1. Country and Sector Background

In 2007, Romania is expected to join the European Union (EU). As part of the negotiations to join the EU, the Romanian Government has agreed to follow the *acquis communautaire* which is the entire body of legislation of the European Communities and Union. All EU member states have to follow the *acquis* which is divided into various themes, one of which is environmental protection that provides specific directives on water and wastewater. It is estimated that the investment costs alone to meet the EU directives on improving water services and wastewater services will be around €5.6 billion and €9.5 billion respectively (by end 2018). These costs mainly relate to increasing the coverage of piped water supply, developing sewerage networks, and constructing wastewater treatment plants. In addition to these investments, the economy will have to bear the operation and maintenance costs and the investment costs to rehabilitate the existing infrastructure.

To help the Government meet the EU directives, the EU has provided grants through its pre-accession instruments (EU Phare program and the Instrument for Structural Policies for Pre-Accession (ISPA) program) and will continue to do so in the future through the Structural and Cohesion Funds. However, the EU grant funds are expected to cover only around 31% of the total investment costs to meet EU directives and the rest of the financing will be raised from other sources. To this end, Romania will spend central and local government resources, either for the provision of co-financing for EU grants or for stand-alone investments (without EU grants) that are necessary to meet EU directives. For the latter, expenditures would meet the EU’s additionality principle where Romania is expected to undertake important and necessary investments to meet the EU directives. The Ministry of Public Finance (MoPF) intends to account the public expenditures incurred in this project as additional in nature and report them accordingly to the EU.

Investments proposed under this project – covering the municipalities of Bucharest and Arad – are fully in line with the strategic priorities of the Government (as documented in the SOP) and the two municipalities. The criteria used by the Government to define the investment priorities include the size of
the affected population, improvement in the quality of surface or groundwater due to wastewater treatment, investment size, presence of an operator to provide water and wastewater services, per capita water consumption, and incidence of water borne diseases. High priority investments are expected to be completed between 2006 and 2009.

The Government has already started project preparation in 30 of the 41 counties in the country. This project will support project preparation in the remaining 11 counties, representing a population of around 5 million. Projects will be prepared at the county level and thus will include multiple small and medium towns and settlements. Prepared projects will be submitted to the EU to seek EU Cohesion and Structural grant funds.

2. Objectives

The objective of the project is to assist Romania to meet EU environmental directives in the water and wastewater sector, thereby improving the quality and coverage of water and wastewater services. This objective will be met through: a) the support of infrastructure development in the municipalities of Bucharest and Arad to provide better water and wastewater service and improve stormwater management; and b) preparation of priority water and wastewater projects in 11 counties. Prepared projects will be submitted for financing by EU Structural and Cohesion grants along with other co-financing. The indicators to determine project progress are summarized below.

• Improved access to water supply meeting EU standards;
• Improved access to sanitation meeting EU standards;
• Proportion of the project area protected from flooding;
• Improved road surfacing (in areas where water, sewerage, and stormwater networks will be laid); and
• Project applications prepared for EU funding.

3. Rationale for Bank Involvement

The project builds on the successful Bank-financed Bucharest Water Supply Project (Loan No. IBRD-4079, 1996 to 2001) which supported the public water operator, Bucharest Water and Sewerage Company (RGAB). Under the Bucharest Water Supply Project, the Bank supported the rehabilitation of the existing water network and reduction in water losses and supported the involvement of the private sector. The experience gained by the Bank and the Bucharest municipality on the Bucharest Water Supply Project will be useful to implement this project.

The project will assist Romania to meet its commitment to the EU as it will help the country to implement priority environmental investments and in meeting these investment needs, develop a pipeline of projects that can utilize EU Structural and Cohesion funds. The project will directly improve the quality of water and wastewater services and reduce flooding of low lying city areas where new drainage networks will be built. The project also supports urban services (water, sewerage, and stormwater) which will support urban development in Bucharest and Arad and allow water and wastewater services to be provided as per EU directives.

4. Description
The project will have three components, on which information is presented below

**Component 1: Urban services in Bucharest Municipality.** Eligible expenditures under this component would be for: (a) Works for the provision of new urban services – water, sewerage, drainage and road surfacing – in priority neighborhoods; and (b) Technical Assistance to prepare bidding documents, for construction supervision, support to the municipality to implement the project, and complete financial audits.

The municipality has embarked on a 5-year program, consisting of four phases, to improve the urban infrastructure in the city to EU standards. The program comes out of the General Urban Plan, the Water Supply Master Plan and the Wastewater Master Plan which prioritize areas of greatest need and future growth within the city. This project covers Phase I of this program and foresees the extension of water supply, sewerage and stormwater services in two out of the six sectors in the city. Within these two sectors, the municipality has identified 7 priority locations – a combination of partly built-up area and new residential areas – based on the approved urban development plan. The project will include the following:

- **Water supply:** Households in built-up areas now relying on well water will be connected and water will be supplied to new development areas;
- **Sewerage:** Households will be connected to the sewer system, which will feed a wastewater treatment plant that has sufficient design capacity for the increased sewerage load. This treatment plant is currently being upgraded with assistance from the EU;
- **Stormwater drainage:** Stormwater drains will be laid to reduce flooding, especially in the low lying areas of the city. Lagoons will be used to retain stormwater to reduce the hydraulic load to the receiving water body; and
- **Road paving:** By paving the roads, the municipality will be in a position to include the project areas in the concession contract. Paving has additional benefits for traffic and for reducing siltation in stormwater drains.

**Component 2: Urban services in Arad Municipality.** Eligible expenditures under this component would be for: (a) Works for the provision of new urban services – sewerage, drainage and road surfacing – in priority neighborhoods; and (b) Technical Assistance to prepare bidding documents, for construction supervision, support to the municipality to implement the project, and complete financial audits.

The project will cover three districts (Bujac, Gai, and Sanicolaul Mic) in Arad municipality and benefit a current population of 22,000, representing about 90% of the population in these districts, which does not have access to public sewerage and uses septic tanks that leak into the groundwater. The project areas also need proper drainage facilities as they are prone to flooding. The project investments are:

- **Sewerage:** Households will be connected to the sewer system, which will feed a new wastewater treatment plant being built with EU financing. This plant will treat the collected wastewater to EU standards;
- **Stormwater drainage:** Stormwater drainage will be installed, especially in the low lying project areas; and
- **Road paving:** Roads in which sewerage pipes and stormwater drains are installed will be restored to at least their original quality. However, road paving has benefits for the traffic and the impact on vehicle maintenance and reduces siltation of the stormwater drains. The municipality will determine, prior to construction, whether or not roads in each district should be paved. This determination will be based on a satisfactory economic rate of return for the Bank to provide the no objection to road paving.
Component 3: Project Application for the EU. Eligible expenditures under this component will be for consulting services to prepare the audits for the project and project applications for EU financing, including feasibility studies and preparation of complete tender dossiers. This component will be implemented by the Ministry of Environment and Water Management (MoEWM).

The MoEWM has chosen 11 counties, covering about 5 million people, where priority water and wastewater projects will be prepared. These counties are: Arad, Sibiu, Galati, Dolj, Ilfov, Mehединți, Vrancea, Bistrița – Năsăud, Brașov, Constanța, and Ialomița. The MoEWM has already started preparing projects in 30 counties and with the additional 11 counties covered in the Municipal Services Project; project preparation will have started in all counties in the country.

The Terms of Reference for the feasibility studies will be similar to the ones used for the other counties that have also started the process of preparing projects to secure EU grant funds. As per Bank’s policy on International Waterways, the Terms of Reference will examine any potential riparian issue for the proposed investments.

5. Financing

<table>
<thead>
<tr>
<th>Source</th>
<th>(US$ m.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BORROWER</td>
<td>38.9</td>
</tr>
<tr>
<td>INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT</td>
<td>131.7</td>
</tr>
<tr>
<td>Total</td>
<td>170.6</td>
</tr>
</tbody>
</table>

6. Implementation

The Borrower of the Bank loan will be Romania, represented by the MoPF. The project will be implemented by the following three implementing entities: municipality of Bucharest, municipality of Arad, and the MoEWM. Both municipalities have experience in handling internationally financed projects and have the capacity to implement the project. In the MoEWM, the General Directorate for Management of Structural Instruments will be responsible for implementation of this project. This General Directorate is responsible for programming, monitoring, and authorizing payments for the EU Structural and Cohesion funds for the environmental sector. Thus, this General Directorate will be able to fully integrate the activities of the Bank with the other ongoing activities related to EU accession, including development of a project pipeline.

7. Sustainability

The sustainability of the investments supported under the project is highly likely as the project supports basic services such as water supply, sewerage and stormwater drainage with the first two subject to specific EU performance standards and monitoring. In Bucharest the water and wastewater services are provided by Apa Nova, a utility that has majority private ownership, through a concession contract. In Arad, the municipality will carry out a competitive public tender process to select by June 30, 2008 an operator that would provide wastewater and drainage services in the areas covered under the project. The municipalities have kept both utilities informed about the project and will seek their views during the design and construction phase as ultimately the utilities will operate the systems. The utilities, on their part, have agreed to take on the services through amendments in the concession contracts.
The utilities will use the existing regulatory systems for service quality and tariff methodologies that are applicable in Bucharest and Arad. The Government will facilitate proper functioning of the regulators in the two municipalities to ensure that quality services are provided and tariffs are increased as per the tariff regulations.

8. Lessons Learned from Past Operations in the Country/Sector

The Bank has been involved in municipal projects over many years and across many countries, including those that are current EU member states and are in accession negotiations with the EU. The experience under the Bucharest Water Supply Project which closed in December 2001 is also well documented in the Bank’s Project Performance Assessment Report (June 2003) and Implementation Completion Report (June 2002). Key relevant lessons are:

- **Sustained political support is critical for municipal investments:** Municipal projects often tend to be institutionally complex due to the involvement of two levels of government – central and local which often have different priorities. This leads to delays in project implementation, even in projects that are fully justifiable on economic grounds. In this project, the political support is strong in both levels of government as the investments will help Romania meet its commitment to the EU which is a common political and economic goal across the country. This political support to implement the project will remain given the aspiration in the country for Romania to be a fully integrated EU member state.

- **The scale and complexity of the project must reflect the capacity of the implementing agencies.** The Bucharest Water Supply Project did not engage in a large-scale and complex operation as the beneficiary at that time (in 1996) had limited experience in the implementation of externally financed projects. In the last decade, both the municipalities of Bucharest and Arad have strengthened their institutional capacity and implemented externally financed projects including those financed by the EU. Through the programming and use of ISPA funds and the programming of EU Structural and Cohesion funds, the MoEWM has gained sufficient program and project management experience. In this project, the implementation arrangements reflect the advanced institutional capacity of the two municipalities and the MoEWM.

- **Lack of prepared projects has been a bottleneck to successfully absorb EU funds.** The utilization rate of the EU ISPA grant funds was slow in the initial years, although progress has been made to virtually commit all the ISPA resources available to Romania. One of the reasons for the slow absorption of EU funds was that well prepared projects were not in place. Having learned from this lesson, the Government has taken a country-wide approach of preparing a project pipeline that can use EU Structural and Cohesion Funds. Component 3 is specifically designed to support this initiative of the Government and will help to prepare projects in multiple small towns and settlements.

9. Safeguard Policies (including public consultation)

The safeguards policies triggered by the project are as follows:

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment (OP/BP/GP 4.01)</td>
<td>[]</td>
<td>[X]</td>
</tr>
</tbody>
</table>
For the project, the following safeguards will be triggered: (a) Projects on International Waterways; and (b) Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank Supported Projects. Under the latter policy, the Bank is recommending the use of Romanian systems to address environmental and social safeguard issues in this project in the following areas: (a) Environmental Assessment; and (b) Cultural Property.

For components 1 and 2, works will be carried out on public lands owned by the municipalities of Bucharest and Arad. The municipalities through the Project Agreements have confirmed to the Bank that all construction will take place on land that is owned by them and on which there are no persons with legal claims to the land. Thus, the project will not result in any adverse impact on people due to loss of access to land or other assets. As a result the Bank’s policy on Involuntary Resettlement will not be triggered. The final designs for the construction have not yet been completed and the land to be used for the works will be selected in line with the confirmations provided by the municipalities in the Project Agreements. Based on field visits, and information and assurances provided by the municipalities, the Bank team confirms that the approach proposed by the municipalities will help avoid any adverse impact on people due to project activities. Compliance with this approach will be verified during Bank supervision missions.

**Equivalence and Acceptability Assessments:** This project was selected for piloting the use of country systems under the Bank’s OP/BP 4.00. Thus, a safeguards diagnostic study was undertaken to assess: (a) the equivalence of Romanian systems and World Bank requirements; and (b) the acceptability of implementation practices, track record and capacity of the agencies involved. The equivalence and acceptability assessment was carried out by an interdisciplinary team of Bank staff in collaboration with relevant Government staff. The Bank review included meetings and site visits in cooperation with environmental officials at the central, regional and local levels. The methodology included desk review of current legislation and supporting mandatory guidelines.

The results of the diagnostic review indicate that the operational principles of Environmental Assessment as stated in Table A1 of OP 4.00 and the Romanian Environmental Impact Assessment (EIA) system have many common features and that there are no gaps in equivalency. With respect to the acceptability, it was also found that Romania’s current approach to EIA conforms to OP 4.00. As per Bank’s policy on

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* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties’ claims on the disputed areas

Environmental Assessment, the project is categorized as an environmental category B since the investments will be related to small civil works without significant impact to the environment.

Regarding cultural property, the Romanian systems are equivalent to that of the Bank and appropriate for application, if needed. If the project requires construction or rehabilitation near historic buildings or other physical cultural resources, or if “chance finds” are encountered, Romanian systems are at least as effective as those outlined in OP/BP 4.00 on such points. Inventories of buildings and sites of cultural significance are available, and stakeholders are consulted to assess whether proposed investment projects might cause impact. Local experts on archeology, architecture and other relevant fields are brought in for assessments before construction decisions are made, and if “chance finds” are encountered during construction.

Bank supervision on safeguard-related matters will continue, on a semi-annual basis, throughout the implementation of the proposed project to: (a) ensure compliance with equivalent and acceptable Romanian procedures; and (b) track results in environmental outcomes.

Public Consultation and Disclosure: Staff from the Ministry of Environment and Water Management (MoEWM) and the World Bank jointly organized a public consultation workshop to discuss the draft version of the Equivalence and Acceptability Report in Bucharest in December 2005. The MoEWM had circulated copies of the Executive Summary of the draft report to a large number of individuals and relevant agencies inviting them to participate in the public consultation and comment on the report. Over thirty-five people, representing non-Government officials, consultants, academia, and various Government departments, attended this workshop. Participants expressed their support to the proposal to pilot Romanian environmental and social system in the context of the project and agreed with the findings and gap filling actions proposed to achieve and sustain equivalence and acceptability. The full report, including the executive summary, was disclosed in Romania and in Washington on January 25, 2006.

The equivalency analysis did not cover the Bank’s policy on International Waterways where the Bank’s policy will apply for components 1 and 2 of the project as: in Bucharest stormwater will be discharged to the Dambovita River that discharges to the Arges River that flows into the Danube River – an international waterway. In Arad the stormwater discharge will flow into the Mures river that flows into the Tisza river in Hungary which meets the Danube in Hungary before it flows through Romania to the Black Sea. Further, in both cities, additional wastewater will be collected due to sewerage connections. This wastewater will be fully treated before it is discharged to the Mures and Dambovita rivers. Although the impact of the project is negligible compared to the flow of the Danube River, in accordance with Bank policies, the MoEWM informed the International Commission for Protection of the Danube River (ICPDR) on December 28, 2005 about this project. On February 22, 2006, the ICPDR replied to the MoEWM acknowledging receipt of the letter from the Government and did not raise any objections to the project. The ICPDR also mentioned that it had informed the riparians and welcomed the initiative taken by Romania to improve the Danube water quality.

For component 3, the MoEWM sent a supplemental notification to ICPDR on May 15, 2006. In the supplemental notification, Romania informed the ICPDR that it would like to access EU Structural and Cohesion funds in 11 counties. To this end, Technical Assistance under the Bank project is required for preparing project applications to secure EU grants, institutional strengthening of stakeholders, screening of projects to establish priorities, preparation of feasibility studies, and completing tender dossiers (including detailed design and engineering studies). The notification also mentions that given the nature of the investments (improve water and wastewater quality), adverse effects on the riparian countries are not expected. The ICPDR was given until May 31, 2006 to respond to the supplemental notification. A response time of 15 days was considered sufficient as the notification is supplemental in nature, for activities that are not expected to have any adverse effects on the riparians.
10. List of Factual Technical Documents


- S.C. Romair Consultants Ltd (December 2005) Rehabilitation of the urban areas with severe shortages in sewerage and water supply services in Bucharest Municipality (Draft Feasibility study);

- S.C. Romair Consultants Ltd (December 2005) Rehabilitation of the urban areas with severe shortages in sewerage services in Arad Municipality (Draft Feasibility study).

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