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## ROMANIA'S ROADS TO NOWHERE

Like many countries, Romania needs better infrastructure. Thanks to the European Union, it has plenty of money. So what's the problem?

BY LUIZA ILIE  
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ON A CRISP EVENING last December, Romanian Transport Minister Anca Boagiu met German investors in a conference room of a hotel in downtown Bucharest. A petite woman with dark hair pulled back in a severe bun at the nape of her neck, she was introduced as "the minister in charge of making up for lost time".

On the screen behind Boagiu, slides showed a succession of maps with yet-to-be-built motorways, ring roads and bypasses. There were ambitious new national roads, upgraded railway lines, train stations, ports and airports. The conference room's 21st-floor windows gave onto a breathtaking view of the capital. Block after block, mile after mile was clogged with traffic.

"My task," she told the investors, eyeing them from behind rimless eye glasses, "is to

recover delays in infrastructure."

The gaps Boagiu must fill are huge -- and common in scores of developing countries from eastern Europe to Africa to Asia. But Romania's story also exposes another issue, one which goes to the heart of the European project.

The country, which shook off communism in 1989 and joined the European Union in 2007, has a potential 4.6 billion euros in EU funding for transport infrastructure, available until 2013. By the end of last year, Bucharest had

managed to use just 47 million euros of that. If Boagiu can't find a way to speed up projects and use the funds, the country will lose them.

Like countries suddenly enriched by the discovery of oil, former communist states that have access to billions in European Union development funds can find them both blessing and curse. The funds -- some 160 billion euros between 2007 and 2013 across the former eastern bloc -- are meant to help new members catch up with the rest of the EU.

But what if a country like Romania simply can't absorb that cash? Should it concentrate on fixing its government services and institutions -- its software, as it were -- before it can move to fancy new hardware like motorways? Is it possible to graft developed-world standards onto states whose institutions are running years behind those of the donors?

"Public investment spending is not small," Romania's central bank Governor Mugur Isarescu told a news conference last October. "But there are 42,000 unfinished investment projects in Romania. This is not efficient. We are the country of unfinished projects."

**EXIT RAMP**

ROMANIA'S MASSIVE infrastructure deficit dates back more than 20 years, to when the country was in the grip of Nicolae Ceausescu, one of Communism's most repressive dictators. In the 1980s, Ceausescu backed an export-led drive to clear Romania of billions of dollars in foreign debt, slashing investment to pay off creditors. That left infrastructure lagging behind even Romania's Balkan neighbours -- countries which historically had been much poorer.

According to a global competitiveness report by the World Economic Forum, Romania ranks just 134th out of 139 countries by the quality of its roads. The WEF says transport infrastructure is still one of the chief reasons hampering investment. The country is the EU's ninth-largest member by land area, but has only 331 km (211 miles) of motorway, less than half that of neighbouring Hungary (925 km) and not even three percent of Germany's 12,813 km.

Go for a drive in Romania (population 22 million) and you can bump for hours over gravel country roads to reach villages -- some without electricity, indoor plumbing or running water -- whose schools have closed because the young have moved away for a better life. Dusty national roads lead past lush farmland which is failing to achieve its potential because machinery is outdated and land ownership fragmented. Cities are choked with traffic because there's no way to drive round them. The rail system is no better. Outdated trains travel at an average 45 km per hour, while elsewhere in Europe the top speed can hit 320 km/hour.

When mobile phone maker Nokia announced it was moving a production plant to Romania from Germany in 2008, horses and carts still travelled the road to the new site.

That same year Daimler chose Hungary over Romania or Poland as the site of a new 800 million-euro car factory with about 2,500 jobs. Hungary, which has higher labour costs and tax rates than Romania, credited the win to its dense network of motorways.

With a cheap and skilled labour force and attractive flat tax on income and profit, Romania has attracted investment by



**STRIDING ON:** Boagiu and U.S. Ambassador to Romania Mark Gitenstein at the inauguration of a part of the Transylvania motorway last November. REUTERS/MIRCEA ROSCAE

carmakers Renault and Ford. But even they have complained about the roads. "When it bought the plant, Ford wanted to build 1,000 cars a day and ... that would bring a lot of money and jobs to Romania," U.S. ambassador Mark Gitenstein told a Romanian television station in April. "But unless there is a motorway ... it will not make 1,000 cars a day or hire so many people. You need motorways."

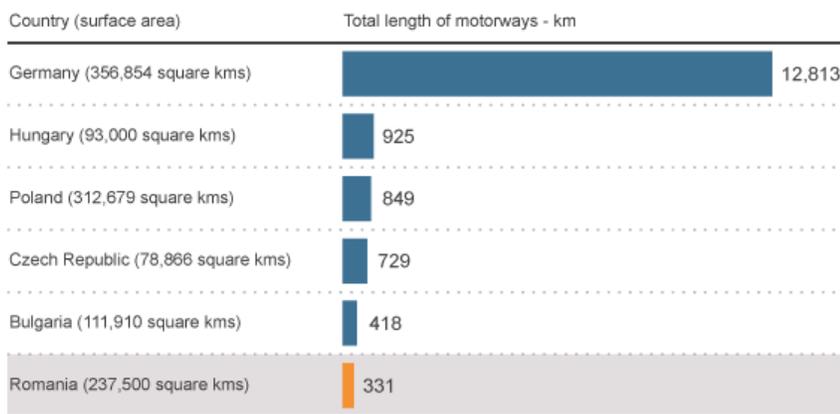
None of Romania's existing motorways connect the country with its neighbours. It's a closed system. Even ambitious projects like the Transylvania Motorway have so far failed to live up to their promise.

**TRANSYLVANIA MOTORWAY**

U.S. CONSTRUCTION group Bechtel broke official ground on Romania's biggest motorway at a site near the 15th-century Transylvanian village of Valisoara on a mild summer day in 2004. Then prime minister Adrian Nastase cut ceremonial ribbons and excavators bit into the ground to the soundtrack of Vivaldi's "Four Seasons".

On that day, the future seemed almost tangible: there would be a smooth, spacious four-lane motorway, 415 km long with more than 300 bridges, 70 overpasses and 19

**Running out of road**



Source: Eurostat



Reuters graphic/Vincent Fiasseur

**SPLASH:** Heavy rain, such as this in the capital Bucharest in April 2008, can cause chaos on Romania's crumbling roads. REUTERS/MIHAI BARBU

interchanges, connecting the central Romanian region of Transylvania to Hungary. The road would bring jobs, tourists and foreign investors.

"A motorway is forever," Michael Mix, Bechtel's then project manager said in a 2007 company brief. "It is a legacy."

Seven years since the project began, a little more than 10 percent of the road has been delivered. The state has paid Bechtel more than 1 billion euros of public money and analysts say the project will end up costing at least double the initial estimate of 2.2 billion euros. The deadline has been pushed back a year to 2013, but could end up taking years longer.

Rather than being forever, "it feels as if this motorway may take forever," quipped Ana Otilia Nutu, an infrastructure expert at Romanian Academic Society, a think tank.

Infrastructure projects and overruns go hand in hand the world over. But a 2010 study by JASPERS, a European Union agency that helps eastern European states prepare projects eligible for EU cash, found cost overruns were more likely in Romania than in eight other central and eastern European states included in the study, largely due to a weak public administration.

Even by Romanian standards, the Bechtel example is extreme. In the years since the groundbreaking, government inquiries have found the deal disadvantaged Bucharest from the start. The project was granted to Bechtel without a public tender, despite clear legislation demanding transparency. This angered international bodies including the European Union, which said it wouldn't support it, leaving the financing burden to the state.



At the time of the initial deal, Nastase said Romania could not afford to navigate a lengthy tender process if it wanted to catch up with affluent western European states. He lost power in late 2004, and a new centre-right coalition government put motorway works on hold while it renegotiated.

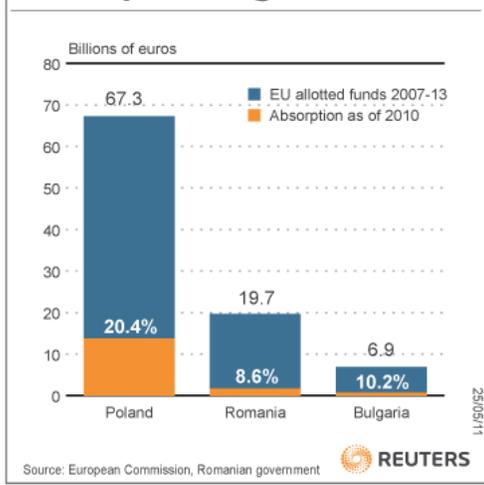
Those talks, which lasted for eight months, showed how the initial contract was bad for Romania. The deal committed the country to giving Bechtel an interest-free loan of 250 million euros, on top of monthly payments for works. It made it virtually impossible under Romanian law to pursue compensation if Bechtel failed to meet its obligations. It left Bechtel in charge of controlling costs, giving it a free hand to decide the route. It even contained translation errors unfavourable to Romania, the transport ministry said in 2005.

A revised contract cut 126 million euros off the overall price. It scrapped the interest-free loan, and the government took over road design -- which gave it more control over costs. At the same time, most of the terms were made public.

But according to a former government official, important details -- including some related to prices and quantities of construction materials that point to significantly higher costs down the line -- remained hidden in confidential clauses. Together with other penalties, these would continue to make the motorway's price "onerous" over time, said the former government official, who has seen the full contract and spoke on condition of anonymity because he was not authorised to speak publicly.

In subsequent years a series of governments

## Not spending



## THE EU'S POT OF GOLD

The European Union has set aside billions in development funds for the period 2007-2013. The money is meant to finance reforms and infrastructure projects, especially in the 10 countries that joined in 2004 and still lag behind more advanced members. The money requires clear, achievable plans and transparent use of the funds.

The EU has three agencies that help members draft eligible projects: JASPERS, JESSICA and JEREMIE.

For 2007-2013 the EU earmarked a total of 19.2 billion euros for Romania, to be provided alongside national financing of around 9 billion euros, for everything

from transport, training, increasing economic competitiveness and boosting administrative capacity. By the end of 2010 it had used only 8.6 percent of the funds.

Hit by inexperience and a lack of eligible projects, other new members have also struggled to use their funds. But Romania's ability to absorb funds was much lower than other new states. Analysts blame poor administrative capacity and lack of clear priorities.

For small private enterprises seeking funds, an additional problem stems from lack of cash for co-financing and a rigid banking system that makes it difficult to get loans.

failed to allot sufficient funds to buy land or relocate utilities. Bucharest also fell behind on payments. The transport ministry's national road company, CNADR, said in March it owed Bechtel 105 million euros despite having forked out just under half the initial estimated cost. Bechtel has finished 13 percent of the total commission.

At the start of this year Bechtel fired some 800 workers -- most of its staff in Romania -- over its unpaid bill. Boagiu, who has talked with the company about costs, says her focus is on motorway projects eligible for EU funds. No budget has yet been allotted for the Transylvania Motorway for 2011.

In spite of all this, Romania is locked into the deal -- both legally and practically, since any abandoned work would deteriorate and create an even bigger problem. Some government officials have said Bucharest may reconsider its position when work ends on the section currently under construction. But it would be hard to walk away altogether. "The contract is (virtually) unbreakable," a current government official said, also on condition of anonymity. "The compensation costs to Bechtel would be forbidding."

Bechtel representatives in Romania declined to comment until current negotiations reach a conclusion.

### ROADS AHEAD

THIS IS NOT THE FIRST time Boagiu has been transport minister. She briefly held the position in 2000 in a one-year government led by current central bank governor Isarescu.

**HARD SLOG:** Railway workers fix a stretch of track east of Bucharest in 2008. Successive governments have failed to overturn years of neglect. REUTERS/BOGDAN CRISTEL



"When I came back to the ministry I found projects untouched since I left them here 10 years ago," she told Reuters. "These were projects that had studies and funding that could have been done but weren't because of ignorance and carelessness."

She talks tough about unpicking cosy arrangements. "There is great friendship between builders, consultants and some employees of the national road company," she said she told the German investors. "Well, no more."

Some progress is already apparent. Boagiu has passed changes to speed up land appropriation and tender challenges, and introduced cost standards. One kilometre of motorway should now cost 3.8-6 million euros depending on the terrain. Previous projects have cost more than 10 million euros per km.

She has enforced a rule limiting cost variations to no more than 10 percent of the contract's initial value, which she says will deter bidders from underestimating their costs to win tenders, only to increase prices later.

The ministry has nixed projects, including, in April, cancelling a motorway contract with a French company, Colas, after it failed to meet a deadline and asked for additional cash.

Boagiu has also chosen winning tenders for several EU-backed motorways, with work set to start this year. She says Romania should have another 532 km of motorway by 2015, an estimate some transporters and analysts see as optimistic.

Importantly, Boagiu has increased Romania's absorption of EU transport funds from 47

## "THE MINISTER OF LOST TIME"



REUTERS/BOGDAN CRISTEL

Anca Boagiu, 42, is known for her sharp tongue and no-nonsense attitude. Born in Romania's main Black Sea port of Constanta, Boagiu graduated with a degree in civil engineering before embarking on a long career in politics that included stints in both Romania's lower house and senate.

Boagiu is closely tied to President Traian Basescu, whom she credited with launching the careers of many young politicians, including her own. She took over the transport ministry post from Basescu in 2000, when he became Bucharest mayor in a landslide win, making her the country's first female transport minister.

She was European integration minister from 2005 to 2007. EU observers have credited Boagiu and her Bulgarian counterpart with important contributions to their countries' 2007 European Union accession.

Boagiu was made Knight of the Order of the Legion of Honour, France's highest decoration, in 2010 for her contribution to Romania joining the EU and her fight for equality opportunities.

During her new current stint as transport minister, Boagiu has increased Romania's absorption of EU transport funds from 47 million euros at the end of 2010 to 113 million in March, a fraction of the 4.6 billion euros she needs to tap by 2013, but progress all the same.

million euros at the end of 2010 to 113 million in March. It's still only a fraction of the total, but it is progress and she says she can boost the rate to 20 percent by the end of the year.

"We have projects to cover the entire amount and we must tap these funds," Boagiu said.

### HELICOPTER RIDE

THE "MINISTER OF lost time" has a reputation for getting things done. "Compared to other former transport ministers, Anca Boagiu seems much more credible," said the Romanian Academic Society's Nutu. "What matters is that after many problems we are getting to a point where works are ready to start on several motorway projects."

Plenty of obstacles remain. Low wages and political involvement in job appointments have resulted in a shortage of skilled staff at the state road-building company. Only 8 percent of the company's staff are engineers and traffic studies are out of date.

There are also legal headaches. Before a contractor can start work, the government

must buy the land, which in a former communist state is perhaps the biggest hold-up of all. Sometimes registry documents do not exist and descendants are fighting each other through the courts. In other cases landowners sue the state for a better price, freezing projects for years.

Construction firms that fail to win tenders often challenge the auctions, delaying works, in a move that analysts and even Boagiu said was often a tactic to force the winning bidder to subcontract parts of the project.

On top of all this contractors digging in Romania's ancient soil often stumble on archaeological discoveries which must be preserved -- 11 have been found near the Valisoara village where Bechtel broke ground -- as well as utility pipelines, which the state must relocate at its own expense.

All this creates a seemingly never-ending cycle, made worse by a disorganized public administration.

"From my point of view, the lack of motorways in Romania is due 60 percent to incompetence,

30 percent to corruption and 10 percent to valid, objective reasons," former finance minister Sebastian Vladescu told Reuters.

"Political and individual interests may be present to a higher degree in Romania than in other states. But Romanians are incompetent more than they are corrupt. If Romanians were corrupt they would do everything in their power to attract EU funds so they can spend them. That has not been the case."

Nutu from the Romanian Academic Society puts the main problem down to an overall lack of public accountability. It means infrastructure development keeps faltering, which fosters mistrust.

The doubt seems even to run all the way up to President Traian Basescu.

"If you ever want to truly see Romania, don't use the roads," Basescu told a meeting of potential investors from the Gulf in March. "I recommend a helicopter."

*(Editing by Sara Ledwith and Simon Robinson)*

**COVER PHOTO:** Romanian peasants work their field near the construction site of one of Europe's biggest road projects near Cluj in the summer of 2004. A 2.2 billion euro contract with U.S. firm Bechtel to build a 415km motorway is over budget and behind schedule. **REUTERS/BOGDAN CRISTEL**

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