Loan Agreement

(Municipal Services Project)

between

ROMANIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 24, 2006
AGREEMENT dated July 24, 2006, 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 the Loan Agreement have the meanings ascribed to them in the General Conditions and 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 one hundred six million two hundred thousand Euro (EUR 106,200,000) ("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 Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent (3/4 of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.

2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. The Borrower shall pay the Front-end Fee not later than sixty (60) days after the Effective Date.

2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time.

2.06. The Payment Dates are February 15 and August 15 in each year.

2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III - PROJECT

3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall: (i) through the MoEWM, carry out Part 3 of the Project; and (ii) cause Parts 1 and 2 of the Project to be carried out, respectively, by the
Municipality of Bucharest and the Municipality of Arad, all 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, through the MoEWM, shall ensure that Part 3 of 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) that the Project Implementing Entity’s Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Municipality of Arad or the Municipality of Bucharest to perform any of its obligations under the respective Project Agreement.

(b) The Environmental Legislation or the Cultural Property Legislation has been amended, suspended, abrogated, repealed or waived so as to, in the opinion of the Bank, affect materially and adversely the implementation of the Project or the achievement of the objectives thereof.

4.02. The Additional Event of Acceleration consists of the following, namely, that any event specified in paragraphs (a) or (b) of Section 4.01 of this Agreement occurs.

ARTICLE V - EFFECTIVENESS

5.01. The Additional Conditions of Effectiveness consist of the following:

(a) The Subsidiary Loan Agreement has been executed on behalf of the Borrower and the Municipality of Arad.

(b) The Subsidiary Agreement has been executed on behalf of the Borrower and the Municipality of Bucharest.

5.02. The Additional Legal Matters consist of the following:

(a) The Subsidiary Loan Agreement has been duly executed by the Borrower and the Municipality of Arad and is legally binding upon the Borrower and the Municipality of Arad in accordance with its terms.

(b) The Subsidiary Agreement has been duly executed by the Borrower and the Municipality of Bucharest and is legally binding upon the Borrower and the Municipality of Bucharest in accordance with its terms.

5.03. The Effectiveness Deadline is the date one hundred twenty (120) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

6.01. The Borrower’s Representative is the Minister of Public Finance.

6.02. The Borrower’s address is:
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: INTBAFRAD
Washington, D.C.

Telex: 248423(MCI) or 64145(MCI)
Facsimile: (1-202) 477-6391
AGREED at Bucharest, Romania, as of the day and year first above written.

ROMANIA

By: /s/ Sebastian Vladescu
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Anand K. Seth
Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to assist the Borrower to meet EU environmental directives in the water and wastewater sector, thereby improving the quality and coverage of water and wastewater services, mainly through: (i) support of infrastructure development in the municipalities of Bucharest and Arad to provide better water and wastewater service and improve stormwater management; and (ii) preparation of priority water and wastewater projects in eleven (11) counties.

Part 1: Urban Services in Bucharest Municipality

Implementation of a program to improve the urban infrastructure in the city to meet EU standards, encompassing: (i) works and goods for the provision in priority neighborhoods of new urban services including water, sewerage, drainage and road surfacing services; and (ii) technical advisory services to prepare bidding documents, for construction supervision, and to support the Bucharest Municipality in implementing this Part 1 of the Project.

Part 2: Urban Services in Arad Municipality

Implementation of a program to improve the urban infrastructure in the city to meet EU standards, encompassing: (i) works and goods for the provision in priority neighborhoods of new urban services including sewerage, drainage and road surfacing services; and (ii) technical advisory services to prepare bidding documents, for construction supervision, and to support the Arad Municipality in implementing this Part 2 of the Project.

Part 3: Project Preparation for the EU

Technical advisory services to prepare the audits under Part 3 of the Project and to prepare project applications in at least eleven (11) counties for EU financing, thereby ensuring that the Borrower comply with its commitments made to the EU on making improvements in the environmental sector, that EU grant funds, as available, are effectively used, and that the central and local capacity is developed to prepare and implement projects to meet applicable EU directives, encompassing assistance to be carried out in two (2) phases as follows: (i) phase 1, for data collection and the assessment of the current situation, development of a Master Plan at the county level to identify all investment needs, carrying out of a detailed feasibility study and an institutional analysis, the preparation of the respective environmental impact assessment study and the financing plan, the preparation of an application form to seek EU Cohesion and Structural Funds; and institutional strengthening to foster the efficient management of environmental investments, including training to the MoEWM and small towns and settlements in the aforementioned eleven (11) counties; and (ii) phase 2, consisting of the elaboration of the complete tender dossiers for the services, goods and works contracts required for the implementation of the feasibility studies carried out under phase 1.
SCHEDULE 2
Project Execution

Section I. Subsidiary Agreement and Subsidiary Loan Agreement; Institutional and Other Arrangements

A. Subsidiary Agreement and Subsidiary Loan Agreement

1. For the purposes of the implementation of Part 1 of the Project, the Borrower shall make a portion of the proceeds of the Loan allocated from time to time to Category (1) available on a grant basis to the Municipality of Bucharest under a Subsidiary Agreement to be entered into between the Borrower and the Municipality of Bucharest under terms and conditions approved by the Bank pursuant to the provisions stipulated in this Agreement.

2. For the purposes of the implementation of Part 2 of the Project, the Borrower shall relend a portion of the proceeds of the Loan allocated from time to time to Category (2) to the Municipality of Arad under a Subsidiary Loan Agreement to be entered into between the Borrower and the Municipality of Arad, under terms and conditions approved by the Bank pursuant to the provisions stipulated in this Agreement.

3. The Borrower shall exercise its rights under the Subsidiary Agreement and the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or the Subsidiary Loan Agreement or any of its provisions.

B. Institutional Arrangements

1. MoEWM – General Directorate for Management of Structural Instruments

In the MoEWM, the General Directorate for Management of Structural Instruments shall be responsible for the implementation of Part 3 of the Project, including day-to-day implementation and coordination of Part 3 of Project. To this end, the Borrower, through the MoEWM, shall take all action required on its behalf to maintain throughout Project implementation, existing staff within the General Directorate and other Departments of the MoEWM assigned to carry out Part 3 of the Project and with sufficient financial resources therefor, including the assignment of its General Director and a procurement specialist, a financial management specialist, and a technical specialist. More specifically, the MoEWM shall be responsible for: (i) the consolidation of the Project Reports for submission to the Bank; and, in respect of Part 3 of the Project: (ii) the preparation of bidding documents and following-up on the ensuing bidding process; (iii) disbursements of Loan funds; (iv) financial management; and (v) Project monitoring.

2. Environmental Issues and Cultural Property

Without limitation upon the provisions of Article V of the General Conditions, the Borrower, through the MoEWM, shall ensure that:
(a) Part 3 of the Project is carried out in conformity with the provisions of the Environmental Legislation and the Cultural Property Legislation;

(b) the Bank is promptly informed of any developments in the legislation, rules or procedures of, or applicable to, the Borrower or any of the Project Implementing Entities that may affect the implementation of Parts 1, 2 and 3 of the Project; and

(c) the first three (3) environmental impact assessment studies that may be required for the carrying out of Part 3 of the Project, shall be sent to the Bank.

Section II.  Project Monitoring, Reporting, Evaluation

A.  Project Reports

1. The Borrower, through the MoEWM, shall monitor and evaluate the progress of Part 3 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 Monitoring and Evaluation Indicators for Part 3 of the Project. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Bank consolidated with the Project Reports for Parts 1 and 2 of the Project not later than two (2) months after the end of the period covered by such report.

2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than three (3) months after the Closing Date.

B.  Financial Management, Financial Reports and Audits

1. The Borrower, through the MoEWM, shall maintain or cause to be maintained a financial management system for Part 3 of the Project 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 the MoEWM, shall prepare and furnish to the Bank not later than two (2) months after the end of each calendar semester, interim un-audited financial reports for Part 3 of the Project covering the said calendar semester, in form and substance satisfactory to the Bank.

3. The Borrower, through the MoEWM, shall have its Financial Statements for Part 3 of the Project audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

C.  Mid-Term Review

The Borrower, through the MoEWM, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Monitoring and Evaluation
Indicators for Part 3 of the Project, the carrying out of Part 3 of the Project and the achievement of the objectives thereof;

(b) prepare, on the basis of a working plan agreed-upon between the Borrower and the Bank, and furnish to the Bank, on or about April 30, 2008, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section and the results of the monitoring and evaluation activities performed by the Municipality of Arad and the Municipality of Bucharest pursuant, respectively, to the provisions of Section II.C (a) of the Schedule to each Project Agreement, on the progress achieved in the carrying out of Parts 1, 2 and 3 of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of Part 1, 2 and 3 of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by June 30, 2008, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section and, thereafter, take all measures required to ensure the efficient completion of Part 3 of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank’s views on the matter.

Section III. Procurement

A. General

1. Goods, Works and Services (other than Consultants’ Services). All goods, works and services (other than consultants’ services) required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines and the provisions of this Section III.

2. Consultants’ Services. All consultants’ services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and the provisions of this Section III.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Services (other than Consultants’ Services)

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods, works and services (other than consultants’ services) shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.

2. Other Methods of Procurement of Goods, Works and Services (other than Consultants’ Services). The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and
services (other than consultants’ services). The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding, for contracts for works estimated to cost less that EUR 4,000,000 per contract and goods estimated to cost less than EUR 800,000 per contract may be procured under the Borrower’s national laws and regulations to the extent they are previously found to be acceptable to the Bank.</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
</tbody>
</table>

C. **Particular Methods of Procurement of Consultants’ Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.
Procurement Methods

<table>
<thead>
<tr>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)  Quality-Based Selection</td>
</tr>
<tr>
<td>(b)  Selection under a Fixed-Budget</td>
</tr>
<tr>
<td>(c)  Least-Cost Selection</td>
</tr>
<tr>
<td>(d)  Selection Based on Consultants’ Qualifications</td>
</tr>
<tr>
<td>(e)  Single Source Selection</td>
</tr>
<tr>
<td>(f)  Individual Consultants</td>
</tr>
</tbody>
</table>

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank’s Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank shall specify by notice to the Borrower to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.
<table>
<thead>
<tr>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works, Goods and Consultants’ Services under Part 1 of the Project</td>
</tr>
<tr>
<td>48,000,000  65%</td>
</tr>
<tr>
<td>(2) Works, Goods and Consultants’ Services under Part 2 of the Project</td>
</tr>
<tr>
<td>47,200,000  94%</td>
</tr>
<tr>
<td>(3) Consultants’ Services under Part 3 of the Project</td>
</tr>
<tr>
<td>11,000,000  84%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
</tr>
<tr>
<td>106,200,000</td>
</tr>
</tbody>
</table>

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made: (i) from the Loan Account until the Bank has received payment in full of the Front-end Fee; or (ii) for payments made prior to the date of this Agreement.

3. The Closing Date is June 30, 2011.

Section V. Other Undertakings

1. The Borrower shall not take or permit to be taken any action which would prevent or interfere with the adequate operation of ANRSC in respect of: (i) its endorsing tariffs proposed by Apa Nova and the selected operator, in line with applicable legislation to modify tariffs; and (ii) monitoring compliance by Apa Nova and the selected operator in Arad to meet applicable performance indicators for the delivery of public services.
SCHEDULE 3
Amortization Schedule

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Principal Amount of the Loan Payable (Expressed in Euro*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each February 15 and August 15</td>
<td>4,425,000</td>
</tr>
<tr>
<td>beginning February 15, 2012 through August 15, 2023</td>
<td></td>
</tr>
</tbody>
</table>

* The figures in this column represent the amount in Euro to be repaid, except as provided in Section 3.10 of the General Conditions.
APPENDIX
Definitions


2. “ANRSC” means *Autoritatea Nationala de Reglementare pentru Servicii Publice de Gospodarie*, the tariff and water services regulator nationwide reporting to the Borrower’s Office of the Prime Minister.

3. “ARBAC” means *Autoritatea de Reglementare a Nivelelor de Servicii Apa Canal a Municipiului București*, the agency established by the City Council of Bucharest to regulate the concession contract between the Municipality of Bucharest and Apa Nova.

4. “Category” means a category of items to be financed out of the proceeds of the Loan as set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement; and the term “Categories” means more than one Category collectively.


6. “Cultural Property Legislation” means one or more of the following: Law No. 422/2001 on the protection of historic monuments and the Government Ordinance No. 43/2000 on the protection of archaeological heritage (as lastly modified by Law No. 462/2003).

7. “Environmental Legislation means one or more of the following: Emergency Ordinance No. 195/2005, providing the framework for protection of the environment; the Government Decision (GD) No.918/2002 (as modified by GD No.1705/2005), regarding procedures for environmental impact assessment and classification of project types, and all secondary legislation related to it.

8. “EU” means the European Union.

9. “Fiscal Year” means the twelve (12) month period corresponding to any of the Borrower’s fiscal years, which period commences on January 1 and ends on December 31 in each calendar year.


11. “MoEWM” means the Borrower’s Ministry of Environment and Water Management, established and functioning pursuant to the provisions of the Borrower’s Law No. 90/2001 (as amended), and any successor thereto.

12. “Monitoring and Evaluation Indicators for Part 1 of the Project” means the agreed performance indicators set forth in a letter of even date herewith to be utilized by the Municipality of Bucharest under Part 1 of the Project to measure
the progress in the implementation of Part 1 of the Project and the degree to which the objectives thereof are being achieved.

13. “Monitoring and Evaluation Indicators for Part 2 of the Project” means the agreed performance indicators set forth in a letter of even date herewith to be utilized by the Municipality of Arad under Part 2 of the Project to measure the progress in the implementation of Part 2 of the Project and the degree to which the objectives thereof are being achieved.

14. “Monitoring and Evaluation Indicators for Part 3 of the Project” means the agreed performance indicators set forth in a letter of even date herewith to be utilized by the MoEWM under Part 3 of the Project to measure the progress in the implementation of Part 3 of the Project and the degree to which the objectives thereof are being achieved.

15. “Municipality of Arad” means the administrative urban division of the Borrower’s territory in the city of Arad and the Project Implementation Entity for Part 2 of the Project.

16. “Municipality of Bucharest” means the administrative division of the Borrower’s territory in the city of Bucharest and the Project Implementation Entity for Part 1 of the Project.

17. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.

18. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated May 12, 2006, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

19. “Project Implementing Entity” means: (i) for Part 1 of the Project, the Municipality of Bucharest; and (ii) for Part 2 of the Project, the Municipality of Arad; and the term ‘Project Implementing Entities” means both Municipalities collectively and indistinctively.

20. “Project Implementing Entity’s Legislation” means, in respect both of the Municipality of Arad and the Municipality of Bucharest, the Borrower’s Law No. 215/2001 (as amended) on “Local Public Administration”.

21. “Resettlement” means: (i) the involuntary (i.e., an action that may be taken without a person’s informed consent or power of choice) taking of land, including anything growing on or permanently affixed to such land, such as buildings and crops, resulting in: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not the affected persons must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas resulting in adverse impacts on the livelihoods of the affected persons, and encompassing restrictions on the use of resources imposed on people living outside a park or protected area, or on those who continue living inside the park.
or protected area during and after Project implementation, such Resettlement being applicable to those persons who have formal legal rights to the land affected as well as those without formal legal rights but who have legal claims to the land at issue, provided such claims are recognized under national law or pursuant to agreement with the Bank and the Borrower.

22. “Subsidiary Agreement” means the agreement to be entered into between the Borrower and the Municipality of Bucharest pursuant to the provisions of Section I.A (1) of Schedule 2 to this Agreement, as the same may be amended from time to time, and the same term includes all schedules thereto.

23. “Subsidiary Loan Agreement” means the agreement to be entered into between the Borrower and the Municipality of Arad pursuant to the provisions of Section I.A (2) of Schedule 2 to this Agreement, as the same may be amended from time to time, and the same term includes all schedules thereto.