2016. The Making of a Riskier Future: How our Decisions are Shaping the Future of Disaster Risk.* This report articulates how important building code improvements and enforcement are to manage the growth of disaster and climate risks. • *World Bank. 2016. Europe and Central Asia. Country Risk Profiles for Floods and Earthquakes.* This report indicates the floods and earthquake risks which the countries are exposed at the national and provincial level. • *World Bank. 2016. Romania Climate Change and Low Carbon Green Growth Program: Opera-Clima. Romania 2016-2020 National Action Plan on Climate Change.* A key action under this Human Environment Adaptation is to ensure best practices is used to upgrade and modify building codes, with consideration of flood and seismic hazards. • *European Union. 1998. Eurocode 8.* This EU guideline pertains the design of structures for earthquake resistance and aims to ensure that in the event of earthquake, human lives are protected and damage is limited.
Prior Action 4	• *World Bank. 2016. Romania Climate Change and Low Carbon Green Growth Program: Opera-Clima. Romania 2016-2020 National Action Plan on Climate Change.* A key action under this program is to ensure that risk management is a key approach to restore agricultural potential and to compensate for economic losses associated with weather-related disasters. It also argues for risk and vulnerability assessments to be undertaken to ensure that transport and energy sectors become more resilient into the future. Finally, under the recommendation for public health and emergency responses, the report strongly argues for strengthening the Romanian emergency management system and development of a national strategy for risk reduction. • World Bank. 2010. *Natural Hazards, Unnatural Disasters: The Economics of Effective Prevention*. Washington, DC: World Bank Group. This report assesses the economics of disaster prevention. The report highlights different kinds of preventive actions to be considered by national governments. • Romanian Government. 2017. Risk Assessment (RO-RISK). This is the 2017 national assessment of 10 disasters, climate, biological and man-made risks facing Romania.

	• *UNISDR (United Nations International Strategy for Disaster Reduction). 2015. The Sendai Framework for Disaster Risk Reduction 2015–2030. New York: United Nations.* The Government's commitment to Sendai requires the development of national strategies for disaster risk reduction which will be supported by the Prior Action and monitored over the life of the loan. • *World Bank. 2016. Romania Climate Change and Low Carbon Green Growth Program: Opera-Clima. Romania 2016-2020 National Action Plan on Climate Change.* A key action under this program is to consider how the insurance sector can support adaptation to climate change, especially as the scope of current programs is limited. Consideration under this program of how to increase the penetration of PAID and make it more sustainable in the long term will be part of the discussion with the Government on disaster risk financing. • Cummins, J. David, and Olivier Mahul. 2009. *Catastrophe Risk Financing in Developing Countries: Principles for Public Intervention*. Washington, DC: World Bank Group. • World Bank. 2014. *Financial Protection against Natural Disasters: An Operational Framework for Disaster Risk Financing and Insurance.* Washington, DC: World Bank. • Clarke, Daniel Jonathan, Gallucio, Darcy, and Mahul, Olivier. 2016. *Disaster Risk Finance as a Tool for Development: A Summary of Findings from the Disaster Risk Finance Impact Analytics Project*. Washington, DC: World Bank Group. • World Bank. 2016. *Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters.* Washington, DC: World Bank Group. This report demonstrates that efforts to reduce poverty and disaster risks are complementary and makes the case how action to improve resilience makes economic sense.

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WORLD BANK GROUP STRATEGY

79. **The proposed program is aligned with the objectives of the current Country Partnership Strategy (CPS) FY14 – 18 for Romania which seeks to reduce poverty in Romania and foster sustainable income growth for the bottom 40 percent of the population.** The CPS has three main strategic pillars: (a) creating a 21st century Government, (b) growth and private sector job creation, and (c) social inclusion. The proposed project contributes across all three of the CPS by supporting the Government to build the country's resilience to natural disasters and will help reduce disaster-related economic and livelihood losses in the event of a disaster.

80. **The proposed program is also fully aligned with the objectives of the proposed Country Partnership Framework (CPF) FY19 – 23 to be presented to the Board of Executive Directors in June 2018, which seeks to reduce poverty in Romania and foster sustainable income growth for the bottom 40 percent of the population.** The CPF has three focus areas, with the third "Build Resilience to Shocks" relevant to this Program. Under this Focus Area, there is an objective focused on improving preparedness to natural disasters and strengthening adaptation to climate change, which is strongly supported by this Program.

81. **This proposed DPL with Cat DDO will also complement and support the IPF for Romania Disaster Risk Management Project (P166302 – EUR50 million) which is currently under preparation**. Achievement of Prior Actions 1, 3, and 4 directly support the project mentioned earlier, with the new revised building

codes for seismic risk in existing buildings under Prior Action 3 used in the design of the building rehabilitation and strengthening works. Prior Action 4 has provided information – through Ro-Risk – which is used for the prioritization of buildings, and the National Platform for Disaster Risk Reduction established under Prior Action 1 will be suitable for sharing good practices developed under this Project and to consult with a wide range of stakeholders. While the Cat DDO and broad policy program aims to improve climate and disaster resilience in the country, the IPF has a single-sector (seismic risks) and single-agency focus to establish a platform for and initiate risk reduction in priority sectors. The IPF is designed with a Series of Projects approach, which would enable programmatic risk reduction through follow up investment operations in other sectors.

82. **The Government of Romania has experience implementing DRM projects with the World Bank.** In 2002, Romania was the first country in the Europe and Central Asia region to request World Bank assistance in preparation of a multi-sectoral hazard risk mitigation project by setting state-of-the-art strengthening techniques for different types of public buildings. The US$144 million Hazard Risk Mitigation and Emergency Preparedness Project (P075163) was approved in 2003 and sought to reduce the environmental, social, and economic vulnerability to natural disasters and catastrophic mining resulting in accidental spills of pollutants.[51]

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

83. **The national DRM Program in Romania has had an increased focus on citizen engagement and collaboration with civil society and volunteer organizations.** The MoIA through DES and GIES conducts regular outreach to civil society groups active on DRM, and have worked to develop a large volunteer network to support response following disasters. They have also made considerable efforts to ensure that the public and civil society have access to early warnings, guidance on preparedness actions and information on natural hazards more broadly through websites, information platforms and mobile applications.

84. **Prior Actions under this Cat DDO have also involved considerable outreach and consultations.** To achieve Prior Action 3, open consultations were held. Similarly, Prior Action 1, the establishment of the National Platform for DRR, has involved consultations across government, with the private sector, civil society and academia and international organizations such as the UNISDR. The data on disaster risks developed under RO-Risk, as well as the final report, have been widely shared with the public and with the EU.

85. **The Program was also presented for discussion and consultations with the public and civil society on April 16, 2018 and with the Roma Sounding Board on April 4, 2018**. Issues were raised on how to improve awareness and action on disaster preparedness and early warnings, especially for vulnerable populations. Moreover, concerns were raised on the lack of visible progress to reduce the number of "Red Dot" or Class 1 seismic risk structures in Bucharest, and overall how to improve resilience to natural hazards across the country. This Program was seen as a positive step forward to raise and

[51] The project had four components, each carried out by a different ministry: (a) strengthening of emergency management and risk financing capacity (then Ministry of Administration and Interior); (b) earthquake risk reduction (then Ministry of Regional Development and Tourism)—the focus of this paper; (c) flood and landslide risk reduction (then the MECC); and (d) reduction of mining accident risk in the Tisa basin (National Agency for Mineral Resources).

sustain visibility on DRM in Romania.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

86. **Poor people are particularly exposed and vulnerable to shocks associated with natural disasters and climate change.**[52] The poor are disproportionately affected, not only because they are typically more exposed through living in more disaster-prone areas or less resilient structures, but also because they have fewer resources and assets beyond their home, and receive less support from family, community, the financial system and so forth to prevent, to cope and adapt to disasters and climate change. In Romania, 70 percent of assets of the poor are vulnerable to destruction. For the rural poor, disaster and climate shocks have significant impact on agricultural production – with floods often damaging crops and equipment, and drought reducing yields. Currently, 80 percent of the population have access to early warning and improving the efficiency and use of early warning information for flood and drought would support increased resilience, especially for rural farmers.

87. **There are many policy actions that can support increased resilience of the poor, and near poor, to disaster and climate resilience.** For example, polices aimed at reducing private asset losses – including reducing exposure and vulnerability of assets and improving access to early warning systems – could reduce asset losses by 13 percent and well-being losses by 16 percent. Policies aimed at increasing resilience – including access to savings, insurance and finance, accelerating reconstruction through government access to finance and streamlined processes, post-disaster support, and so on – could reduce asset losses by 2.8 percent and well-being losses by 14 percent.

88. **The Program is expected to have positive effects on the poor by providing support to the Government of Romania's policies that aim to reduce the impact of disasters on society, including the most vulnerable groups.** Under Prior Action 1, the establishment of a multi-sectorial and multi-stakeholder platform will increase coordination of disaster risk management actions and will provide a venue for academia and civil society to have a voice at the highest levels of government. Moreover, this platform will increase awareness of Romanian citizens of the risks from disasters and actions that they can take. Under Prior Action 2, more effective response to emergencies is expected – by better aligning resources with the type and scale of emergency. Moreover, through time quantifiable data on those affected by disasters can be used to inform public policy. Similarly, Prior Action 4 will support government to take actions to systematically identify, quantify and reduce disaster climate risks. By ensuring government has access to predictable and streamlined post-disaster finance (Prior Action 5 and catastrophe deferred drawdown feature of this loan), response, recovery and reconstruction can be accelerated reducing well-being losses.

89. **This Program will contribute to the reduction of private and public asset losses and improve life-safety through the issuance of new seismic codes and guidelines for *existing* buildings under Prior Action 3**. These revisions to the building code will mean that if building improvements are commissioned on existing buildings, then the owners will also need to increase the seismic safety of the building at the

[52] World Bank. 2016, *Shockwaves*; World Bank. 2017, *Unbreakable*.

same time. Whilst this represents an additional cost of building improvements, it will reduce fatalities, injuries and short and long-term homelessness of citizens due to damaged buildings following an earthquake. This new building code will not affect any citizens unless they decide to significantly renovate or improve their building. *A more detailed World Bank's overview of poverty and social vulnerabilities in Romania is available at Annex 7.*

90. **Finally, as part of the World Bank's dialogue with the country, this operation will promote the sharing of the World Bank's global expertise in disaster risk reduction and raise government and public awareness of disaster risks**. In particular, the World Bank will support Romania to promote: (a) improved awareness of populations at risk from disasters and climate change, (b) adoption of international best practice in urban and land use planning to reduce the exposure of vulnerable populations in high risk areas, and (c) improved institutional collaboration and development of standards to assess and respond to populations and demographic groups most at risk from disasters and climate change.

5.2. ENVIRONMENTAL ASPECTS

91. **Specific actions under this DPL are not expected to have significant effects on environment, forests, or other natural resources**. They would instead complement existing laws, regulations and commitments. Moreover, as a member of the EU, Romania has strong environmental protection standards[53]. Policy actions under this operation will support efforts to strengthen existing legislation and regulations through time to consider disaster and climate risks, such as urban flood management, which has some positive environmental benefits. Moreover, enhancements to DRM in Romania will have some positive impacts with respect to the management of wildfires which have been increasing in frequency and extent and which may increasingly threaten conservation areas.

92. **The Romania National Climate Change and Low Carbon Green Growth Strategy (2016–2030) highlights the need for adaptation programs that reduce the impact of climate change on forestry, agriculture and rural development, water and infrastructure**. Key recommendations included the promotion of rehabilitation and sustainable management of irrigation and drainage and land management plans, reduction in flood risks through flood hazard and risk mapping and implementation of measures into flood risk management plans and river basin plans, preparation of city adaptation plans, and protection of natural resources areas, and so forth. Establishment of systems and policies to manage disaster and climate risks through time will contribute to achievement of the objectives set forward in this strategy.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

93. **The World Bank has a good understanding of the country's Public Financial Management (PFM) system**. The World Bank' functional reviews conducted between 2010 and 2012 provided a number of valuable insights and recommendations. A Public Finance Review was conducted in 2015, and included among others: an assessment of the budgetary process; public accounting and financial reporting; and internal and external audit function. Regular updates of the recent PFM reform activities have been carried out as part of the fiduciary assessments that informed the preparation of investment lending in the last few years and are reflected in the current assessment.

[53] *http://ec.europa.eu/environment/eir/pdf/factsheet_ro_en.pdf*

94. **Romania has modernized its PFM system over the last 10–12 years**. The fiduciary risk is assessed as Moderate. The Public Finance Law of 2002 and the Fiscal-Budgetary Responsibility Law of 2010, both amended and supplemented at the end of 2013, provide a comprehensive foundation for operating a well-organized PFM system. The Fiscal Responsibility Law - which complements the Public Finance Law - introduced fiscal rules and numerical fiscal objectives for aggregate public spending and its components, established an independent Fiscal Council to issue opinions and analyses of the fiscal impact of public policy decisions, and introduced the Fiscal-Budgetary Strategy to set the macro-fiscal framework for the Medium-Term Budget Framework and to make it more binding. Progress has also been made in the establishment of a comprehensive Treasury Single Account. Romania's general Government budget is made publicly available in printed form and on the external website of the MoPF[54]. The most recent IMF Fiscal Transparency Evaluation[55] report found that Romania performs well in the Fiscal Transparency Code benchmarking and recommends strengthening budget planning and policy orientation. Budget execution is generally well-organized, with clear guidelines and regulations, but there is potential for streamlining and further automating procedures.

95. **Reporting and accounting functions are based on well-developed policies, including a unified budget classification and Chart of Accounts; however manual intervention for collection, verification, and validation of financial information is still practiced, which limits timely operational reporting and analysis**. The quarterly in-year budget reports are reasonably accurate and detailed at the economic and program level. Since 2013, the MoPF focused on developing an IT system to strengthen commitments control and to improve the timeliness and quality of financial reporting. Key changes of this new reporting system are (a) development of Treasury cash accounts of revenues and expenses at COFOG 3 level; (b) control of payments versus legal commitments allocated in the Treasury, (c) transmittal of a standard analytical trial balance to the MoPF by each public institution, and (d) elimination of consolidation of financial statements at the level of primary and secondary budget holders. Starting with 2017, the system (Forexebug) has been rolled out to all public institutions. Specific legislation was passed starting December 2013 to set up the framework for the new financial system. Public accounts are generally audited in a professional and comprehensive manner, observing international standards. Deficiencies in internal controls, especially at the local level, remain an area of concern. The internal audit function has a well-formulated legislative basis but lacks capacity to fulfil its mandate.

96. **The Treasury Account held by the Ministry of Public Finance with the National Bank of Romania (NBR) can be relied upon to hold proceeds from DPLs.** The 2014 update of the 2011 IMF Safeguards Assessment, found that the safeguards framework at the NBR remains robust. The NBR continues to publish audited financial statements as part of annual reports and maintains strong controls over management of foreign reserves management, government banking, and vault operations. Furthermore, the latest publicly available audit reports had an unmodified (clean) opinion on the preparation and presentation of the NBR`s financial statements for 2012–2016.[56] The NBR can be relied upon to account for the World Bank`s loan proceeds from development policy operations, assuming that the arrangements are otherwise in accordance with the World Bank's policies and with specific mutually agreed terms for

[54] *http://www.mfinante.gov.ro/buget2016.html?pagina=domenii*
[55] *Romania: Fiscal Transparency Evaluation*, IMF, March 2015
http://www.imf.org/en/Publications/CR/Issues/2016/12/31/Romania-Fiscal-Transparency-Evaluation-42775
[56] *http://www.bnro.ro/Publicatii-periodice-204.aspx*

the operation.

97. **The proposed loan will follow the World Bank`s disbursement procedures for development policy lending with a Cat DDO (a single tranche loan, with the possibility of partial disbursements).** Loan proceeds will be disbursed in the foreign currency national account at the NBR, which forms part of the country's foreign currency reserves and budget management system. Disbursements will not be linked to specific purchases, and no evidence will be needed to support disbursement, nor will procurement requirements be necessary. The loan will be used according to the public debt legislation. If loan proceeds are used for ineligible expenditures as defined in the Loan Agreement, through its General Conditions, the World Bank, upon notice, will require the Borrower to refund such amount promptly, and such amount shall be cancelled. Considering the World Bank's knowledge of the PFM systems, the ongoing improvements of these systems and the latest IMF assessment of the NBR, the World Bank will not require an audit of the deposit account but the Borrower will provide confirmation to the World Bank on the amounts deposited in the foreign currency account within 30 days of receiving the funds, as detailed in the following paragraphs. The front-end fee and if any, the renewal fee, will be covered from the Borrower's own sources.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

98. **The MoPF, MoIA, and MoRDPA will monitor the progress of the proposed program during the entire drawdown period**. The MoPF will have an overall coordination role, while MoIA, MoRDPA, and the MoPF will monitor result indicators. The Bank will monitor the implementation of the program supported by the DPL during the drawdown period. This will be done through regular visits to Romania and regular communication with the MoPF, MoIA, and MoRDPA.

99. **The World Bank will monitor the status of program implementation through biannual implementation support missions and tracking of results indicators (as per the Policy and Results matrix sections).** The outcomes of supervision missions will be reflected in the Implementation Status and Results Reports. An Implementation Completion Report will be completed within six months of the closing date of the program.

100. **Grievance Redress**. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

101. **The Political and Governance risks are rated as Substantial.** In recent years there has been high political volatility and politicized environment, which has created a challenging environment for ongoing reforms. However, government has demonstrated commitment to progress key reforms for disaster risk management in recent years – including those specifically highlighted in this operation. Moreover, the creation and operational effectiveness of multi-stakeholder and multi-institutional platforms for disaster risk management (e.g. NCSES, National Platform for DRR etc.) indicates improved governance. Finally, this operation itself elevates the disaster risk management and climate change agenda within government and provides continuity and attention of different institutions, irrespective of political changes.

102. **Institutional capacity for implementation and sustainability risk is considered Moderate.** In Romania, institutional capacity and resources are significant and are designed to ensure effective response to natural, man-made and biological disasters. Reforms under this program will continue to strengthen the governments capacity to respond to affected populations.

103. **Macroeconomic and Fiduciary risks are considered as Moderate,** as per the summary in Sections 2.2 and 5.3, respectively. **Sector Strategies and Policies are rated as Moderate**, as while significant progress has been made on DRM in Romania, there are some remaining areas for reform and improvement.

104. **Remaining risks are evaluated as Low. Overall Risk Rating is Moderate.**

Table 3: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Low
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Moderate
7. Environment and Social	Low
8. Stakeholders	Low
9. Other	
Overall	Moderate

ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions	Results		
Prior Actions	**Indicator Name**	**Baseline (2018)**	**Target (2021)**
Pillar A: Strengthen the Borrower's national framework for disaster risk management			
Prior Action 1. The Borrower has established the National Platform for Disaster Risk Reduction and the platform is in effect.	A.1. The Government of Romania has reported on progress achieved under the international Sendai Framework for Disaster Risk Reduction. *Coordination: DES and GIES*	0	1 (report)
	A.2. Romanian citizens have enhanced understanding of the potential impacts of disasters and how they can prevent, prepare and respond to disasters through public awareness campaigns, drills and digital media. *Coordination: DES and GIES*	0	6 (Government awareness campaigns, drills, apps and digital media)
Prior Action 2. The Borrower has adopted a national emergency management information system for emergency and disaster response (SMISU) and the system is effective nationwide.	A.3. Reports are available annually on the impact of disasters in Romania. *Coordination: DES and GIES*	0	3 (reports for years 2018, 2019 and 2020)
Pillar B: Strengthen the Borrower's capacity to systematically identify and reduce disaster and climate risks and to manage the financial impact of disasters			
Prior Action 3. The Borrower, through the National Commission for Earthquake Engineering, Technical Commissions for Actions on Buildings, and Technical Commission for Structural Systems, has endorsed the draft, revising the building design code for seismic risk in existing buildings (P100-3/2008).	B1. The national building code for seismic risk in existing buildings is strengthened. *Coordination: MoRDPA*	No	Yes

Prior actions	Results		
Prior Action 4 - The Borrower has (i) in line with EU Regulation No.1303/2013, submitted to the European Commission, the national assessment of disaster risks in order to access EU funds under the European Structural Investment Funds (2014-2020) for enhanced emergency response, and (ii) made available to the public on the Ro-Risk Platform data and reports on disaster risk assessment.	B2. Disaster risk reduction action plans are prepared and approved by the relevant responsible authorities. *Coordination: DES and GIES*	0	3 (action plans)
	B3. The fiscal and budgetary strategy is informed by main disaster risks and their potential fiscal impact, taking into consideration publicly available Ro-Risk data. *Coordination: MoPF*	No	Yes

ANNEX 2: LETTER OF DEVELOPMENT POLICY

MINISTRY OF PUBLIC FINANCE

Office of the Minister

ROMANIA

Dr. Jim Yong Kim
President
The World Bank
1818 H Street, N.W.
Washington, DC., 20433

Bucharest, May 25, 2018

Letter of Development Policy

Re: Disaster Risk Management Development Policy Loan with Catastrophe-Deferred Drawdown Option

Dear Dr. Kim,

This letter summarizes critical aspects of the program that the Government of Romania is committed to implement to reduce disaster and climate risks and to increase resilience to the physical, social and economic impacts of natural disasters.

Strategic Basis

Romania is vulnerable to disasters and climate change, which may negatively influence the Romania's sustainable economic growth and poverty alleviation efforts. Since 1990, disasters have caused almost €3 billion in direct damage, with considerable flow on economic and societal impacts. Floods in 2006 resulted in damage equivalent to 1 percent of GDP, and government analysis predicts that a 100-year flood along the Danube river would affect more than 800,000 inhabitants, 3,550 communities, 5 percent of national highways, 700 km of major roads, more than 2000 km of county and local roads, 100 nationally protected areas, and more than 300 cultural heritage buildings. The impacts of floods, wildfire, landslides, droughts and extreme weather events have increased over recent decades due to climate change effects and increased concentration of people and assets in vulnerable locations. Earthquakes, while less common, have devastated cities in Romania in the past, with damage from the 1977 earthquake exceeding €1.6 billion across 156,000 residential apartments, schools, hospitals and infrastructure, with over 1,500 fatalities. A similar event today might lead to significant economic losses.

The government has strengthened its commitment to improving disaster risk management in recent years, including the implementation of the 2015 International Sendai Framework for Disaster Risk Reduction. Substantial improvements have been made in the organization, staffing and resources of the country's emergency response system. This has included modernization of equipment for search and rescue, enhanced early warning systems for citizens, partnerships with civil society to improve preparedness and response and training of volunteers. Moreover, a recent national government assessment of the risks from 10 natural, man-made and pandemic hazards (Ro-Risk) to populations, infrastructure and the economy was completed, highlighting the increased collaboration across the different line ministries responsible for different disaster risk management actions.

Key Structural Reforms

In 2009, the Government supported the establishment of the Insurance Pool against Natural Disasters (PAID) which is an insurance-reinsurance undertaking. Under the law, PAID manages the compulsory home insurance system, covering three main risks specific to Romania: earthquakes, floods, and landslides. The program currently provides insurance coverage for flood, landslide and earthquakes through the domestic insurance market to almost 2 million households across the country at highly affordable premium rates.

Reforms in 2014 of the Government Emergency Ordinance (21/2004) reorganized government arrangements for management of emergency and disaster situations. Under these reforms, an inter-ministerial body National Committee for Special Emergency Situations (NCSES), managed by the Ministry of Internal Affairs and under coordination of the Prime Minister, is convened in the event of an emergency to make recommendations on necessary actions to be taken by responsible authorities. In 2016, a Government Decision (557/2016) on risk management was adopted which defines the obligation of authorities to draw up sectoral plans to provide specific emergency management.

Similarly, Romania has made upgrades to national building codes for new construction to increase seismic resistance, adopted a National Climate Change Strategy (2013-2020), and has invested in flood management as guided by the EU Flood Directive.

Initiatives Support through the Development Policy Loan with Catastrophe-Deferred Drawdown Option

The government is committed to further strengthen disaster risk management in Romania, and this DPL will support institutional and policy reforms under two pillars:

Pillar A: Strengthen the government's national framework for disaster risk management

The objective of this pillar is to enhance coordination and action on disaster risk management from ministries and sectors at national and sub-national levels, as well as contributions from academia, civil society and the private sector. Moreover, it will ensure that information technology systems are in place to adequately deploy resources in emergencies and to inform the public. Actions under this pillar will enable the government to meet its commitments to the Sendai Framework for Disaster Risk Reduction, improve standards and systems for preparedness, prevention and response, and to support the mainstreaming of disaster risk management across sectors at national and sub-national levels.

Pillar B: Strengthen the government's capacity to systematically identify and reduce disaster and climate risks and to manage the financial impact of disasters

A disaster is not inevitable and measures can be taken to protect vulnerable populations, strengthen buildings and infrastructure and to reduce the damage to key sectors. A robust risk assessment is a critical first step towards disaster and climate informed land use and urban planning, development of investment plans aimed at reducing disaster climate risks in high risk sectors, and for public awareness. Moreover, modern building codes can be used to prevent the creation of new risk and to provide guidance on the reduction of existing risks. The potential impact of earthquakes in Romania is high, and this policy operation will support reduction of seismic risk through strengthening earthquake resistance in building codes for existing buildings. Moreover, the operation will support the application of the Ro-Risk assessment in the development of a national program for disaster and climate risk reduction, as well as to improve understanding of the fiscal impact of disaster and climate risks in order to increase the response capacity of government to manage the fiscal needs triggered by disasters

Conclusion

It is expected that implementation of the above activities will help prepare the country for disasters and reduce the social, physical and economic impacts. Further this Development Policy Loan with Catastrophe-Deferred Drawdown Option will help to manage the fiscal impact in case of a disaster.

Sincerely yours,

Eugen Orlando Teodorovici

Minister of Public Finance

ANNEX 3: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Pillar A: Strengthen the Borrower's national framework for disaster risk management		
Prior action 1	Neutral	Positive
Prior action 2	Neutral	Positive
Pillar B: Strengthen the Borrower's capacity to systematically identify and reduce disaster and climate risks and to manage the financial impact of disasters		
Prior action 3	Neutral	Positive
Prior action 4	Neutral	Positive

ANNEX 4: Cat DDO RELEVANT LESSONS LEARNED

1. To date, there have been only Implementation Completion Reports (ICR) and Independent Evaluation Group (IEG) reviews of the following four Cat DDOs: Guatemala, El Salvador, the Philippines, and Colombia. The following lessons have been disclosed publicly:

- Development Policy Operations with Cat DDOs can help introduce broader concepts for Disaster Risk Financing and Insurance (DRFI). As contingent credit, the Cat DDO could be an affordable source of financing and complements existing market-based disaster risk financing instruments such as insurance, catastrophe bonds, and reserve funds. These instruments can be combined to retain the risk from smaller, more frequent events, or to transfer the risk from less frequent, higher-impact events, based on an assessment of risks, desired coverage, available budget, and cost-efficiency. These assessments can be supported through technical assistance and implemented as part of a country's overall disaster risk financing and insurance strategy.

- Cat DDOs can serve as instruments of broader engagements, such as providing a platform to bring other sectors and institutions and enhance the DRM policy dialogue with technical assistance.

- DPLs support governments in implementing reforms to improve their policy and institutional framework. The impact of the reform program is closely related with the quality of the policy matrix, which should include specific, measurable, and attributable outcome indicators with baselines and targets, given their importance for the quality of the policy dialogue.

- Reporting responsibilities and monitoring arrangements should be agreed with the borrower in the early stages of the operation to improve the effectiveness and monitoring of the policy measures supported by DPL.

- DPLs with a Cat DDO can provide the opportunity to elevate DRM issues to oversight agencies (in particular, finance, budget, and economic planning) that may not otherwise be deeply engaged in the policy dialogue.

- The implementation of a programmatic technical assistance to support the policy areas of the Cat DDO can facilitate substantive policy dialogue, enhance implementation effectiveness, and sustain policy actions even after full disbursement of the loan. It is important for the World Bank to provide adequate resources for implementation and technical assistance to sustain the policy dialogue with a broad set of DRM stakeholders.

- Given the revolving option of the credit line, the World Bank needs to develop a more consistent result framework to correctly assess the feasibility of achieving the development objective within the constraint of the total time available for implementation.

ANNEX 5: SENDAI FRAMEWORK FOR DISASTER RISK REDUCTION [57]

1. The International Sendai Framework is a 15-year, voluntary, non-binding agreement which recognizes that the State has the primary role to reduce disaster risk but that responsibility should be shared with other stakeholders including local government, the private sector and other stakeholders. Countries, including Romania, committed to the Sendai Framework in 2015.

2. The Framework aims for the following outcome: The substantial reduction of disaster risk and losses in lives, livelihoods and health and in the economic, physical, social, cultural and environmental assets of persons, businesses, communities and countries.

3. The Sendai Framework is the successor instrument to the Hyogo Framework for Action (HFA) 2005-2015: Building the Resilience of Nations and Communities to Disasters. It is the outcome of stakeholder consultations initiated in March 2012 and inter-governmental negotiations held from July 2014 to March 2015, which were supported by the UNISDR upon the request of the UN General Assembly.

4. The Sendai Framework has seven global targets:
   (i) Substantially reduce global disaster mortality by 2030, aiming to lower average per 100,000 global mortality rates in the decade 2020-2030 compared to the period 2005-2015.
   (ii) Substantially reduce the number of affected people globally by 2030, aiming to lower average global figure per 100,000 in the decade 2020 -2030 compared to the period 2005-2015.
   (iii) Reduce direct disaster economic loss in relation to global GDP by 2030.
   (iv) Substantially reduce disaster damage to critical infrastructure and disruption of basic services, among them health and educational facilities, including through developing their resilience by 2030.
   (v) Substantially increase the number of countries with national and local disaster risk reduction strategies by 2020.
   (vi) Substantially enhance international cooperation to developing countries through adequate and sustainable support to complement their national actions for implementation of this Framework by 2030.
   (vii) Substantially increase the availability of and access to multi-hazard early warning systems and disaster risk information and assessments to the people by 2030.

5. Under the Sendai Framework, four priorities for action are identified:

(i) **Understanding disaster risk:** Disaster risk management should be based on an understanding of disaster risk in all its dimensions of vulnerability, capacity, exposure of persons and assets, hazard characteristics and the environment. Such knowledge can be used for risk assessment, prevention, mitigation, preparedness and response.

(ii) **Strengthening disaster risk governance to manage disaster risk**. Disaster risk governance at the national, regional and global levels is very important for prevention, mitigation, preparedness, response, recovery, and rehabilitation. It fosters collaboration and partnership. Creation and operationalization of national platforms are a critical part of this process, bringing together stakeholders with a role to play in risk reduction and management.

[57] *https://www.unisdr.org/we/coordinate/sendai-framework*

(iii) **Investing in disaster risk reduction for resilience.** Public and private investment in disaster risk prevention and reduction through structural and non-structural measures are essential to enhance the economic, social, health and cultural resilience of persons, communities, countries and their assets, as well as the environment.

(iv) **Enhancing disaster preparedness for effective response and to 'Build Back Better' in recovery, rehabilitation, and reconstruction.** The growth of disaster risk means there is a need to strengthen disaster preparedness for response, act in anticipation of events, and ensure capacities are in place for effective response and recovery at all levels. The recovery, rehabilitation and reconstruction phase is a critical opportunity to build back better, including through integrating disaster risk reduction into development measures.

ANNEX 6: IMF RELATIONS[58]

1. A Concluding Statement describes the preliminary findings of IMF staff at the end of an official staff visit (or 'mission'), in most cases to a member country. Missions are undertaken as part of regular (usually annual) consultations under *Article IV* of the IMF's Articles of Agreement, in the context of a request to use IMF resources (borrow from the IMF), as part of discussions of staff monitored programs, or as part of other staff monitoring of economic developments.

2. **The authorities have consented to the publication of this statement**. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF Executive Board for discussion and decision.

The Romanian economy is growing strongly, unemployment has fallen to a record low, and the financial sector is improving. But without policy changes, growth will turn increasingly fragile. For one, inflation could increase further, with possible social implications. A combination of fiscal moderation and monetary tightening would be the best course of action. Monetary tightening alone would have to push interest rates to a level that weighs on investment and competitiveness. Continuing sizable fiscal deficits, especially with low investment spending, would also reduce the space to support the economy in future downturns and weaken Romania's growth potential. Sustaining an inclusive convergence toward advanced European Union (EU) countries' living standards calls for a predictable policy framework with medium-term orientation, supported by an efficient government and strong governance. The best time to act on all these fronts is now, with monetary and fiscal policies acting in unison.

Buoyant consumption-led growth with signs of overheating

3. **Economic growth surged to 7 percent in 2017—the highest in the EU**. The strong growth has been fueled by domestic consumption, on the back of a multi-year fiscal expansion and minimum wage hikes. An accommodative monetary policy stance and improving EU economy also helped. The current account deficit widened, as expanding imports offset the improving demand for Romania's exports. A tight labor market is seeing private sector wages growing at double-digit rates. The target of the National Bank of Romania (NBR) was met in 2017, but inflation rose to 4.7 percent in February.

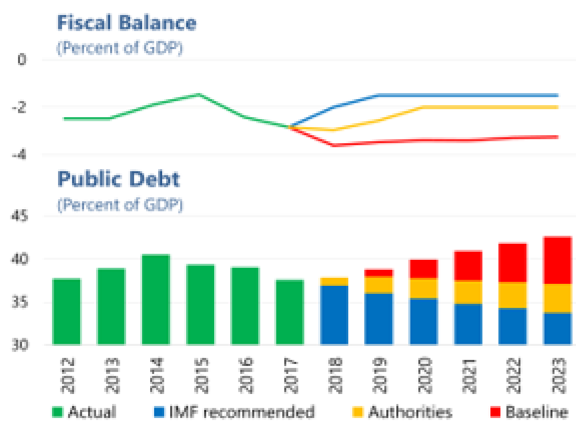
4. **Growth is expected to decelerate from last year's high level due to multiple factors: a waning fiscal impulse, low public investment, slow progress on structural reforms, and tightening financial conditions**. We project GDP growth to be about 5 percent in 2018 and to slow towards 3 percent over the medium term. Risks to this outlook are tilted to the downside. Global financial volatility, further deterioration in fiscal and external balances, or weakening of institutions could dent investor confidence in Romania. The continuation of current expansionary policies would undermine the country's capacity to withstand a severe shock.

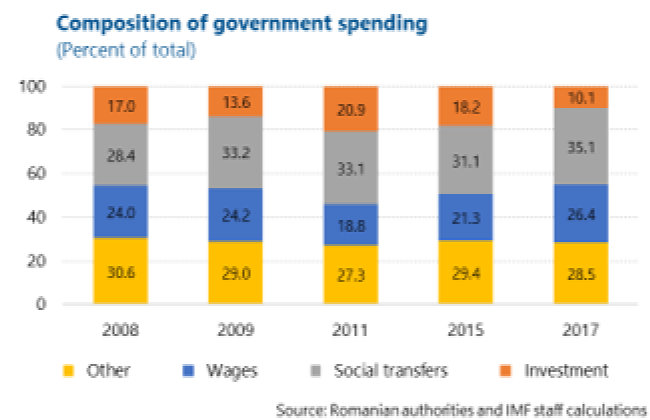
Fiscal moderation coupled with monetary tightening to enhance macroeconomic stability

[58] IMF Relations Annex was prepared on March 16, 2018.

5. A prudent mix of fiscal consolidation and monetary tightening would avert overheating, while reducing the fiscal and external deficits, and enhancing macro-financial stability. Monetary policy needs further tightening to rein in inflation and anchor expectations, given the pressure from global energy prices, strong domestic demand, a tight labor market, and recent currency dynamics. The recent monetary tightening was a welcome start, and we encourage the NBR to continue raising the policy rate, while also managing liquidity to align the market and policy rates. A more conservative fiscal stance would reduce the burden on monetary policy and help improve the balance between consumption and investment. If this task is left to monetary policy alone, interest rates would have to be raised to such a level that will increasingly weigh on investment and competitiveness.

6. **A smaller fiscal deficit is warranted, given the strong cyclical upswing**. Large deficits during economic booms tend to cause domestic and external imbalances, result in excessive debt accumulation, and force a stronger (and pro-cyclical) adjustment during a downturn. The deficit should be reduced below a cyclically neutral level in the short run and further to 1.5 percent of GDP by 2020, contributing to a smooth return to Romania's medium-term budgetary objective (MTO) under its EU commitments. Relative to current policies, we estimate that measures amounting to 0.6 percent of GDP—which should be of high quality—are needed to meet the government's 3 percent of GDP deficit target for 2018, even as a smaller deficit target would be desirable. These measures should avoid a further deterioration of the budget structure and protect capital spending.





Key principles for strong governance: predictability, prioritization, efficiency

7. **Efficient delivery of government services is indispensable for sustaining inclusive convergence towards EU living standards**. Predictable and medium-term oriented policies facilitate structural reforms, investment and growth. These go hand in hand with a more rules-based governance, continuing the fight against corruption, and a more resilient financial sector.

8. **Romania's comparatively low (and declining) tax revenue as a share of GDP underscores the importance of effective revenue mobilization and expenditure management**. These would help with large unmet needs in priority areas including infrastructure, education, and health, as well as long-term

challenges linked to adverse demographic dynamics. Efforts in the following areas could have a significant impact:

(i) *Improving revenue collection.* There is significant scope to strengthen revenue collection in Romania. Tax changes need to be more predictable and less frequent, and further tax rate cuts should be avoided. A comprehensive review of the tax system should be conducted, given multiple changes to the tax system in recent years. Tax collection efficiency could be improved, including by rationalizing exemptions and reforming tax administration, especially for the value-added tax (VAT). Implementing and operationalizing new IT infrastructure in revenue administration is a key priority, given Romania's outdated and fragile systems.

(ii) *Increasing expenditure efficiency.* Prioritization of large investment projects should be enforced and reflected in annual budgets. Expenditure reviews for key sectors could identify efficiency gains, and adopting a centralized procurement system could generate savings on goods and services spending. We welcome the plans by the Ministry of Finance to make progress in these areas.

(iii) *Enhancing absorption of EU funds.* Effective absorption of EU funds, especially for large investment projects, would help address Romania's big infrastructure gap, while also creating space for other essential spending. Improved management, especially at line ministries, is essential to ensure a high absorption rate, with funds applied to priority areas. A smooth transition to the next EU funds programming period calls for a timely preparation of new projects consistent with the EU requirements. Efforts by the Ministry of EU funds and Ministry of Finance to facilitate a faster EU funds absorption and reduce administrative burdens are encouraging.

(iv) *Enforcing the fiscal responsibility law (FRL).* Romania has a sound FRL but its fiscal rules have not been observed. Better enforcement would increase fiscal discipline and predictability, and could start by better integrating the Fiscal Council's work into the budget process. Stronger revenue mobilization and expenditure management through above-mentioned recommendations would also make it easier to plan ahead and abide by the FRL.

9. **Structural reforms should be re-energized to alleviate constraints on growth**. Improving service and financial performance of many state-owned enterprises (SOEs) requires a renewed commitment to strong corporate governance. In this context, Law 111 should be preserved, and any weakening of the existing corporate governance legislation should be avoided, while restructuring and privatization of SOEs should resume. The government plans to establish a sovereign investment fund and a development bank should reflect international experience on the risks associated with such entities, and their design would need to be based on best practices, including on governance, reporting, and management of fiscal risks.

10. **Romania's progress on the fight against corruption has been recognized internationally, and needs to continue**. Reducing corruption would help improve government revenue, enhance spending efficiency, and strengthen competitiveness. Judicial independence and the rule of law should be upheld as the cornerstones of the fight against corruption and a rules-based governance.

Financial sector: stay the course and strengthen resilience

11. **Banks are well capitalized and liquid, profitability is increasing, and non-performing loans (NPLs) have declined to 6.4 percent of total loans in December 2017, close to the EU average**. Potential new risks to financial stability arise from the high exposure of banks to the Romanian sovereign and to the real estate sector, banks' funding in foreign exchange (FX), and the fast growth of non-bank financial lenders. In line with the ongoing Financial Sector Assessment Program (FSAP), the following recommendations would further strengthen the financial system:

(i) *A Debt Service to Income (DSTI) limit on mortgage lending would mitigate risks from the exposure of banks to the real estate sector*. The proposed DSTI limit can boost borrowers' resilience and should be imposed on all mortgages, including those made under the Prima Casa program. The government's strategy to gradually scale back the program is welcome.

(ii) *Carefully calibrated capital surcharges could increase resilience against potential losses from sovereign exposures*. The Romanian banking system is vulnerable to valuation losses in the event of sharp increases in interest rates. Capital surcharges—preferably the Systemic Risk Buffer—should be calibrated carefully to increase the resilience of the system while avoiding unintended market impacts.

(iii) *FX liquidity risks need a more proactive management.* About 40 percent of banks' liabilities and assets remain FX-denominated, and FX liquidity risks can exist within an environment of ample overall liquidity. Monitoring a currency-differentiated Net Stable Funding Ratio and imposing a currency differentiated Liquidity Coverage Ratio can help mitigate these risks.

(iv) *Continue bolstering supervisory practices and the crisis management framework.* The processes supporting banks' supervisory review should be further developed, and the framework for Emergency Liquidity Assistance be finalized and implemented. The central bank should establish liquidity facilities for the Bank Deposit Guarantee Fund. Finally, a stronger supervision of non-bank financial lenders would reduce regulatory arbitrage, mitigate credit risks and ward off reputational risk to the financial system.

12. **Legislative initiatives that harm the financial system should be avoided.** Several recent initiatives would, if enacted, reduce the amount of credit provided to the real economy and slow the resolution of NPLs, thereby adversely affecting financial stability. These include the proposals for capping interest rates for household lending and the prices at which individuals re-purchase debts acquired by third parties.

Annex based on an IMF mission (March 6-16) to conduct the 2018 Article IV consultation discussions.

ANNEX 7: POVERTY AND SOCIAL VULNERABILITIES IN ROMANIA: AN OVERVIEW

This is a brief assessment undertaken by the World Bank on the poverty and social vulnerabilities, and the potential impacts of natural disasters on poor and vulnerable groups in Romania, using data and information collected as part of preparations for the new Country Partnership Framework.[59]

Measuring Poverty and Social Exclusion

1. According to EU's statistical office - Eurostat (2017) - more than a third of Romania's citizens (38.8 percent) are at risk of poverty and social exclusion. Within the EU, Romania has by far the largest share of poor people measured by the US$ 5.50/day poverty line. Over a quarter of the population (26 percent in 2015) lives on less than $5.5 a day, more than double the rate for Bulgaria (12 percent). Real wages for working Romanian families have dropped by about 40 percent, putting additional pressure on the strained social system. Moreover, the institutional challenges and underfunding in the delivery of public services such as education and health, and poor targeting of social programs have also contributed to the negative income growth of the bottom 40 percent of the income distribution in 2009-2015.

2. Romania's National Strategy on *Social Inclusion and Poverty Reduction 2015-2020* uses the People at Risk of Poverty and Social Exclusion methodology (AROPE) to measure whether the European Union's social inclusion target is being met, and to track people at risk of poverty or social exclusion who are in at least one of the following three situations:

(i) They are at ***risk of relative poverty*** after receiving social transfers (AROP indicator). These are people whose annual income (including social protection transfers) is lower than 60 percent of the median income as expressed per adult equivalent. Disposable income is the sum of all revenues (including those from social protection) minus the amount of taxes (income or property-based) and social insurance paid. Education and occupational status both have a strong relationship with relative income poverty (AROP). More than one-third of the people who managed to complete only lower secondary education are at risk of relative poverty. The percentage drops significantly to only 15 percent among those who managed to complete high school and/ or some post-secondary school and drops even further to only 6 percent among those who have obtained a college degree. By occupational status, among working age people (those between 15 and 64 years old) the groups with the lowest poverty rates are employees and retirees (5.6 percent and 8.4 percent respectively). The occupations with the highest poverty rates are the self-employed in agriculture (60.6 percent being at risk of poverty), followed by the unemployed (with 52.1 of them living in poverty).[60]

(ii) They live in households with ***very low work intensity***, meaning households where the members aged 18 to 59 years old have worked in a paid activity for less than 20 percent of their work potential in a given reference year. The importance of this indicator lies in the fact that being out of work is a source of both poverty (through lost income) and social exclusion (less money means fewer opportunities to socialize with friends and/or family, while being out of work can mean losing some social connections). Romania has a rather low proportion of people living in households with very low work intensity. Only 7.4 percent of the Romanian population under the age of 60 belonged to this category in 2012 (the

[59] A large part of this assessment is drawn from recently concluded reports on development priorities and constraints in Romania by the World Bank as potential input to for the upcoming Romania Country Partnership Strategy.
[60] National Strategy on Social Inclusion and Poverty Reduction 2015-2020

average for the EU was 10.4 percent). Romania's oversized agricultural sector combined with the absence of those who migrated for work reduces the pressure on the labor market, which is already unable to offer jobs to everyone, and automatically leads to a low score on the LWI indicator.

(iii) They are exposed to ***severe material deprivation***, meaning people from households that are in at least four of the following nine situations: (1) they cannot afford to pay their rent, mortgage, or utility bills; (2) they cannot afford to keep their home adequately warm; (3) they cannot meet unexpected expenses; (4) they cannot afford to eat meat or proteins every second day; (5) they cannot afford to go on a one week annual holiday; (6) they don't have a television set; (7) they don't have a washing machine; (8) they don't have a car; and (9) they do not have a telephone. Deprivation can have various dimensions related to income insufficiency, such as not being able to afford to buy goods and services but it also relates to housing. For instance, 13.2 percent of the adult population in the bottom income quintile report that their healthcare needs are unmet, compared to only 4.8 percent in the top quintile, and nearly 5 million people (25% percent of the Romanian population) do not have access to piped water.

Vulnerable Groups with Increased Risk of Poverty & Social Inclusion

The following factors are associated with increased risk of poverty and social exclusion in Romania.

3. ***Regional and rural-urban divide***. According to Romania's *National Strategy on Social Inclusion and Poverty Reduction 2015-2020*, poverty is three times more prevalent in rural areas than in urban areas. People from rural areas, people with lower levels of education, and children face higher risks of being severely materially deprived. Romania is characterized by large disparities associated with levels of urbanization: while in urban areas 24.8 percent of individuals are materially deprived, the percentage is 36.9 in rural areas. There are large regional disparities in terms of the poverty rate. The lowest proportion of people at risk of poverty has been recorded in the Bucharest-Ilfov region, where only 3 percent of people are at risk of relative poverty. Lower proportions than the national percentage are also recorded in the Northwest (16 percent) and Center (19 percent) regions. The regions with the highest percentages of people at risk of poverty are the Northeast (34 percent) and Southeast (30 percent) regions.

4. ***Children and youth.*** About 4 out of 10 Romanian children are poor, the highest number in the EU. Children are affected by severe material deprivation to a higher extent than the rest of the population (38.1 percent); in all other age categories, the percentage of severely materially deprived people is around 28 percent of the population. The disproportionately high number of external migration from the poorer regions has resulted in close to 100,000 children being left behind.[61] There is great concern about these children yet little is known about the welfare consequences.[62] The few available studies suggest that these children exhibit lower subjective wellbeing, and strong negative impacts on health and education tend to be found when both parents are away.

[61] "Children left behind" refers to children with one or more parent that migrated abroad for work. The National Authority for the Protection of Rights of the Child (ANPDCA) collects statistics on these children based on self-reports, which is likely to be underestimated.
[62] UNICEF (2008) estimated the number of children left behind at 350,000.

5. In addition, educational outcomes are lagging, especially in rural areas where the rate of early school drop-outs is alarmingly high at 27 percent. It is estimated that about 40 percent of Romanian students are functionally innumerate and illiterate, and that students from rural areas and disadvantaged backgrounds are more likely to underperform. Early childhood education services are often not accessible to the most disadvantaged children and families. While the net preschool enrollment rate has steadily increased over the last ten years—from 72 percent in 2005 to 87.6 percent in 2015, it is still below the EU average of 94.8 percent.

6. ***Gender.*** Although striking a balance between potentially conflicting objectives of labor market and family policies can be difficult overall, it appears that existing policies have reinforced the low rate of women's labor market activity. Romanian women are the youngest to marry in the EU, which, combined with a generous maternity leave and a severe lack of formal child care, has the unintended effect of keeping prime-age women out of the labor market for a prolonged period. Additionally, in a rapidly aging society where 35 percent of the population lives with a senior of age 65 and older, strong gender norms dictate that the burden of elderly care tends to fall disproportionately on women. The lack of part-time jobs makes returning to the labor market even harder, especially for low-skilled, entry-level jobs that are likely to be constrained by the high cost of creating formal jobs and setting minimum wages for full-time equivalent jobs.

7. The urban-rural divide in Romania also underscores gender disparities regarding tertiary education and labor market participation. Women in rural areas that have lower skills, marry about 3 years earlier than urban women (in a country where women are the youngest to marry within the EU) and have a much lower probability of working throughout their lives. The issue is magnified for Roma women. Due to higher levels of male migration in rural areas, an increasing number of elderly and female headed households in are left behind. For younger women, this translates into increased responsibility for elder care. Finally, the difference in poverty between men and women aged 65 and over is 10 percentage points (19.3 percent for women as against 9.2 percent for men), and the difference is even larger for people aged 80 and over).[63]

8. ***Roma.*** The Roma are among the most marginalized groups in the country: a staggering 70 percent live in poverty, and spatial segregation and discrimination remain high. The Roma are estimated to represent up to 12 percent of the population, yet being Roma is one of the worst social stigmas in Romania. As a result, 68 percent of Roma live in majority Roma-neighborhoods. Romania has one of the highest share of early school leavers in the EU but the figure is almost four times higher for Roma (77 percent). Despite a universal health care system, only 54 percent of Roma are covered by health insurance. Meanwhile, 67 percent (82 percent) of Roma live in households without tap water (a toilet) inside their dwellings – vs 38.1 percent and 31.2 percent, respectively, in the general population. Residing in informal settlements often precludes the legal construction of basic infrastructure. A third of Roma live in households that experienced hunger in the previous months (European Union Agency for Fundamental Rights, 2016). Moreover, only 38 percent of Roma children attend early childhood education and care, and the situation has worsened since 2011, when the figure was 45 percent (European Union Agency for Fundamental Rights, 2016).

9. Despite their access to safety net programs is widespread among Roma households, these

[63] *National Strategy on Social Inclusion and Poverty Reduction 2015-2020*

households remain largely below the poverty line. Nine out of ten Roma households have access to at least one social protection program in Romania, but three out of five Roma households remain in the poorest quintile of the income distribution.

10. When it comes to education, the vulnerability of Roma children and adults is enhanced by 'vicious cycles' in which segregation and discrimination are common. Because lower educational achievements have a negative impact on Roma's social as well as labor market inclusion opportunities, the gap in education between Roma and non-Roma introduces a vicious cycle.

11. A Poverty and Social Impact Assessment (PSIA) conducted in 2016[64] revealed that several Roma respondents living in underserved settlements (27 percent of the respondents) did not have property documents, mainly due to lack of resources, information and documents, as well as the fact that the property had already been registered under the name of someone else. The lack of legal documentation and building permits increases the vulnerability of Roma to evictions and possible demolition. In the event of floods and other natural disasters, Roma communities live in unregistered housing are more likely to be excluded from government assistance.

Potential Impacts of Natural Disasters on Poor and Vulnerable Communities.

12. Romania faces double the risk to public and private assets and socio-economic activity from disasters compared to Poland, for example. Seventy percent of assets of the poor are vulnerable to destruction as compared to that of 43 percent in Poland, and even the assets of non-poor groups are three times as vulnerable as compared to Poland. Only 80 percent of the population has access to early warning in Romania, as compared to 100 percent in Poland. In recent years, Romania has contended with several floods, as well as harsh winters with heavy snowfalls.

13. Major damages and largescale displacement due to natural disasters tend to have a disproportionate impact on communities living in isolated and marginalized areas, where such occurrences are also more common due to less developed infrastructure and more limited emergency-response planning. In addition, poorer and marginalized groups are less likely to have access to adequate resources and assets beyond their homes, as well as sources of financial support from their family, community, the financial system and so forth to prevent, to cope and adapt to disasters and climate change. Such groups are also more likely to have inadequate and timely access to modern technologies and information that can be crucial in such situations.

14. For the rural poor, disaster and climate shocks have significant impact on agricultural production – with floods often damaging crops and equipment, and drought reducing yields. In Romania, livestock and crop production have typically borne about 80 percent of the damage and loss caused by droughts and 25 percent of the damages and losses caused by all climate-related disasters falls on the agriculture sector (FAO, 2015).

15. Government-assistance programs can go a long way in helping the affected population, but they

[64] Poverty and Social Impact Assessment (PSIA) of systematic registration on Rural Romania (World Bank:2016). The PSIA draw from a survey of 480 households, comprising 360 households from Roma groups and 120 from households from other vulnerable groups.

are sometimes structured such that the neediest groups have difficulty in receiving help, or are left out. Part of the problem is the gulf between victims and the organizations tasked with helping them. Isolated communities living in marginal areas with less access to services are often unaware of what type of aid is available, or if they are qualified to receive assistance from the government.

Recommendations

16. There are many policy actions that can support increased resilience of the poor and vulnerable groups, to disaster and climate resilience. For example, polices aimed at reducing private and public asset losses – including reducing exposure and vulnerability of assets and improving access to early warning systems – could reduce asset losses by 13 percent and well-being losses by 16 percent. Policies aimed at increasing resilience – including access to savings, insurance and finance, accelerating reconstruction through government access to finance and streamlined processes, post-disaster support etc. – could reduce asset losses by 2.8 percent and well-being losses by 14 percent. Currently 80 percent of the population have access to early warning and improving the efficiency and use of early warning information for flood and drought would support increased resilience, especially for rural farmers.

17. In addition to undertaking measures to improve transitional shelters for accommodating residents during the structural strengthening of buildings and increasing awareness about the risks associated with seismically vulnerable buildings, there is also a need to scale up the Government's financing for retrofitting of both residential and public-sector building stock to minimize the potential damage in the event of a future earthquake. Roma and impoverished community groups living in urban areas, mainly in highly congested housing environments in and around Bucharest may require additional consideration, given they may have insufficient documentation to access pre- and post-disaster services. Consultations with Roma community representatives suggest that improvements in communication around disaster risks and potential preparations that can be undertaken to reduce disaster impacts would be very timely and useful.

References

- Romania. National Strategy on Social Inclusion and Poverty Reduction 2015-2020.

COUNTRY MAP


ROMANIA
BUILDING DISASTER AND
CLIMATE RESILIENCE PROGRAM
CITIES AND TOWNS
COUNTY (JUDET) CAPITALS
NATIONAL CAPITAL
MAIN ROADS
RAILROADS
COUNTY (JUDET) BOUNDARIES
INTERNATIONAL BOUNDARIES
UKRAINE
HUNGARY
MOLDOVA
UKRAINE
SERBIA
BULGARIA
Black
Sea
ROMANIA
MARAMUREȘ
SATU MARE
SUCEAVA
BOTOȘANI
BISTRIȚA-NĂSĂUD
IAȘI
SĂLAJ
CLUJ
BIHOR
NEAMȚ
MUREȘ
HARGHITA
BACĂU
VASLUI
ARAD
ALBA
COVASNA
SIBIU
BRAȘOV
VRANCEA
GALAȚI
TIMIȘ
HUNEDOARA
VÂLCEA
BUZĂU
CARAȘ-SEVERIN
GORJ
ARGEȘ
PRAHOVA
BRĂILA
TULCEA
DÂMBOVIȚA
IALOMIȚA
ILFOV
MEHEDINȚI
OLT
TELEORMAN
CĂLĂRAȘI
GIURGIU
CONSTANȚA
DOLJ
BUCUREȘTI
Satu Mare
Baia Mare
Botoșani
Suceava
Zalău
Bistrița
Iași
Oradea
Piatra-Neamț
Cluj-Napoca
Târgu Mureș
Vaslui
Bacău
Arad
Miercurea-Ciuc
Alba Iulia
Deva
Sfântu Gheorghe
Timișoara
Sibiu
Brașov
Focșani
Galați
Brăila
Reșița
Tulcea
Râmnicu Vâlcea
Buzău
Targu Jiu
Târgoviște
Ploiești
Pitești
Drobeta-Turnu Severin
Slobozia
Slatina
Craiova
Călărași
Constanța
Alexandria
Giurgiu
0 25 50 75 100 Kilometers
0 25 50 75 Miles