



Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 08-Sep-2022 | Report No: PIDC260728



BASIC INFORMATION

A. Basic Project Data

Project ID	Parent Project ID (if any)	Environmental and Social Risk Classification	Project Name
P178678		Low	Danube Water Program Phase IV - Fostering Water Security and Resilient Recovery in the Danube Region
Region	Country	Date PID Prepared	Estimated Date of Approval
OTHER	Danube	08-Sep-2022	
Financing Instrument	Borrower(s)	Implementing Agency	
Investment Project Financing	IAWD - International Association of Water Service Companies in the Danube River Catchment Area	IAWD - International Association of Water Service Companies in the Danube River Catchment Area	

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PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	1.52
Total Financing	1.52
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	1.52
Miscellaneous 1	1.52

B. Introduction and Context

Country Context

1. The **Danube region is located in Central- and South-East Europe**, in one of the continents largest transboundary river catchment areas, the Danube, which is the most international river basin in the world



draining into the Black Sea. The countries sharing the basin are Albania, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Germany, Hungary, Italy, Kosovo, North Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia, Switzerland, and Ukraine.

2. The region shows considerable successes over the past decades in terms of democratization and economic sustainability. However, the countries of the region still represent a **great diversity of socioeconomic, political, and geographic realities**. Some of the economically most successful and at the same time most challenged counties of Europe are sharing the basin, with a significant range of GDP per capita between USD45,437 (Austria) to USD5,190 (Moldova). The political situation is not stable everywhere. Trust in state institutions, unemployment, exclusion, poverty, and the role of civil society remain challenges, and about 2.5 million people still live on less than USD2.50 a day. Furthermore, the COVID-19 pandemic has caused an unprecedented health, economic, and social crisis globally. Next to threatening the lives and livelihoods, the crises caused increases in poverty and inequality, and reversing development gains.

3. There is a continued **declining trend of population** within the region due to a combination of low natural population growth and outward migration in some countries, particularly from recent EU members or candidate countries, where young talent is looking to the EU and beyond in search for better economic prospects. This continues to be a concern for many countries in the region which are trying to move forward in the jobs and growth agenda. At the same time, the region has experienced in the past and now again armed conflicts, leading to human suffering, economic devastation, and a recent steep surge in migration due to the situation in Ukraine.

4. Although significant political and cultural differences among the countries exist, there is an **overall convergence of political and economic transition** from a centralized government and socialist economy to a social liberalism model endorsing a regulated free market economy and the expansion of civil and political rights. With the Danube as a joint resource, an intertwined history, the countries also share a **common trajectory towards European integration**. Accession to the EU by seven of the Danube region's countries around the first decade of the twenty-first century has driven much of the remarkable developments in the countries. However, many challenges remain with harmonization with EU directives in EU member states, and with the path towards EU membership in EU candidate countries and alignment efforts in non-EU countries.

5. In this context, **countries are undergoing a process of rapid modernization** that has had a major impact on the status and organization of the water sector. Large investments in water assets and infrastructure upgrading are needed and taking place, often with significant external financial support. However, these investments have not yet been matched consistently with a regulatory, organizational, managerial, and technical modernization of the sector's institutions and governance. Hence, there is an ongoing need for sector support in the region to improve water services delivery and overall water security in the context of economic development and climate change.



Sectoral and Institutional Context

6. **Water plays a key role in the countries' economies, for the people and the environment** – both as a driver of economic prosperity and inclusive growth, but also as a source of insecurity. Traditional approaches to development that take water security for granted need to be adapted to manage this dynamic future, mitigating water-related risks and harnessing opportunities. While there is general agreement that the impacts of climate change will be channeled primarily through the water cycle, managing these changes remains a challenge, even for more advanced countries in the world. Addressing water challenges in an integrated manner is therefore key to identify areas where water security is a concern, to guide infrastructure investment and institutional reform, and to inform high-level political and public dialogue on the nature and seriousness of water issues and the actions needed to address them.

7. In order to support the countries of the Danube region in addressing their water-related challenges, the World Bank and the International Association of Water Service Companies in the Danube River Catchment Area (IAWD) joined forces in 2013 to launch the **Danube Water Program** (DWP – P128416), which is a policy and technical assistance program for water sector institutions and other sector stakeholders. The Program is funded through the Danube Region Water Security Multi-Donor Trust Fund (TF073217) contributed to by the Government of Austria which finances work under a Recipient-executed (RETF) and a Bank-executed (BETF) Component. Activities fall under three broad categories: analytical and advisory services; capacity development, and knowledge sharing, which focuses on exchanging and sharing experiences and lessons learned among countries, institutions, and utility companies. The **Program covers overall 16 countries**, including eleven target countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Moldova, Montenegro, North Macedonia, Romania, Serbia, Ukraine) and five participating countries (Austria, Czech Republic, Hungary, Slovakia, Slovenia) covered by ECCWB, ECCEU and ECCEE. Target countries directly benefit from Program funding, while participating countries can participate in Program activities but not directly benefit from funding.

8. The **Danube Water Program original objective** is to support institutional capacity building and the development of regulatory and policy instruments in the water supply and wastewater (WSS) sector in participating countries in the Danube region. The first phase of the Program (EUR 4.5 million) was formally launched in 2013 in partnership with WSS line ministries, regulators, national water utility associations, and local government representatives of countries from South-East Europe. Given the strong demand for the Program's activities, two follow-up phases were approved, in 2015 with a focus on scaling up the activities, funded by an additional grant of EUR 5 million, and in 2019 with an additional grant of EUR 3.5 million, expanding the scope of the program towards the broader Water Security agenda and an emphasis towards the sustainability of the initially developed Program activities.

9. The **Independent Program Review** from 2018 confirmed the relevance of the program. Recommendations for follow-up activities and adjustments included inter alia to focus on the delivery of capacity building activities for water utilities and advisory services on improving the policy environment, promoting the institutionalization of national systems and sustainability of legacy activities, and enlarging the policy-level support covering Water Security and Water Resources Management (WRM) more widely. Recommendations



have been followed-up in the Program's third phase, e.g. with an extended scope of activities on the broader Water Security agenda, continued and streamlined support for the water supply and sanitation sector, enhanced cooperation with the EU and other relevant actors, and the IAWD governing review process with the objective to advance IAWD into a self-reliant financially stable association.

10. The Program responded to a strong demand from countries in the Danube region to achieve sustainable water and sanitation services. In addition, most of the countries in the region, as recent EU member states or candidate countries, need to meet the environmental water-related requirements of the *acquis communautaire* of the European Union (EU) and Chapter 27 negotiations against the backdrop of the lack of skills and knowledge in terms of service delivery, policies, attracting funding, and management. In this context, the analytical work and capacity development activities carried out through the DWP encountered strong demand from country ministries, regulators, utilities and other key stakeholders, and allowed to establish strategic relationships with organizations such as the European Commission, regional organizations such as the International Commission for the Protection of the Danube River (ICPDR), other International Financial Institutions (IFIs) and bilateral donors.

11. Important progress has been made to strengthen the water sector since the launch of the Program. Knowledge exchanges among more than a thousand different sector professionals and policy makers in the region and beyond has taken place, with the Danube Water Conference and Danube Water Forum as established and well-known regional activities. Several analytical pieces for the water sector have been produced and made available as a comprehensive assessment of the situation in the water sector of the countries of the Danube. A variety of benchmarking activities have been undertaken on a regional and national level including the publicly available DANUBIS.org utility performance indicator database which is linked to the World Bank's IBNET. Several countries benefitted from direct policy and regulatory advisory services linked with and leading to new World Bank engagements and lending operations. Capacity building programs benefitting several hundred utilities have been undertaken under the region wide Danube Learning Partnership (D-LeaP), involving cooperation with the national water utility associations.

12. The continuation of established legacy activities, including particularly D-LeaP and the knowledge sharing and outreach activities, is linked to the **process of enabling IAWD to become a self-reliant financially stable organization**. IAWD made important progress in generating income, i.e. through payments for capacity building and knowledge sharing activities, but some of the key initiatives implemented by IAWD naturally require time to achieve financial and institutional sustainability. For IAWD to continue to sustain and grow its activities, next to the expansion of income generating activities, it is foreseeable that external donor funded support will be needed within and beyond the Danube Water Program. This aspect is also linked with institutional reforms of IAWD, allowing to attract external funding from other sources. Based on the 2018 IAWD Governing Review Process, IAWD Strengthening Actions have been elaborated and are under implementation, with the objective to further strengthen the organization and grow its membership base. In that context, an assessment on the options for the institutional improvements of IAWD has been launched in 2021, evaluating different options for institutional arrangements including pros and cons of IAWD's legal set-up. A decision on the most suitable option is planned to be made by IAWD in 2022.



13. **Some challenges remain, and new challenges are emerging for the water sector in the region.** Despite the important progress made, the water services sector is still confronted varying levels of skills, policy and regulatory approaches, and with chronic problems of overstaffing, inadequate financial performance, insufficient service quality, and tariff structures that often not meet cost recovery requirements, next to the significant investment needs for service delivery. **The COVID-19 pandemic has caused unprecedented impacts.** Various lockdown measures that have been imposed have impacted the water sector and rendered e.g. public service providers in a difficult position. Local Governments and utilities had to ensure the continuous delivery of essential communal services in their local communities while maintaining their financial and institutional integrity, and have faced a number of important challenges, including i) operating pressure; ii) increased costs of operation due to increased quantities of essential sanitary and disinfection supplies; iii) increased demand for digitalization of services; iv) inadequate crisis planning; v) financial challenges due to reported revenue loss; and vi) lack of financial resources, reported as the top challenge, requiring the activation of special funds, budgetary services and facilitating access to other financial resources.

14. **The armed conflict in Ukraine also impacts the water sector.** Energy costs represent a significant share of the operating costs of water utilities for service provision, with examples ranging from 30-80% of non-labor operating costs. The situation is further exacerbated by the armed conflict in Ukraine. Energy costs in many European countries have recently surged and costs for electricity and gas have multiplied in the beginning of 2022. Since January 1, both had shown a steep upward trend followed by an explosion to +430 % and +670 %. Inefficient operations put additional financial constraints on utilities to ensure the operation, maintenance, and replacement of the aging infrastructure.

15. Integrated approaches to water management gain in importance and pose a particular challenge. **Floods hit the region particularly hard** during several years in the past decade. The 2014 floods on the River Sava for instance, affected about 1.0 million people with 25 casualties and caused economic impact of an estimated 2 billion EUR in Bosnia and Herzegovina (nearly 15% of the GDP of the country), and in Serbia 1.6 million people with 51 casualties, and an economic impact of 1.5 billion EUR. **In addition, droughts are increasing in frequency and significance.** In 2017 for instance, a significant drought developed across the entire Danube basin and persisted in its northern parts throughout 2018 and 2019. Impacts included for example a 126 million EUR losses in agriculture and 40 % losses in energy production in Bosnia and Herzegovina, 50% lower yield in viticulture and up to 50% losses in energy production in Montenegro, a reduction of the Danube flow by 60% in Romania, and substantial losses in agriculture, water shortage, dried-up lakes and a disturbed energy production in Serbia with more than 1 billion EUR of losses in all sectors. Despite extensive damages in the last decades and an expected increase due to climate change, drought continues to be managed as a crisis situation, by implementing emergency procedures and urgent measures. However, this approach usually fails to achieve sustainable solutions since existing national drought management practices revealed a number of shortcomings in the areas of drought monitoring, response policies and infrastructure, requiring urgent action to mitigate future impacts and increase resilience. This is of particular importance since **climate change is expected to further intensify and increasingly impact the water sector and economies, with**



increased exposure of the region associated with rising temperatures and more frequent and intense extreme events like floods and droughts.

16. To move towards recovery will require sustained, differentiated, and targeted financial and technical support to governments and the private sector. Strong international coordination is needed to contain the impacts of the pandemic, resume progress toward countries' development goals, and lay the groundwork for green, resilient, and inclusive development. The European Union has put forward a major recovery plan to complement national stimulus packages addressing the socio-economic impact of the coronavirus pandemic. Nowhere has the approach to a green recovery been more ambitious than in the EU, which leveraged the COVID-19 recovery package that devotes €550 billion to green projects. The European Commission has recently also approved an Economic Investment Plan for the Western Balkans and an accompanying guideline for the implementation of the green agenda in the region, aiming to mobilize up to €9 billion of funding. Key focus areas of the Green Agenda for the Western Balkans include decarbonization, circular economy, biodiversity, pollution reduction and modernization of the agri-food system – areas where the water sector has a direct and indirect role to play. The crises **bring along the opportunity for countries to Rebuild Better**, in a greener, more sustainable and resilient way.

17. Given the need to achieve the United Nation's Sustainable Development Goal No. 6 on Water, the EU Green Deal and holistic approach to water management embedded in EU directives with most of the countries in the region striving to achieve compliance, effects of climate change and COVID-19 related impacts, **the scope of the Danube Water Program remains of vital relevance to be scaled-up**, responding to the strong demand from countries to receive support to sustain water resources, delivering reliable and safe water services, and increasing the resilience of the water sector that could respond to potential future crises and an array of shocks and stresses, including those brought by climate change.

18. Hence, due to the continuous need for water sector support in the region and the successful engagement with client countries, **additional contributions to the Danube Region Water Security Multi-Donor Trust Fund in an amount of EUR 4.0 million have been accepted by the Bank and provided by the Government of Austria**. The End Disbursement Date (EDD) of the Trust Fund has been extended, allowing to continue with the implementation of water sector support activities for the Danube region under a 4th Phase of the Danube Water Program through December 2025 by further extending the significant new dimension around water resources and water risks management alongside the existing water services delivery scope.

Relationship to CPF

19. As a regional program, the activities are relevant and support the achievement of water-related objectives and client priorities in several countries, including the strengthening of institutional capacity, improving access to safe water services, increasing resilience of the water sector, and addressing the increasing risk stemming from climate change, which is particularly channeled through the water cycle. The scope on fostering water security and resilient recovery, supporting the related policy and regulatory reform needs, is aligned with the World Bank's Green, Resilient, and Inclusive Development (GRID) approach.



C. Project Development Objective(s)

Proposed Development Objective(s)

20. The Development Objective of the Danube Water Program Phase IV is to foster water security and resilient recovery of participating countries in the Danube region. This will be achieved by supporting the strengthening of water sector policies, institutional capacities, and efficiency of water sector delivery. The achievements of the previous three Phases on capacity development and performance improvement will be solidified to ensure a stable and continuous delivery of benefits.

Key Results

21. Proposed indicators for the results framework include:

1. Number of water sector regulation and policy reviews conducted
2. Number of target countries in which regulatory and policy recommendations for the water sector have been discussed, endorsed and are being implemented
3. Number of policy makers, higher-level technical and managerial staff from participating countries that benefited from cross-country capacity building activities
4. Percentage of female participation benefiting from capacity building activities
5. Number of hubs delivering a capacity building program
6. Number of participating utilities that have completed an operational performance improvement program under the Danube Learning Partnership (D-LeaP)
7. Number of participating utilities that have improved their operational practices as a result of a capacity building program under the Danube Learning Partnership (D-LeaP)
8. Number of new members joining IAWD
9. Cumulative income generated by IAWD from the implementation of Danube Water Program activities
10. Cumulative amount of co-funding received supporting the implementation of Danube Water Program activities

D. Preliminary Description

Activities/Components

22. The activities under the fourth Phase of the Danube Water Program will build upon the important achievements of the previous phases, further expanding the scope of the program towards the broader Water Security agenda and an emphasis towards the sustainability of the initially developed Program activities. Activities will be scaled-up to support countries to sustain water resources, deliver reliable and safe water services, and to increase the resilience of the water sector against water-related risks and the impacts of climate change, in line with the **World Bank Water GP vision** to achieve a water secure future for the people, the economy, and the environment.



23. The proposed fourth Phase of the Danube Water Program will **continue with the strategic partnership between the World Bank and the International Association of Water Service Companies in the Danube River Catchment Area (IAWD)**. Project activities under the extended scope will include the following two components:

- i. Bank-Executed Trust Fund activities fostering water security and resilient recovery, focusing on the related policy and regulatory reform needs aligned with the World Bank's **Green, Resilient, and Inclusive Development (GRID) approach**; and
- ii. Recipient-Executed Trust Fund activities focusing on **capacity building and knowledge sharing** for water supply and wastewater utilities and institutions, which will be implemented by the International Association of Water Service Companies in the Danube River Catchment Area (IAWD).

24. Further **strengthened alignment and cross-support between the Program and other World Bank activities** in the Danube region, but also with other IFIs and international actors can generate substantive benefits for the sector. Therefore, the fourth Phase will continue to stronger align the Program's activities with overall World Bank engagement to multiply impact, including better alignment of capacity building products developed under the Program with investment projects. Among others, this alignment will be achieved by putting a stronger focus on implementation modalities for some of the World Bank driven activities, where individual activities will be demand-driven by World Bank project teams working in the countries, whereas other activities, particularly regional analytical and knowledge sharing activities, will be directly implemented by the DWP core-team.

25. In order to ensure continuity of legacy activities, it is proposed that also **under the fourth Phase the Program covers overall 16 countries**, including eleven target countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Moldova, Montenegro, North Macedonia, Romania, Serbia, Ukraine) and five participating countries (Austria, Czech Republic, Hungary, Slovakia, Slovenia) covered by ECCWB, ECCEU and ECCEE. Target countries, which are IDA/IBRD borrowing countries, can directly benefit from Program funding, while participating countries can participate in Program activities but not directly benefit from funding. This setting ensures that IDA/IBRD eligible countries can benefit from the program, while ensuring the links also to other more advanced economies, what is of particular relevance for the capacity building and knowledge sharing activities in the shared Danube basin.

26. The following **key areas of activities** will be addressed under the proposed fourth Phase of the DWP. Further expanding the program scope (key focus area) on 1. Water Security and resilient recovery policy and regulatory support; continuation or completion DWP involvement and securing long-term continuity of key products on 2. Support for WSS sector regulation, policy and governance; 3. Regional capacity building activities for water utilities; and 4. Communication, outreach and knowledge sharing. In the following, the key areas of activities are described in more detail.

Activity 1: Water Security and resilient recovery policy and regulatory support (Bank executed)

27. This activity will **support countries in their development efforts for reform of sector policies, regulations and governance in relation to the broader water sector** towards building a water secure and climate



resilient Danube region. The activities will build on the findings from the water security analytical work launched under the previous Phase and further expand the scope of activities towards the broader water sector. The activity will allow for more detailed analytical and advisory work at regional and country-level for fine-tuning and further developing findings and recommendations on specific water security reform needs in close partnership with country priority needs. The related work will be conducted with involvement of the broader Bank team active in the region, following a decentralized approach and aligned with the **needs stemming from ongoing, and preparation of new Bank operational engagements** in the countries. In addition, more detailed regional analytical work will be undertaken on topics of specific regional relevance.

Activity 1.1: Regional level analytical and advisory work on water security and resilient recovery

28. Under this activity **more detailed water security related analytical work in support of required reform agendas relevant at regional level** will be conducted. There are e.g. several uncertainties, data gaps and lack of experience related to the impacts of climate change and appropriate response activities in relation to the EU policy framework on integrated water resource management. In that context, existing gaps of EU legislation are proposed to be addressed in more detail, including e.g. approaches for water scarcity and drought mitigation requiring strengthening of policies, institutional capacity, and green and grey infrastructure, which are considered of increasing relevance for the Danube region due to climate change, but for which the scope of the Water Framework Directive, related legal requirements and practical experience is only limited (in contrast to flood risk management – a topic for which a specific EU Directive is in force and under implementation). The activity will allow to bring in World Bank global knowledge in order to tackle the existing knowledge gaps in the region, combined with envisaged study tours to further raise awareness and deepen the understanding on appropriate response actions.

Activity 1.2: National-level analytical and advisory work on water security and resilient recovery

29. Danube countries are faced with the multiple challenges of improving approaches for the integrated management of water resources and increasing resilience in the context of climate change, economic impacts of the pandemic, and reaching compliance with the EU water management acquis at the backstop of limited financial resources and institutional capacity. Under this activity **targeted analytical and advisory support will be provided at country level** on water security policy and regulatory reform needs. Methodological approaches for the implementation of EU water legislation, i.e. the Water Framework Directive, poses a particular challenge, which will be addressed under this activity. The work will build on existing and established new partnerships in the countries of the Danube region. A **demand-driven approach** will be further strengthened, with support needs being jointly identified and led by Task Team Leaders (TTLs) of World Bank projects, allowing to conduct more detailed analytical and advisory work focusing on water security topics in the region. The demand for support activities will be identified and initiated by the extended World Bank team and based on country needs to ensure a strong linkage between the Program and other World Bank activities in the region.

Activity 2: Support for Water Supply and Sanitation sector regulation, policy and governance (Bank executed)



30. This activity will support the **improvement of water supply and sanitation service efficiency and resilience**, and support committed government counterparts in the preparation of WSS sector reforms, focusing on the integration of WSS services into circular economy and in support of climate adaptation but also mitigation ambitions. The COVID-19 pandemic has exposed the still existing weaknesses of the water services sector in many countries of the Danube region, but also allowed to raise awareness of the importance of maintaining an efficiently operated and well-funded water service provision sector. It highlighted the need for further improving water service provision and resilience via proper crisis planning and management. The rationale for this activity is also founded in the requirements stemming from the new EU legislation like the new Drinking Water Directive, which entered into force in January 2021, requiring countries to introduce a complete risk-based approach to water safety, covering the whole water supply chain from the catchment area, abstraction, treatment, storage, and distribution to the point of compliance. The activity will utilize and build upon recent World Bank Water GSG Water and Resilience work and activities, bringing World Bank global knowledge and experience to water stakeholders and utility managers in Danube region. To ensure coordination and a stronger linkage between World Bank activities on water supply and sanitation in the Danube region and to multiply impacts, activities will include demand-driven support activities identified and led by Task Team Leaders (TTLs) of World Bank projects focusing on WSS regulation, policy and governance.

Activity 2.1: National-level support to selected countries in preparation of policy reforms focused on improving sector efficiency and resilience

31. Water supply and sanitation sector development in the Danube region has progressed during the past years. While demand has narrowed, there is a remaining need for providing advice in several countries of the region, including topics like utility regionalization, strengthening of regulatory agencies and tariff setting, and the enhancement of the institutional framework. Additionally, the Covid-19 pandemic has impacted the water sector in the Danube region, causing financial, technical and operational challenges, requiring adaptation to the new circumstances and continuing to ensure the safe delivery of water-related services. This activity will include the continuation of support for WSS sector regulation, policies and governance in an overall water security context focusing on those countries with an actual political momentum and commitment to required sectoral reforms. The activity will particularly target support for the achievement of SDGs and assistance to underserved groups.

Activity 2.2: Regional level capacity building and experience exchange for WSS focusing on service efficiency, resilience and promoting circular economy

32. The activity will include topics relevant in the context of the resilient recovery, EU's zero pollution action plan and circular economy, and will provide support to the water services sector in becoming more resilient, climate-friendly and aware of their footprint via actions from different entry points, including support in: (i) development of a climate resilient and adapted WSS sector (energy efficiency and reduction of greenhouse gas emission, reduction of water losses, water reuse (in line with EU Water Reuse Regulation from 2020)), (ii) transposition and implementation of updated EU Directives (new EU Drinking Water Directive, revised Urban Waste Water Treatment Directive, revised Sewerage Sludge Directive), (iii) rural water supply and sanitation



and individual wastewater treatment solutions, (iv) circular economy in wastewater and sewage sludge management, and (v) financial sustainability and affordability of water and wastewater services. The activity will be delivered primarily through direct support provided through transfer of knowledge by regional experts and specific workshops, and between the participants themselves, bringing regional and European experiences to the individual countries.

Activity 2.3: WSS sector performance evaluation and improvement

33. The organized collection and analysis of utility performance indicator data has been a key focus of the Program to support utility improvement, regulation and informed policy decisions. While significant ground has been covered, a remaining need was identified to further support sector performance improvement in target countries, focusing on national performance indicator data collection and evaluation supported via the DANUBIS DCM tool which was updated in 2021. The objective under this activity is to continue supporting selected committed countries/government agencies, in completing the development of a fully functional national data collection and benchmarking systems as a foundation for utility performance improvement actions.

Activity 3: Regional capacity building activities for water utilities (Recipient executed)

34. A key activity which was established in the frame of the Danube Water Program is capacity building of water utilities via the Danube Learning Partnership (D-LeaP). D-LeaP is **offering participating utility companies and sector professionals, through national partners, a comprehensive set of learning and capacity building programs** aimed at providing reliable, high quality and efficient water and wastewater services to all. Water service delivery by utilities is still underperforming in a number of countries and there is an ongoing demand for capacity building of the water utility sector in the Danube region. Under this activity the training offers will be solidified, further expanded, and further partnerships created towards sustainability of D-LeaP.

Activity 3.1: Utility Benchmarking Program (UBP)

35. The Utility Benchmarking Program allowed to significantly raise awareness on the importance of data collection among the participating utilities but has also created a network of utilities working on performance improvement collectively under the guidance of a national or regional UBP Hub coordinator. Sustainability and financial independency of the UBP Hubs for Albania/Kosovo and Bulgaria could be significantly improved over the last years, and external support required for the UBP Hub in Ukraine, and the regional Danube Hub could be reduced. Due to the development of the IAWD Utility Benchmarking Platform (IAWD UBP), the Danube Hub could be fully financed by participation fees in 2021. Under this activity, **the network of utilities will be further expanded, and the establishment of additional Hubs at national level for the exchange and comparison of performance data facilitated.** The linkages to the existing technical programs under D-LeaP, which can support performance improvement, will be stronger emphasized.

Activity 3.2: Danube Learning Partnership for sustainable WSS services (D-LeaP)



36. Under this activity, the **offerings and roll-out of training programs under the Danube Learning Partnership will be solidified**. Based on the experiences with D-LeaP program delivery during the Covid-19 pandemic, D-LeaP programs will be evaluated by the relevant Technical Partners to identify a suitable mixture of virtual and physical trainings including e-learning components to reduce costs for capacity building deliveries. Efforts will be made to increase the number of participating utilities towards the achievement of financial sustainability. A key entry point for action will be discussions with bilateral donors and IFIs to secure funding for participants from utilities receiving investment support. Furthermore, possibilities will be explored to further strengthen the link between the Hubs and national institutions potentially supporting the program, e.g. by creating regular national roundtables of relevant actors, such as government representatives, regulators, national donors and IFIs, local government associations and national water utility associations.

Activity 3.3: IAWD strengthening support

37. This activity will **support the reform process and institutional improvements of IAWD**. Different options for institutional arrangements are evaluated, including the pros and cons for IAWD's legal set-up. The implementation of actions for the institutional improvement process under this activity will be conducted during the implementation of the fourth Phase. Related progress, including the attraction of external funding sources, will be tracked via results indicators.

Activity 4: Communication, outreach, and knowledge sharing (Recipient executed)

38. This activity will build upon the successful establishment of the "Voice of the Danube" as a regional community of practice in the water sector and to continuously create awareness on the importance of the sector through communication, outreach and knowledge sharing activities. Communication and knowledge sharing are key activities under the Program. The knowledge sharing activities like the Danube Water Conference became signature events in the region that sector professionals look forward to joining, share knowledge and exchange ideas. Tools and activities will be further developed to increase outreach and strengthen the community of knowledge in the region.

Activity 4.1: Danube Water Conference, Danube Water Forum and KnowNow series

39. Further editions of the Danube Water Conference and the Danube Water Forum will be organized in alternating years, including a proof of concept for the Danube Water Forum which could only be delivered as a virtual event so far due to the pandemic. As a result of the new normal, the Danube Water Conference will be further developed into a hybrid event by shaping a virtual component. The successfully established DWP KnowNow series will remain an important building block within the virtual knowledge sharing.

Activity 4.2: Voice of the Danube

40. Since its launch in 2020, the Voice of the Danube website has grown into a well-known digital water service sector resource within the Danube region and beyond. The continuous support and growth of the website including content development will not only allow to better communicate the success stories



achieved under the Danube Water Program, but further build the Voice of the Danube community into a Community of Practice supported by regular virtual networking events, social media channels and promotional activities to increase outreach.

Activity 4.3: Water services awareness raising campaign

41. Under this activity an awareness raising campaign will be developed in cooperation with relevant partners, such as the Network of Associations of Local Authorities of South-East Europe (NALAS) and the national associations (both water utility and local government associations), to highlight the importance of water services in the Danube region among the stakeholders. This activity will involve a dedicated consultancy to develop a structured awareness raising campaign in cooperation with relevant stakeholders, to create and implement the content of this campaign. For further outreach the communication tools of the participating associations will be used (e.g. websites, social media channels).

Overview budget allocation

42. In the following, an overview is provided on the tentative budget allocation for the DWP 4th Phase, including the allocations for the Bank Executed and Recipient Executed Activities. **Additional contributions to the Danube Region Water Security Multi-Donor Trust Fund in an amount of EUR 4.0 million** have been accepted by the Bank and provided by the Government of Austria. Table 1 outlines information on the overall tentative allocation, including variable costs for activity implementation, staff, project management and coordination as well as administration fees.

43. In total, EUR 1.4 million are allocated from the Danube Region Water Security Multi-Donor Trust Fund for IAWD under a Recipient Executed TF for activities under the DWP 4th Phase. For Bank-Executed Activities, EUR 2.34 million are allocated for a Bank Executed TF. Additional funds from previous DWP activities remaining in the Danube Region Water Security Multi-Donor Trust Fund may be allocated in addition for the implementation of Bank Executed Activities under the DWP 4th Phase.

44. Estimated staff costs both for the Bank and IAWD program teams (both of which are working on delivering the Program’s technical activities on a regular basis, as well as in overall program administration and coordination of activities), have been allocated to the different subcomponents as follows: 70% of staff costs to the actual analytical, capacity building and knowledge sharing activities, and 30% to the program management, coordination and supervision. While Table 1 provides information on the overall allocation, Table 2 provides more detailed information on variable costs and the tentative allocation for the different activities.

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Overall grant allocation	Total allocation from Danube Region Water Security Multi-Donor Trust Fund (mill. EUR)
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Component	
Policy and regulatory support (Bank executed)	2.34
Activity 1: Water Security and resilient recovery policy and regulatory support	1.48
Activity 2: Support for WSS sector regulation, policy and governance	0.53
DWP implementation support	0.33
Capacity building and knowledge sharing in WSS (Recipient executed)	1.40
Activity 3: Regional capacity building	0.78
Activity 4: Communication, outreach and knowledge sharing	0.24
Project management and coordination of program implementation	0.38
3. Administration Fee	0.26
BETF (17%)	0.19
RETF (5%)	0.07
Total	4.00

Table 1: Overall budget allocation DWP 4th Phase

Activities DWP Phase 4 [amounts in EUR]	Bank executed	Recipient executed	Total
Regional analytical and advisory activities			
Regional level analytical and advisory work on water security and resilient recovery	200,000	-	200,000
Regional capacity development activities			
Regional level capacity building and experience exchange for WSS focusing on service efficiency, resilience and promoting circular economy	100,000	-	100,000
Utility Benchmarking Program (UBP)	-	49,800	49,800
Danube Learning Partnership for sustainable WSS services (D-LeaP)	-	229,400	229,400
IAWD strengthening support	-	53,500	53,500
Regional knowledge sharing activities			
Danube Water Conference, Danube Water Forum and DWP KnowNow series	20,000	80,000	100,000



Voice of the Danube	-	63,000	63,000
Water services awareness raising campaign	-	15,000	15,000
National-level analytical and advisory services			
National-level analytical and advisory work on water security and resilient recovery	700,000	-	700,000
National level support to selected countries in preparation and implementation of policy reforms focused on improving sector efficiency and resilience	150,000	-	150,000
WSS sector performance evaluation and improvement	50,000	-	50,000
Total	1,220,000	490,700	1,710,700

Table 2: Tentative allocation variable costs

45. Danube Water Program funds for the RETF will complement counterpart funds amounting to around EUR 0.61 million stemming from D-LeaP / IAWD income generating activities. The amount is tentative based on past experiences and will depend on income generated and fees collected by IAWD during the DWP 4th Phase. In addition, it is expected that funds from other donor institutions, such as the German Cooperation for International Development, the Swiss Agency for Development and Cooperation and others, can be mobilized to support specific activities.

Financial Management

46. The Financial Management (FM) arrangements that have been developed by IAWD under the previous three phases of the Danube Water Program (DWP) will constitute the core for the new fourth phase. These FM arrangements have been periodically reviewed as a part of project supervision and were found satisfactory including: (i) semester interim financial reporting, ii) annual audits of project financial statements, (iii) outsourced accounting, (iv) flow of fund and internal control processes. The next steps to include updating of the FM section of the Operational Manual, hiring and training staff to support FM functions in IAWD, and contracting accounting services. The overall FM risk is Moderate with the application of the mitigation measures.

47. The overall responsibility for financial management of the DWP will remain within IAWD and project accounting, record keeping, execution of payment orders, and financial reporting has been provided to date and will continue to be provided by an outsourced accounting and financial management (AFM) firm. The AFM is responsible for maintenance of accounting records in IT online system, payroll accounting, preparation of payments for acceptance of IAWD, preparation of interim periodic financial reports, end-year financial statements. The most recent IFRs and annual audit reports were received in general on time and

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were acceptable to the Bank. The current contract with the AFM and IAWD expires at the end of June 2022. For the 4th phase, IAWD plans to maintain outsourcing with the professional AFM firm, preferably with the ongoing one based on good performance.

48. Financial Reporting and Auditing. IAWD will submit quarterly un-audited interim financial reports (IFRs) within 45 days of the end of each calendar semester. The audits of the project financial statements will be conducted annually by independent auditors in accordance to TOR and auditing standards acceptable to the Bank, and be provided to the Bank within six months of the end of each fiscal year, and also at the project closing.

49. Flow of Funds. The IAWD will use existing separate Designated Account (DA) in a commercial bank, where the grant proceeds will flow and will be used for payments for eligible expenditures based on traditional Statement of Expenditures method.

50. Retroactive financing of eligible expenditures under the Recipient Executed Activities up to the amount of EUR 140.000 paid up to 12 months before signing of the Grant Agreement would be done using the reimbursement method.

Procurement aspects:

51. The project procurement risk is assessed as moderate at the PCN stage. There are no high-value contracts under this Project, mostly individual consultants, and simple goods procurement. The Project will use the Bank’s new procurement framework and norms. The possible risks related to various aspects of the procurement cycle will be carefully managed by utilizing the Bank’s enhanced procurement principles.

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Environmental and Social Standards Relevance

E. Relevant Standards		
ESS Standards		Relevance
ESS 1	Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10	Stakeholder Engagement and Information Disclosure	Relevant
ESS 2	Labor and Working Conditions	Relevant
ESS 3	Resource Efficiency and Pollution Prevention and Management	Relevant
ESS 4	Community Health and Safety	Not Currently Relevant
ESS 5	Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant



ESS 7	Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8	Cultural Heritage	Not Currently Relevant
ESS 9	Financial Intermediaries	Not Currently Relevant

Legal Operational Policies

Safeguard Policies	Triggered	Explanation (Optional)
Projects on International Waterways OP 7.50	No	
Projects in Disputed Areas OP 7.60	No	

Summary of Screening of Environmental and Social Risks and Impacts

Both environmental and social risks are rated as low. The DWP will focus on capacity building and advisory and analytics support to water sector focusing on climate change resilience, circular economy, water supply resilience, etc. The Program is expected to have a wide positive, long term impact on the general population of targeted countries, as it will lead to strengthened water sector and indirectly to strengthened economies of those countries. Considering the fact that the Project has strong existing stakeholder engagement and communication mechanisms, and that stakeholder engagement is deeply enshrined in the RETF, a stand alone SEP will not be prepared for this Project. Instead, compliance with the ESS10 will be ensured through adequate provisions in the ESCP. The proposed Project will not finance any kind of civil works and it will cause neither land acquisition nor physical displacement to formal or informal occupants.

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CONTACT POINT

World Bank

Contact : Raimund Mair Title : Senior Water Resources Managem
 Telephone No : 5258+70731 / Email :

Borrower/Client/Recipient

Borrower : IAWD - International Association of Water Service Companies in the Danube River Catchment Area
 Contact : Walter Kling Title : President
 Telephone No : 004315995931002 Email : office@iawd.at

Implementing Agencies

Implementing Agency : IAWD - International Association of Water Service Companies in the Danube River Catchment Area
 Contact : Walter Kling Title : President



The World Bank

Danube Water Program Phase IV - Fostering Water Security and Resilient Recovery in the Danube Region

Telephone No : 004315995931002

Email : office@iawd.at

FOR MORE INFORMATION CONTACT

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 473-1000

Web: <http://www.worldbank.org/projects>

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