

THE DEVELOPMENT ISSUES CONNECTING EASTERN EUROPE - RAPOSO BERNARDO

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Eastern Europe continues to offer opportunities as countries modernise, but issues still face businesses operating there, say Bruno Azevedo Rodrigues and Paulo Alexandre Matinha at Raposo Bernardo.

Among Central and Eastern European countries, Poland and Romania stand out for the scale and interest of business and infrastructure investment opportunities now emerging.

'Within the region, Poland offers a relative level of sophistication and low risk profile regarding legal, environmental and bureaucratic constraints,' says Bruno Azevedo Rodrigues, Head of Energy, Utilities and Environment at Raposo Bernardo. 'Investors may also potentially benefit from incentive schemes provided through municipal authorities (Gmina) as well as EU structural funds, including

the €28 billion 2007-2013 Infrastructure and Environment Programme.'

This programme is intended to support massive infrastructure investments in essential areas like environment, transportation, energy, culture and national heritage, healthcare and education. The practical results of which will include thousands of kilometres (kms) of new or improved roads, railways, power and water lines, the renovation of eight airports, one million tonnes of annual production of biofuels, 120 schools and the estimated creation of up to 6,000 jobs.



Paulo Alexandre Matinha

Romania too has a National Strategic Reference Framework, based on the European Regional Development Fund and Cohesion Fund, and a National Development Plan, covering the development and finance of infrastructures, including investments in roads, railways, airports, gas pipelines, and underground cabling and water systems, adds Paulo Alexandre Matinha, the firm's Romania country manager.

Around two thirds of Romania's infrastructure requires modernisation, with some needing to be totally rebuilt, he says. 'The upgrading of infrastructure to EU standards is regarded as a national priority. Not surprisingly, some will benefit from €4bn in EU cohesion funds, while the Romanian government has also announced its intention to support road projects including 1,300 kilometres of new highway by 2013.'

A new 415km, €2bn, Transylvania highway, connecting Brasov-Cluj-Bors in the west of Romania is already underway, the national railway company is expected to be modernised, while Bucharest airport also requires upgrading. In addition, the €7.9bn Nabucco pipeline transporting natural gas from Turkey to Austria will pass through Bulgaria, Romania, and Hungary, with the first deliveries expected by 2014.

The EU inevitably plays a major role in funding many of the region's major infrastructure projects, with both direct and indirect schemes, says Azevedo Rodrigues. Poland is set to be the largest beneficiary in the coming years with €67bn of development between 2007 and 2013.

'In order to control EU fund distribution, Operational Programmes, Regional Operational Programmes and the Operational Programme for European Territorial Cooperation (Interreg IV) have been established.'

In Romania, EU direct funding, through the European Regional Development Fund and the Cohesion Fund, and EIB has taken a crucial role in the promotion of infrastructure.

Despite the availability of funds, practical issues nonetheless continue to impact on businesses ability to operate across the region, he says.

'Following the social, political and economic revolutions of the 1990s, central and eastern European countries started adapting to Western economic models – promoted by the EU and OECD – which provided a level of investor safety, stability and international credibility but language barriers and bureaucracy are still among the major problems for investors,' says Matinha.

Although the majority of young Poles and Romanians speak English, public authorities operate only in Polish or Romanian, while the 'traditional' attitude of some civil servants may also present issues.

'In addition, certain precautions must be on every investor's agenda, notably potential issues regarding former nationalisations and subsequent (re)privatisation processes, which can lead to unexpected and unwanted surprises regarding rightful ownership over assets.'

The best way to cope with the specific demands of the region is therefore to rely on specialised, high quality and dedicated business advice, and to do things 'by the book', insists Azevedo

Rodrigues.

'Time is of the essence in every project however 'short-cuts may lead to disastrous situations. The general policy should be business as usual according to international standards, top consultancy, and, in certain cases, patience.'