

CONFORMED COPY

LOAN NUMBER 8056-RO

Loan Agreement

(Social Assistance System Modernization Project)

between

ROMANIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 8, 2011

LOAN AGREEMENT

Agreement dated July 8, 2011, between ROMANIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of five hundred million Euro (EUR 500,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount. The Borrower shall pay the Front-end Fee not later than 60 days after the Effective Date.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Fixed Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.
- 2.05. The Payment Dates are February 1 and August 1 in each year.

- 2.06. The principal amount of the Loan shall be repaid in accordance with provisions of Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa, or from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III - PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project through the MoLFSP in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consist of the following:
- (a) The Borrower’s Social Assistance Reform Strategy and Action Plan have been amended, suspended, abrogated, repealed or waived, without the Bank’s prior consent, so as to affect materially and adversely the ability of the Borrower to carry out the Project or to perform any of its obligations under this Agreement.

(b) The Borrower's Legislation regulating Social Assistance Programs has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to effectively implement the Social Assistance Reform Strategy to carry out the Project.

4.02. The Additional Event of Acceleration consists of the following, namely that any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V - EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely that the Borrower, through MoLFSP, has approved the POM satisfactory to the Bank.

5.02. The Effectiveness Deadline is the date one hundred and fifty (150) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

6.01. The Borrower's Representative is the Ministry of Public Finance.

6.02. The Borrower's Address is:

Ministry of Public Finance
17, Apolodor Street
Bucharest
Romania

Telex:

Facsimile:

11239

4021 312 6792

6.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423(MCI) or
64145(MCI)

1-202-477-6391

AGREED at Bucharest, Romania as of the day and year first above written.

ROMANIA

By /s/ Francois Rantrua

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Gheorghe Ialomitanu

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to improve the overall performance of the Borrower's social assistance system by strengthening performance management, improving equity, improving administrative efficiency and reducing error and fraud.

The Project consists of the following:

Provision of financing, through reimbursement of Payments for the Eligible Expenditure Program (EEP) already incurred out of the Borrower's budgetary allocations in support of implementation of the Borrower's reform program aimed at improving social assistance system.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower, through MoLFPS, shall: (a) take all necessary measures to effectively implement the Social Reform Assistance Strategy and Action Plan; and (b) carry out the Project in accordance with the provisions of the POM and shall not amend, waive or abrogate any provisions of the POM without the Bank's prior approval.

2. The Borrower, through the General Directorate for Social Assistance (GDSA) within the MoLFSP, shall ensure coordination of Project's implementation and shall be responsible for: (a) monitoring the achievement of the DLIs; (b) compiling and delivering the documentary evidence of achievement of respective DLIs to the Bank; and (c) coordinating with the MoPF in preparation and submitting to the Bank of withdrawal applications under the Project.

3. The Borrower, through MoPF, MoLFSP and NASB, shall ensure the Project's financial management implementation. The MoPF, MoLFSP and NASB will continue to execute the budget payments related to the EEP through the existing channels and procedures, while the county branches of NASB, i.e. the CASB, shall regularly report on the receipt of payments and utilization of budget funds. In this respect, the MoLFSP and NASB shall ensure that the EEP reporting is regular, timely and is in compliance with statutory reporting requirements.

4. The Borrower, through MoLFSP, shall take all necessary measures to strengthen the institutional capacity for strategic planning, performance monitoring and performance management of the GDSA, the Social Inspection and NASB and the National Institute for Medical Expertise and Work Capacity Recovery, in accordance with the Stand-by Arrangement between Romania and IMF and the MoU and the Loan Agreement between Romania and the EC, respectively.

5. The Borrower shall ensure that appropriate budget allocations are made available yearly for the Project implementation purposes, throughout the Project duration.

B. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower, through MoLFSP, shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators acceptable to the Bank. Each Project Report shall cover the period of six (6) months, and shall include: (a) expenditure data for the Social Assistance Program included in the EEP in compliance with the Borrower's national economic budget classification; (b) Project's implementation reports in a format and content as described in the POM . Such reports shall be furnished to the Bank not later than forty five (45) days after the end of the period covered by such report.
2. Without limitation upon provisions of paragraph 1 of this Section, the Borrower shall, through MoLFSP, NASB and CASBs, retain all detailed expenditure information with respect to payments to beneficiaries under the Social Assistance Programs included in the EEP within their jurisdiction, which may be requested by the Bank for post review.
3. During Project implementation, the Borrower, through the Court of Accounts, shall carry out annual audits of the Social Assistance Programs included in the EEP, and shall provide such audit reports to the Bank not later than twelve (12) months after the end of the audited calendar year, starting with the audit of 2011.
4. During Project implementation, the Borrower, through MoLFSP, shall cause the Social Inspection to carry out sample based thematic inspections of the implementation of the Social Assistance Programs included in the EEP (except the State Child Allowance Program), in such scope and regularity as defined in the POM and covering, without limitation, the level of irregularities and errors occurring in administering social benefits, their causes and remedial actions taken. Starting with the calendar year of 2012, during Project implementation, the reports of the thematic inspections shall be provided for the Bank's review not later than ninety (90) days from the end of thematic inspection. The Borrower, through MoLFSP, shall provide the Bank an opportunity to discuss and comment on said reports and shall promptly carry out the agreed recommendations provided by the Bank upon such reviews.

B. Financial Management, Financial Reports and Audits

1. The Borrower, through MLSPF and NASB, shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower, through MLSPF and NASB, shall prepare and furnish to the Bank as part of the Project Report not later than forty five (45) after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.
3. The Borrower, through MLSPF and NASB, shall have Program Financial Statements relating to the EEP audited by the Court of Accounts in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Program Financial Statements shall cover the period of one fiscal year of the Borrower, shall be carried out in accordance with the terms of reference acceptable to the Bank. The audited Program Financial Statements for each such period shall be furnished to the Bank not later than twelve (12) months after the end of such period.

Section III. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to reimburse Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be paid by the Borrower and reimbursed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed, through reimbursement for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in EUR)	Percentage of Expenditures to be financed
(1) Payments under the EEP	500,000,000	Amount up to withdrawal ceiling set forth in the table in paragraph B.2(a) of this Section
TOTAL AMOUNT	<u>500,000,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:

- (a) from the Loan Account until the Bank has received payment in full of the Front-end Fee;
- (b) for payments under Category (1) with respect to each tranche, as set forth in the table in paragraph B.2 (a) of this Section, for which withdrawal request has been submitted, unless the Borrower, through MOPF, has submitted evidence satisfactory to the Bank that Payments under the EEP have been made to eligible beneficiaries by the Borrower in accordance and in compliance with the procedures set forth in the Borrower's applicable laws and regulations; and
- (c) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed Euro one hundred million (EUR 100,000,000 equivalent) may be made for reimbursements of payments made by the Borrower prior to this date but on or after July 10, 2010, for Eligible Expenditures under Category (1) provided that the Borrower shall have submitted evidence satisfactory to the Bank that respective DLIs have been met.

2. Notwithstanding the provisions of Part A of this Section and without limitation to the provision set forth in paragraph 1 above, withdrawals under Category above may be made by the Borrower as follows:

- (a) Withdrawals shall be made in one (1) to twenty (20) tranches and in amounts not exceeding the total of the ceilings per each respective DLI

provided in the table below, subject to submission to the Bank of evidences satisfactory to the Bank and as defined in the POM that the following DLIs have been achieved:

Disbursement-linked indicator (DLI)	Withdrawal ceiling (expressed in EUR)
1) Adopted Action Plan for the Social Assistance Strategy is disseminated by the MoLFSP	25,000,000
2) Three monthly monitoring reports of the 4 programs under EEP (Family Allowance, Child Raising Benefits, GMI and State Child Allowance) are produced by NASB	25,000,000
3) Three monthly performance management reports for Low-income Households Programs are produced by NASB and used at the management level in the MoLFSP and NASB	25,000,000
4) At least 90% of the Family Allowance beneficiaries are paid, through NASB, for two consecutive months according to harmonized means-testing procedures and lower eligibility threshold	25,000,000
5) At least 90% of Child Raising Benefits beneficiaries entering the program since January 1 st , 2011 are paid, through NASB, for two consecutive months, using a lower replacement income of 75%	25,000,000
6) At least 90% of beneficiaries of the new consolidated program for Low-income Households Programs are paid through NASB for two consecutive months	25,000,000
7) Share of social assistance funds going to the first poorest quintile increased to 45% from 37.7% at baseline (in 2009), as measured by the Household Budget Survey	25,000,000
8) Enacted harmonized means testing procedures for the GMI, Family Allowance, and Heating Benefits are disseminated	25,000,000
9) Enacted harmonized disability medical assessment criteria are disseminated	25,000,000
10) At least 90% of individuals who are certified for disability benefits according to the new	25,000,000

harmonized disability system are paid through NASB	
11) At least 90% of the new applications for Low-income Households and Family Policy Programs in the preceding two months comply with one-application and one-point of service operational guidelines	25,000,000
12) Administrative costs and client participation costs for means-tested programs are reduced by 15% from baseline value	25,000,000
13) At least one thematic inspection campaign is carried out for each of the following programs: GMI, Disability Benefits, Family Allowance, Heating Benefits, and Child Raising Benefits	25,000,000
14) Remedial action plan is adopted by NASB to address the recommendations of: (i) an independent evaluation of the completeness and accuracy of the SAFIR information; and (ii) a feasibility study of SAFIR data crosscheck with other databases	25,000,000
15) At least 90% of GMI beneficiaries are paid through NASB for two consecutive months	25,000,000
16) A central registry with a national database of disabled persons is in place	25,000,000
17) Sanctions policy provisions, investigative powers and the referrals system for the Social Inspection are revised and in place	25,000,000
18) Three monthly lists of irregularities detected by NASB via data matching between SAFIR and the databases managed by National Public Pension House, and National Employment Agency are sent to Social Inspection for verification and proposing remedial actions	25,000,000
19) Risk-based investigation to detect error and fraud is used by the Social Inspection for Low-income Households Programs, Child Raising and Disability Benefits	25,000,000
20) Three monthly lists of irregularities detected by NASB via data matching between SAFIR and the databases of ANAF and <i>Registrul National de Evidenta a Populatiei</i> are sent to	25,000,000

Social Inspection for verification and proposing remedial actions	
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- (b) If, at any time, the Bank determines that any portion of the amount disbursed by the Bank to the Borrower under Category (1) was made for reimbursement of expenditures which are not eligible under the EEP or not in compliance with the provisions of Section III.B.1 (b) of this Schedule and the provisions in the POM, the Borrower shall promptly refund any such amount to the Bank as the Bank shall specify by notice to the Borrower.

- 3. The Closing Date is September 30, 2014.

SCHEDULE 3

Amortization Schedule

The Borrower shall repay the principal amount of the Loan in full on February 1, 2023.

APPENDIX

Section I. Definitions

1. “ANAF” means the Borrower’s National Agency for Tax Administration, or any successor thereto.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011.
3. “Category” means a category set forth in the table in Section III.A.2 of Schedule 2 to this Agreement.
4. “CASBs” means the Borrower’s County Agencies for Social Benefits, or any successors thereto.
5. “Child Raising Benefits” means the benefits program as established through the Government Emergency Ordinance No. 148/2005 as amended.
6. “Complementary Budget for Disabled Adults” means the benefits program as established through Law No. 448/2006 as amended.
7. “Disability Benefits” means the benefits program as established through Law No. 448/2006 as amended.
8. “DLIs” means the Disbursement-linked Indicators as set forth in Section III.B.2.a) of Schedule 2 to this Agreement, as such indicators refer to specific output and outcome indicators measuring improved performance of the Borrower’s Social Assistance System.
9. “EC” means European Commission.
10. “EEP” means Eligible Expenditure Program, a portion of the Borrower’s budgetary allocation for financing benefits under four Social Assistance Programs, including: (i) State Child Allowance Program; (ii) Child Raising Benefits Program; (iii) Family Allowance Program; and (iv) Guaranteed Minimum Income Program.
11. “Family Allowance” means benefits established through Law No. 277/2010 as amended.

12. "Family Policy Programs" means collectively the State Child Allowance program (hereinafter defined), Child Raising Benefits program (hereinafter defined) or any successors thereto.
13. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated July 31, 2010.
14. "GDSA" means the Borrower's General Directorate for Social Assistance within the MoLFSP (hereinafter defined), or any successor thereto.
15. "GMI" means the Guaranteed Minimum Income as established through Law No. 416/2001 as amended.
16. "Heating Benefits" program means the benefits program as established through Government Emergency Ordinance No. 5/2003 as amended.
17. "IMF" means International Monetary Fund.
18. "Indemnity for Disabled Adults" means the benefits program as established through Law No. 448/2006 as amended.
19. "Legislation regulating Social Assistance Programs" means the Borrower's relevant legislation regulating the social assistance benefits programs on: (i) State Child Allowance; (ii) Child Raising Benefits; (iii) Family Allowance; and (iv) Guaranteed Minimum Income, as hereinafter defined.
20. "Low-income Households Program" means collectively the Family Allowance program (hereinafter defined), GMI (hereinafter defined), Heating Benefits program (hereinafter defined) or any successor thereto.
21. "M&E" means Monitoring and Evaluation.
22. "MoLFSP" means the Borrower's Ministry of Labor, Family and Social Protection, or any successor thereto.
23. "MoPF" means the Borrower's Ministry of Public Finance or any successor thereto.
24. "MoU and the Loan Agreement between Romania and the EC" means the Memorandum of Understanding and the Loan Agreement signed between Romania and EC dated June 23, 2009 ratified through the Borrower's Emergency Ordinance No. 82/2009 as amended.

25. “National Employment Agency” means the Borrower’s agency established under the coordination of MoLPFS (hereinafter defined).
26. “National Institute for Medical Expertise and Work Capacity Recovery” means the institute established under the subordination of the Borrower’s National House of Public Pensions.
27. “NASB” means the Borrower’s National Agency for Social Benefits, or any successor thereto.
28. “Payments under the EEP” means monthly payments, out of the Borrower’s budgetary allocations, conducted by NASB/CASB to eligible beneficiaries under one of the four Social Assistance Programs referred to in paragraph 34 hereinabove, made in accordance with the eligibility criteria, terms and provisions set forth in the respective Borrower’s laws and regulations applicable to the respective Social Assistance Program.
29. “Program Financial Statements” means the annual financial statements for the Social Assistance Programs (hereinafter defined) prepared by the Borrower, through the MoLFSP and NASB, in accordance with the applicable Romanian regulations.
30. “POM” means Project Operational Manual to be approved by MoLFSP Order and referred to in Section I.A.1 of Schedule 2 of this Agreement, describing procedures for implementation of the Project, consistent with the provisions of this Agreement and with the national laws and regulations of the Borrower.
31. “*Registrul National de Evidenta a Populatiei*” means the national registry for the population administered by the Borrower’s Ministry of Administration and Interior.
32. “SAFIR” means Integrated Information System for Administration of Social Benefits.
33. “Social Assistance Programs” means the Borrower’s four (4) social assistance programs eligible for reimbursing under the project, including: (i) State Child Allowance Program; (ii) Child Raising Benefits Program; (iii) Family Allowance Program; and (iv) Guaranteed Minimum Income Program.
34. “Social Assistance Reform Strategy” means the Borrower’s social assistance reform program as adopted by the Government through Memorandum dated March 3, 2011.

35. "State Child Allowance" means the benefits program as established through Law No. 61/1993 as amended.
36. "Stand-by Arrangement between Romania and IMF" means the Agreement between Romania and IMF as ratified through the Borrower's Emergency Ordinance No. 99/2009 as amended.