

## REGIONAL REPORT – ROMANIA – FEBRUARY 2010



## Project Management Update from Romania

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In line with the savage winter and literally frozen days of our life, so it goes the first month in 2010, a year that is viewed as a year of resurrection.

**New Highway to Brasov**

The only noticeable event recorded in the month is perhaps the kick off of a new motorway construction project in Romania between Romanian Government (DoT) and a consortium of companies formed between VINCI-France and AKTOR-Greece.

The strip links Bucharest through a little town in the mountain area on the way through country's heart to Brasov City. Even though not a challenge from the point of view of distance, it is surely a major issue for the Contractor given the terrain difficulties, high slopes and need to cut the mountain along the way to the City of Brasov.

If the challenge is high, so is the price - 4.8 billion Euros. The amount covers the financial and loan costs, the works execution as well as O&M spanning a period of 30 years. It is surely a big job ahead for these two reputed contractors and only those who know well the zone and its landscape could figure out how tough their tasks will be. The award came after a fierce competition that involved 12 companies over a year and half, with 4 of them shortlisted and invited to bid in the final run.

The motorway will surely help lessen the congestion on the route to the mountain resorts in Valea Prahovei, a highly sought after area by mountaineers, skiers and other

mountain lovers. All know how difficult reaching the resorts is in almost every period of the year and the project completion will alleviate to some degree the troubles of local commuters clashing with the long strings of tourists every weekend.

### **General Conditions Remain Difficult**

It is a promise kept so far by the Government in its attempt to revitalize a frozen economy that is still astonished and unconscious after the hit it received. Despite the lessons displayed by western analysts who have shown that, for example in the USA, the major impulse with the infrastructure projects did very little to eradicate unemployment, there are high hopes among Romanian officials that these projects in the infrastructure will vacuum clean the dark side of the economy where almost 700 thousand unemployed live their lives on the edge.

On the other hand the economy is not doing well and although many predicted that 2010 will be a year of growth, the bankruptcy, insolvency and Law protection requests against creditors are more and more seen, especially in the retail field. Those who adapted their survival strategy by cutting costs and reducing prices seem to still be operating while others who waited longer now have cash or debt problems which bring them to the brink of bankruptcy or insolvency. Exits, forced or voluntarily, from the retail field will make room for others, while the demand remains scarce. Consequently the real estate in the retail and office segments will probably recoil, affecting many projects in the pipeline within construction.

The harsh winter in the Northern hemisphere and in Romania as well has frozen literally the entire construction sector, and other associated secondary business segments have taken a break too. It is hard to believe that spring will bring a melting down at the business level since the crunch only shows the painful part from now on. The austere National Budget makes little room for governmental financing portions of public-private partnerships, and many projects will be halted or cancelled due to the lack of money.

An IMF delegation arrived in the Capital Bucharest to close the deal for second and third installment loans and with this money, the Government will feed the budget to immediately pay the social burdens like social security for retirees and pensioner salaries for governmental employees, according to the local analysts.

Private investors will have to resort then to full scale financial schemes on their own risks and money, something hard to accomplish in an unpredictable and unsafe economy.

Although EBRD analysts predicted a 1.3 % growth in 2010 and a 2.6 % in 2011, it is still early for sighs of relief, more because the pressure exerted by the 700 thousands of unemployed who raise their voices soon will turn most of the money to immediate

actions rather than making future investments in long term projects. Many project still need financing: highways, irrigation systems, construction-building rehabilitation, energy saving and many others.

The private sector is intimately linked to the Governmental institutions for doing business in almost every sector of the economy. As the funds from State Owned Institutions shrink, the private sector will be impacted in the business segments tied to the Government. In fact the private sector has paid the bill of the economy crisis in 2009 more than the Governmental sector, as most unemployed layoffs coming from private companies. It is a great turn announced in the beginning of the year that layoffs will continue with the governmental employees. Under these circumstances there is surely less room for new initiatives in the form of projects, money is to be tightly counted only for vital activities.

### **EU Funding Might Help**

EU funds and EU development programs could move things more than the local Government does. But this money is not out of the blue with no conditions; eligibility is tight and many applicants fail in the eligibility screening and analysis phase. They do not reach the money for their tentative, on the paper, projects. It is a field ahead for those readily available to help local applicants to “write good project financing applications” and then to help the awarded entities implement their eligible projects. Romania is not quite a good example of a country absorbing all available funds available from the EU. Despite this known fact, the root cause is still unclear.

Apart from repeated mistakes, many do infer that writing a good application for EU funds accession has very much to do with Project Management. In fact, there are good job opportunities for those willing to help with eligibility analysis, screening, rating and selection of project candidates, and then acting on the project management side to implement them.

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