



CASE STUDY 12: TRANSFORMING ROMANIA'S WATER SUPPLY

In the early 1990s much of Romania's infrastructure, including the water supply, was in desperate need of repair after decades of underfunding.

Only around 85 per cent of the urban population and 16 per cent of the rural population had access to tap water. In many areas, including parts of the capital, Bucharest, the supply was intermittent and the water polluted. Furthermore, the system of financing municipal utilities remained highly centralised, budgeting was not transparent and there was little long-term planning or income stability.

A turning point was reached in 1995 when the government launched a water strategy, which led to a new legal framework for municipal finance. Under the Municipal Utilities Development Programme (MUDP), the EBRD made a series of sovereign-guaranteed loans, totalling €51 million, to enable critical investments in the water infrastructure of 17 cities across the country. Inhabitants of the Jiu valley, 300 kilometres north-west of Bucharest, for example, saw the installation of new pipelines and more efficient pumping stations in 1996, bringing 24-hour-a-day water supplies for the first time. Setting realistic tariffs based on the amount of water used and reducing costs by tackling leakages improved the creditworthiness of local suppliers, eventually ensuring that services were self-financing.

By 2000 many municipal authorities had begun to operate on a sounder financial footing and the EBRD launched its innovative €80 million Municipal Environmental Loan Facility (MELF), which

represented a move away from loans based on sovereign support. The MELF was extended to €130 million in 2004 to provide co-financing to EU-funded projects for water and waste-water investments across nine cities. The facility has been supported by a dedicated team of EBRD staff based in Bucharest.

The most recent EBRD-financed project in Romania's water sector is an €18 million loan, signed in 2007, to bring cleaner water to 26,000 people in the district of Oradea, near the Hungarian border. The Bank has worked with the Oradea water utility company since 1997, when it lent €6.5 million to finance critical water and waste-water investments. Environmental benefits associated with this include the reduction of cross-border ground water pollution affecting the Crisul Repede river. The latest investment will be the first step in this local company's transformation into a sustainable regional operator – an additional €200,000 of technical cooperation funds for consultancy services will bring substantial efficiency gains and greater access to commercial capital, in line with the government's recent drive to establish true regional operators. Although Romania has seen notable successes in the provision of drinking water and waste-water services in many of its large cities over the past decade, significant work is still required in the remoter regions.