

## **Press release**

*Date* 1 July 2013

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*Pages* 3

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### **Capital project managers expect an increase in infrastructure and capital spending in CEE over the next 12 months, and are looking to the private sector for financing**

- *59% of capital project managers expect expenditure increases in the next 12 months.*
- *52% respondents went beyond their budget allocations in the last 12 months.*
- *78% capital projects were delayed in the past 12 months.*
- *Romania is on the 4th place amongst the countries which respondents intended to target in the next 12 months in relation to capital projects and infrastructure.*

**Chisinau, 1 July 2013** – Despite challenging economic conditions, 59% of people responsible for capital projects in Central and Eastern Europe expect an increase in expenditure on capital projects in the next 12 months. Optimism regarding capital spending prevails across all industries, most notably in the energy, utilities and mining industries and the transportation and logistics sector. However, there were marked differences across the region. Respondents from Russia and Poland, where big infrastructure projects are taking place, are the most optimistic, while their counterparts from the Czech Republic and Hungary, which are still experiencing the impacts of the economic crisis, voice lower expectations.

These are some of the findings of the first edition of PwC's *Delivering capital projects in CEE/CIS* report, presented by Dennis Nally, Chairman of PricewaterhouseCoopers International Ltd., at the Saint Petersburg International Economic Forum on 21 June 2013. He commented:

*“Capital projects - including factories, real estate developments, and public infrastructure such as roads, railways and power plants – are key drivers of economic development especially in emerging markets such as Central and Eastern Europe and the Commonwealth of Independent States.”*



### ***Looking to private sector financing***

Difficulties in the Eurozone financial markets and the introduction of tighter regulation under BASEL II have led to a scarcity of traditional funding (public funding and private finance) for capital projects and infrastructure projects. Over 61% of respondents experienced negative impacts from funding constraints, including 8% who cancelled projects outright. This is driving interest in alternative sources of funding. 9 out of 10 capital project owners expect their projects to be funded, at least in part, by the private sector. Even in Russia, where the market for bank finance remains liquid, 72% of respondents say that external private funding is becoming increasingly critical.

Public private partnerships (PPPs) are also seen to bring some non-financial benefits. Julian Smith, PwC CEE/CIS Capital Projects & Infrastructure Leader explains:

*“In addition to bringing much needed financing, we should not ignore the skills factor. The private sector can bring a wealth of risk management skills and project management know how that can help improve the efficiency and transparency of capital projects”.*

### ***Overcoming the challenges***

Managing project risks and financial performance were the two most frequently cited challenges for capital projects. 78% of respondents experienced delays in the last 12 months and 52% experienced cost overruns. The same two issues were identified in *PwC's Middle East Capital Projects and Infrastructure* at the end of 2012.

Given these delays, respondents see the need for improved risk management and governance, for example utilizing proper status reporting. Similarly, to avoid overruns, the area of financial management has been identified as an improvement priority.

Feasibility studies are another critical tool to help identify potential issues and complexities before they become problematic. While 63% of respondents carry them out internally, public authorities often lack the resources to adapt them to market changes, highlighting the need for professional advice.

Another challenge is the regulatory factor. Respondents cite difficulties in obtaining required permits on a timely basis, as well a lack of clarity in the national infrastructure strategy. Political support for megaprojects (worth over USD 1 billion) is often volatile, leading to funding challenges.

### ***Land of opportunity***

Aside from projects in their home country, respondents are targeting infrastructure projects in Russia, Turkey, Poland and Romania suggesting that megaprojects in these countries are driving strong interest and optimism.

### **Note to editors**

- The full report can be downloaded from <http://www.pwc.ru/en/cpisurvey>
- *Delivering capital projects in CEE/CIS* is based on the responses of 105 capital project owners from various industry sectors.
- The survey was conducted between April and May 2013.



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