

**MINISTRY OF PUBLIC FINANCE**

Office of the Minister

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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