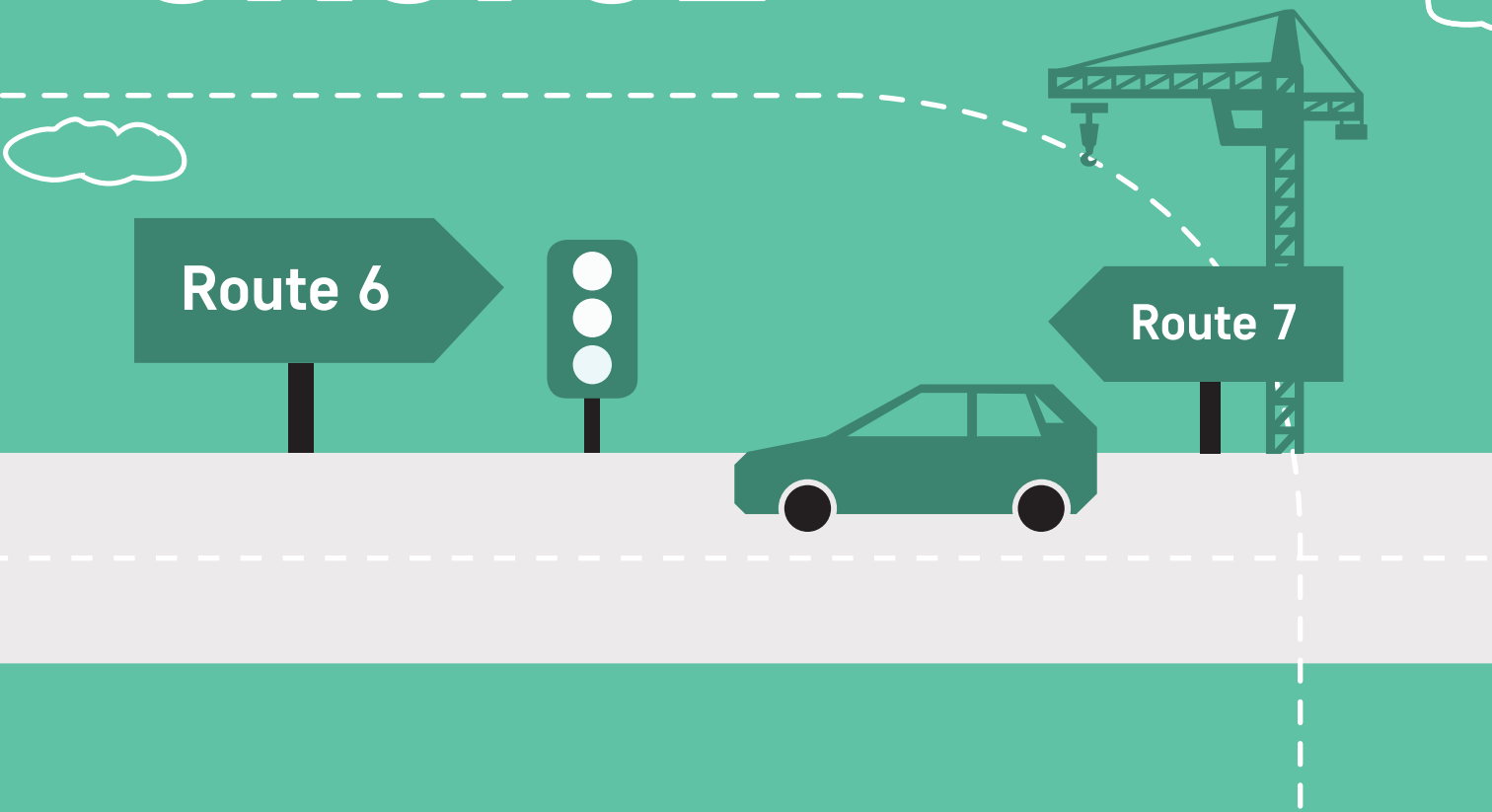


# ROUTE 6: HIGHWAY PRISHTINA - SKOPJE





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# LIST OF ACRONYMS

<b>PIA</b>	→	Prishtina International Airport
<b>WB</b>	→	World Bank
<b>EU</b>	→	European Union
<b>SEE</b>	→	Southeast Europe
<b>IMF</b>	→	International Monetary Fund
<b>FP</b>	→	Foreign Policy
<b>LVV</b>	→	Lëvizja Vetëvendosje/Self-determination Movement
<b>MI</b>	→	Ministry of Infrastructure
<b>SEETO</b>	→	South-East Europe Transport Observatory
<b>PPP</b>	→	Public-Private-Partnership
<b>KG</b>	→	Kosova Government
<b>NPV</b>	→	Net Present Value
<b>UCCK</b>	→	University Clinical Center of Kosovo
<b>MF</b>	→	Ministry of Finance
<b>KAS</b>	→	Kosovo Agency of Statistics
<b>EBRD</b>	→	European Bank for Reconstruction and Development
<b>MTPT</b>	→	Ministry of Transport and Telecommunication

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# ROUTE 7 & ROUTE 6

**2008 (April)**

Call for expression of interest for constructing Route 7

**Route 7**

**830 million EUR**

**2010 (April)**

The signing of contract for constructing Route 7

**R7** Tiranë / Tirana  
↑ Kufiri Vërmicë

**2010 (April)**

Construction of Route 7 has started

**2011 (November)**

First 38 kilometres are open

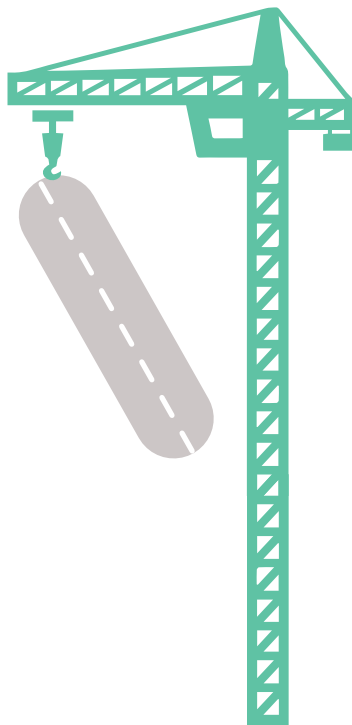
38 km

**2012 (July)**

The fifth session of the Route 7 is open

**2013 (April)**

The direction of the Route 7 has been changed







**2013**  
(November)

The opening ceremony of the whole Route 7

**2018**

Expected finishing phase for construction of Route 6

**2013** (October)

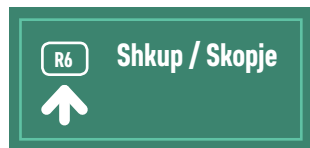
The opening ceremony of technical offers for Route 6. Two companies are competing for the tender, Bechtel & Enka, and CMC Doughsh.

**2014** (July)

The publication of the Route 6 contract, just for one day

**2014** (July)

The signing of contract for constructing Route 6



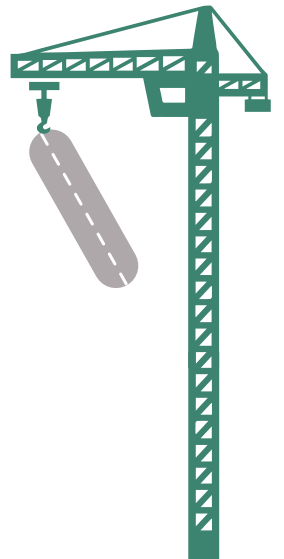
**Route 6**

**2013**  
(October)

Bids for the Route 6 are handed in

**2014**  
(July)

The construction of Route 6 has started



**660 million EUR**

Route 6



Route 7



**1.5 billion EUR**

# 1. INTRODUCTION

Kosovo Government (KG) in recent years has focused the majority of capital investments on the construction of two major roads (motorways), specifically on constructing the “Route 7” (Merdare-Morina) and the “Route 6” (Pristina-Hani i Elezit). The construction of these two roads, in addition to linking Kosovo/Pristina with Albania/Tirana and Macedonia/Skopje respectively, in fact includes Kosovo as part of the main transport networks in South East Europe. While the “Route 7” (Pristina-Morina) has been built and is fully functional, the “Route 6” (Pristina-Hani i Elezit) has been contracted in 2014 and is in the initial stage of construction.

The way the contracts were made for these two roads have been and remains an important discussion topic in the Kosovan society, remarkably due to the socio-economic importance that these two significant capital projects have, as well as due to the high financial and opportunity cost<sup>1</sup>. The construction of the “Route 7” (Pristina-Morina), which has cost Kosovo’s budget at about €830 million EUR<sup>2</sup>, is regarded as one of the biggest projects of the recent decades, whereas the “Route 6” construction cost is estimated at €650 million and is also regarded as one of the biggest projects of recent times. Both of the projects altogether, in little more than five years, will cost Kosovo’s budget some €1.5bn.

In this regard, it is important to underline that in spite of public discussions having taken place in regard to these two significant projects, no report has been published to this day (as far as we know), which would present in depth the course of processes related to the construction of these two projects and their impacts on country’s social and economic development. Also, it is very important to emphasise that the transparency shown in both of these projects is to a minimum extent, as the wide public opinion is very little informed about the course of these projects. A minimal level transparency which has accompanied the construction of the “Route 7” and is accompanying the construction of the “Route 6” has been and remains one of the key remarks made by the public opinion. Therefore, the main purpose

of this report is to present and analyse the course of the construction of these two projects and their effects on the economic and social development of Kosovo, including the impact of these two projects in the road construction sector of Kosovo.

This report presents a qualitative research (with qualitative methods) on the course and outcomes of the construction of Pristina – Skopje motorway (Route 6), as well as lessons learnt from the construction of “Route 7” (Pristina-Merdare motorway). The report begins with an analysis on experiences gained from the construction of “Route 7”, in which the funding and the possible ways of funding of these two projects are analysed. Several examples of similar motorways’ construction in regional countries and their costs are given afterwards. The report also analyses in depth the effects that the “Route 7” construction has had on Kosovo’s foreign trade. An important part of this report is also the impact that construction of two major roads had on the local road construction sector. Furthermore, the fourth part of this report is exclusively dedicated to the “Route 6” (Pristina-Hani i Elezit motorway) and the potential socio-economic impacts of this project. The report ends with the conclusions and recommendations part.

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<sup>1</sup> Opportunity cost is an economic concept which describes the sacrifice (leaving out another project) that we make when choosing a certain capital project

<sup>2</sup> The official amount declared during interviews we have had with officials Ministry of Infrastructure.

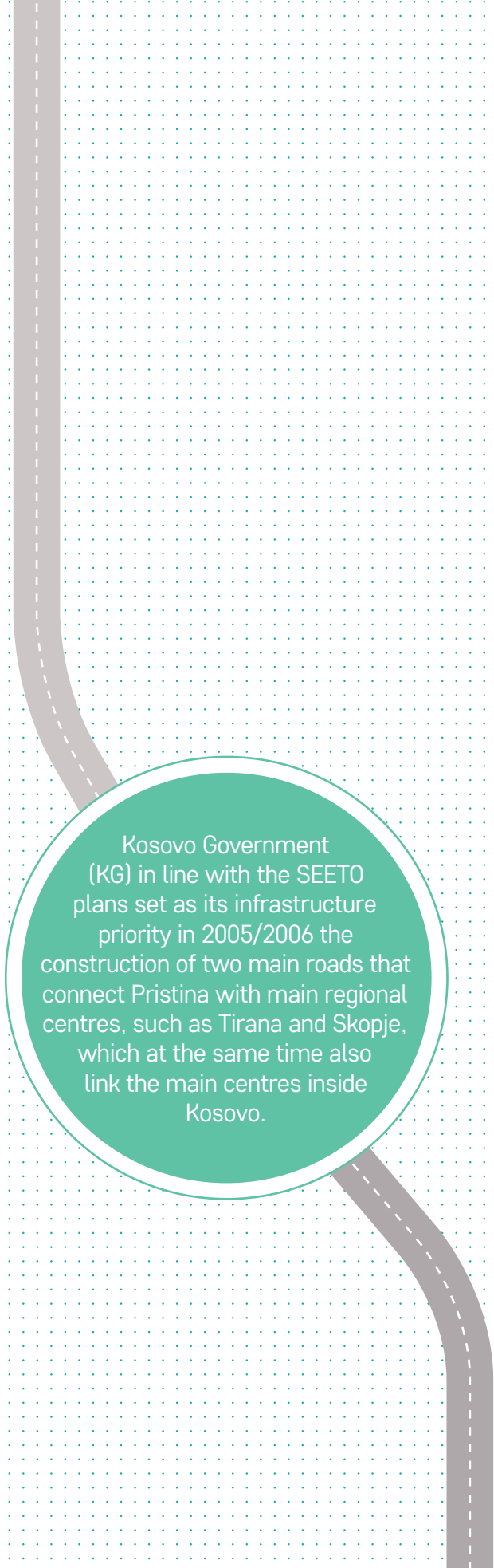
# 2. METHODOLOGY

The research methodology of this report includes mainly the research of secondary data, obtained through analysing and collecting the so far data published in Kosovo, as well as through primary research, interviews with key stakeholders. The secondary research has been conducted by analysing the previous works (merely articles in local media), documents related to the contracting and construction of the two projects (Route 6 and 7), documents and decisions of the Government, as well as the national and international laws and regulations that regulate this relevant area.

The primary research has been conducted via in-depth interviews with key stakeholders. The basis of interviewing and the interviewing structure has been the preliminary findings of the secondary study/research that have served to design some open questions, formulated in particular for each stakeholder separately. The interviews have been conducted by authors themselves.

We would like to emphasize that local road construction companies in general, local companies engaged as contractors by the main construction company Bechtel&Enka, representatives of road construction association, representatives of business associations, representatives of Kosovo Ministry of Infrastructure, Kosovo parliament members, and Motorway Project Directorate at Kosovo Ministry of Infrastructure have been interviewed during the research. But, despite requests addressed to the Bechtel&Enka, it was impossible to interview them. Many of those interviewed prefer to remain anonymous, so therefore we have respected their right to remain so.

The collected data have been processed and included in the general structure of this report. In cases when additional information was produced, the research team has re-conducted additional interviews with stakeholders in order to obtain a clear picture of the entire process so far.



Kosovo Government (KG) in line with the SEETO plans set as its infrastructure priority in 2005/2006 the construction of two main roads that connect Pristina with main regional centres, such as Tirana and Skopje, which at the same time also link the main centres inside Kosovo.

# 3. LESSONS LEARNT FROM THE ROUTE 7 CONSTRUCTION

The improvement of transport in the South East Europe and its connection with the Western Europe has been regarded as a very important project for the economic development of this region (The Balkans in general), as well as for its integration into the joint European market. In order to achieve these goals, the European Union (EU) along with the South East Europe countries (SEE) established the South East Europe Transport Observatory (SEETO), so that it could coordinate strategies and transport development projects across these countries. Kosovo, by initially being represented by the UNMIK mission, became a member of this organisation and has in this way been part of organisation plans ever since.

Kosovo Government (KG) in line with the SEETO plans set as its infrastructure priority in 2005/2006 the construction of two main roads that connect Pristina with main regional centres, such as Tirana and Skopje, which at the same time also link the main centres inside Kosovo. One of the projects is “Route 6”, which includes Pristina – Hani i Elezit (to border with Macedonia) road segment, 65 kilometres in length, and the other one is “Route 7”, which includes Morina-Pristina-Merdare road segment, 118 kilometres in length (see figure 1 below).

The “Route 6” is considered to be of a special regional importance because as seen in figure 1 and 4 (below), this motorway connects Pristina with Skopje, and is one of the high priority roads in SEETO plans. The “Route 6”, amongst other things, is a liaison road with the Corridor VIII in Skopje, which is thought and expected to link in the future Pristina with Montenegro, Route 4 (Podgorica- Belgrade) respectively.

On the other hand, the “Route 7” or ‘Ibrahim Rugova’ motorway was one of the top priorities of Kosovo Government, which also is fully in line with the plans of European Union (EU) and the SEETO, and as such has been contracted and completed in a record time. The contract signed between Kosovo Government and the international company, Bechtel&Enka, was estimated at about €830m, or in other words, more than €11 milion per kilometre.

The “Route 7” has been the biggest public project in Kosovo in the recent decades and is regarded as one of the biggest

projects in the region. Before the contract was signed, the project had been one of the key electoral promises of the political party, which, in fact, had been in power and won the elections at that time. The project as a whole was funded by the public budget, even though the general public opinion would constantly recommend the Government to use other financing means (Riinvest 2011).

We would like to emphasise that before the signing of the contract for “Route 7” construction, no sufficient public discussion related to the project had taken place, nor had there been any feasibility study (FS) conducted which could well be used as a foundation for this discussion/debate. The lack of public discussion/debate was a result of argumentation (by the Government side) that the project was “of high political importance for Kosovo”, given that it connected Kosovo with Albania, and in this way, a general positive “mood” about this project was in place. The only public discussion in place at that time, was by the opposition (mainly by the Vetëvendosje movement), which would criticise the government for lack of transparency in all the contracting processes, as well as for a very high project price, by linking it (the price) with possible corruption affairs. Nevertheless, the project financial feasibility has in no case been discussed.

And now, by this time perspective and based on the official data on vehicles traffic (Kosovo statistics for 2014), as well as based on the interviews with various stakeholders from the Kosovan society, it results that the “Route 7” is not being used at large or as it has been expected to be used. This fact is stated in the Foreign Policy report (2015) as well, which refers to the official data on all motor vehicle traffic control, according to which it is considered that the road is being used merely in one-third of its capacity.

According to the World Bank (2010), only two out of nine parts of this road (those nearby the centre – Pristina), could be economically feasible. If we are to base on the official data published in 2014, there have been some 290,000 motor vehicles registered in Kosovo, in other words, only one in six Kosovars owns a motor vehicle, which is one of the lowest ratios in Europe. This fact (this statistical ratio) does not back the construction of suchlike high quality road with such a high price. However, on the other hand, the constant

**FIG. 01 THE MAP OF THE TWO MAIN ROADS (ROUTE 6 AND ROUTE 7) WHICH CONNECT PRISTINA WITH TIRANA AND SKOPJE**



justification of the government would be that the “Route 7”, in addition to small motor vehicles and people movement in general, it would have positive impacts on movement of goods, too. But, even in this case, based on our analyses, this does not result to be so. In the coming part of the report, we will be dealing with the effects of “Route 7” on Kosovo’s foreign trade, in details.

As we have already stated above, the main remarks made by the public opinion in Kosovo, including political opposition groups, have been focused on the lack of transparency in the project (the contract signed between the international company Bechtel&Enka and Kosovo Government has never been made public), and the high price that the Kosovan taxpayers are paying for this project. This fact is highly emphasized also by the well-known American magazine Foreign Policy (FP). According to the FP (2015) most of the works completed by the Bechtel in the Balkans, in general, not only in Kosovo, have been followed by high prices (higher than the market average price), by low transparency and amid corruption accusations.

The argument that this company (Bechtel) is closed to the public opinion and not at all transparent is backed also by the fact that the company barely talks to the media, does not attend public discussions and does not support activities of social responsibility. The research team of this report has made lots of efforts to reach the officials of Bechtel&Enka Company, but it was impossible.

The low level of transparency has also been criticised by the International Monetary Fund (IMF), World Bank (WB), European Union countries’ embassies in Kosovo and the civil society in the country. A major concern of the public opinion was also the contract type based on ‘price per unit’, which meant that the project final price could be known only when the entire construction had been completed. According to the representatives of the opposition in Kosovo (Vetëvendosje movement) Bechtel&Enka Company increased the price of several building materials for the road construction (for instance the gravel price), which, according to them, has been three times higher than the market price. Another scandalous contract element, according to them, has been the equipment ‘movement’ price, which was estimated at €40m. This price of ‘movement’ is unreasonable, when taking into account that the equipments of Bechtel&Enka Company, were close to the construction location, just a bit further away from the border, in Albania.

The lack of transparency has been constantly justified by the government that “the contract data might be used by the competitiveness”. This justification should not stand,

because the companies that are engaged in major public projects must be willing (are obliged by the law) to come forward with information for the public opinion.

Despite lack of transparency, the high cost of road construction is also declared by the local road construction companies, who have been interviewed by the research team. In this context, local companies emphasize that the profit of Bechtel&Enka Company from the construction of “Route 7” has been rather high<sup>3</sup>. According to local companies, the net profit of Bechtel&Enka Company from these major infrastructural projects is estimated to be between 25 and 30 per cent. This percentage has been declared during almost all interviews with local companies that are engaged in road construction in Kosovo.

Bechtel Company is one of the biggest infrastructural contractors in the US and the third biggest worldwide, according to a list published by the Fortune magazine (2008). Prior to being engaged in Kosovo, this company has been engaged in constructing major roads in Croatia, Romania and most recently in Albania. Established in 1898, Bechtel is a private company, owned by Bechtel family (FP, 2015). The Bechtel Company is mainly engaged in major projects in various fields, such as transport, oil and gas and mines. In 2012 alone, it has had some \$38bn in revenue and some 53,000 employees engaged in projects in more than 40 countries (FP, 2015). So, we want to underline that the Bechtel Company is a big international company<sup>4</sup> which has average annual incomes 20 times the Kosovo annual budget (of 2014).

Before getting up and running the construction in Kosovo, the Bechtel Company was engaged in several projects in the Balkans. Soon after the 1990s conflicts in then-Yugoslavia, new countries needed to urgently reconstruct modern road infrastructure. In 1998, the Bechtel Company was engaged in constructing a motorway in Croatia that would see the contract negotiated directly with the then-Croatian government and without being put out to public tender. Before coming to construct a motorway in Kosovo, the Bechtel Company completed a similar project in Albania.

3 There is no official data on the profile created by the Bechtel&Enka company in Kosovo.

4 Based on the report published in Foreign Policy magazine, the Bechtel&Enka company has very good relations with political groups in the US and that as a result, it has constantly made use of State Department senior officials in order to sign major international contracts. In many occasions, state department senior officials would take up senior posts in Bechtel Company and vice-versa, senior officials from the company would take up senior public posts. According to the FP (2015) and its sources, if a country collaborates with Bechtel company, it is then considered to be close to Washington.

**FIG. 02 THE MAP OF THE TWO MAIN ROADS IN THE SEE REGION, IN WHICH THE ROUTE 6 AND 7 ARE PRESENTED**

SOURCE: SEETO (2014)





**FIG. 03 PRIORITY PROJECTS, ACCORDING TO THE SEETO PLANS**

SOURCE: SEETO (2014)



**FIG. 04 PROJECTS SET TO BE FUNDED IN THE SEETO PLANS**

SOURCE: SEETO (2014)



## TAB. 01 BUDGET PLANS FOR FUNDING THE NEW MOTORWAY (ROUTE 6) AND THE MAINTENANCE OF “IBRAHIM RUGOVA” MOTORWAY (ROUTE 7) (IN M. EUR)

Project	2014	2015	2016	2017	2018	Total 2015-17
Motorway – Route 6	55.9	90	108	120	130	503.9
Maintenance of the Motorway – Route 7		2.1	3	3	3	11.1

SOURCE: KOSOVA BUDGET (2015)

In 2003, the Bechtel Company engages in Romania to build a motorway estimated at \$2.7bn. The construction of ‘Transylvania’ motorway in Romania was followed by major problems. Due to lots of contractual problems and laws that had not been respected, including lacking in Strategic Environment Assessment, the European Union then called off all the promised support for Romania. A report published by the European Union even stated that the contract for the construction of Transylvania motorway signed by the Romanian government presented a black hole of this country, which referred to lack of respecting the laws as well as to country’s economic potential report towards contractual reports under which it had come through this contract. Neglecting of European Union recommendations and other numerous problems had had an impact on significant stagnations in road construction until 2007. Just like in Kosovo case, also in the construction contract of ‘Transylvania’ motorway, the construction company cashes up funds for the completed road segments, but not for the construction yet to be completed. However, each delay has additional financial burdens in cases when it is caused by the fault of the local government. Whereas, the contract sees no fixed costs and its cost, based on the conducted analysis, could potentially change from €2.2bn up to €7.2bn depending

on the number of invested units.

The payment for the construction of each road segment, according to the contract, the Romanian government had made only after a controlling company (Scetauroute) verified the quality and quantity of the completed work. Meanwhile, in order to ensure there is qualitative work, the Bechtel&Enka Company after signing the contract had issued a banking guarantee letter, in which the Romanian government could reimburse in case the lack of quality was to be proven. The national road construction company in Romania had suggested the contract with Bechtel&Enka Company is terminated after the construction of two road segments had been completed, because according to them, the value of the contract amid lack of fixed prices and the opportunity for their imposed- restructuring by the clause in the contract makes it unfavourable for the country. On the other hand, officials for Bechtel&Enka Company, same as in the case of motorway construction in Kosovo, pay special importance to the transformation of knowledge by the company to workers and local companies that do a considerable part of the work. But, in the Romanian case, the problems that are stressed in particular by the construction company were logistical ones, such as expropriation problems and the reallocation of municipal services that had been a considerable hindrance over the course of construction work.

### 3.1 Funding of Route 7 and Route 6

The funding of these two major projects has been one of the key problems of Kosovo Government. Aside from the local public opinion, the International Monetary Fund (IMF) has also made continual remarks about the way these projects were financed. The IMF report on Kosovo (2012), amongst other things, underlines that the “Route 7” has put huge

‘pressure’ on Kosovo budget and this pressure could be released only by deep budget deficits and cuts in other capital expenditures (education, health and local infrastructure). Now, from this time perspective, we could well come to a conclusion that, in fact, the latter has been the case, meaning, in order to pay the road bill, the capital expenditures of Kosovo Government in other sectors will be decreased, particularly in the development of local infrastructure.

Although the funding of the “Route 7” was done without any major crises in the state budget, the funding of the “Route 6” seems to be yet rather unsolved as a whole. This is indicated by the 2015 budget presented by the Ministry of Finance (see table below). Some €510m have been projected for funding the “Route 6” until 2018 in the project-budget for 2015 (see table 1), while the remaining part of some €150m is not being clarified at all.

In the recent decades, the Governments of countries in development have very much been oriented towards funding major capital projects (infrastructural ones) in collaboration with the private capital via well known cooperation, such as Public-Private Partnership (PPP) or concessions. In Kosovo, however, the experience with the PPP is relatively late. Up until 2009, there was no legal framework that would come to back suchlike projects. Nonetheless, following the approval of Law on Public-Private-Partnerships and Concessions, the first PPP project was implemented, which is the concession project of Pristina International Airport (PIA).

In this regard, Brenck et al. (2008) show that the transition countries in the South East Europe (Czech Republic, Hungary, Poland, Croatia) had used such a funding opportunity to a large extent, and the number of public-private projects in these countries was nothing less but impressive. Moreover, the road construction in the transition countries of South East Europe has been mainly done via toll road projects and Build-Operate-Transfer contract.

As stressed above, when the contract for the “Route 7” construction was signed back in 2010, in fact, the legal framework was incomplete for including any private partner in the project, in the “Route 6” case, however, all the preconditions for suchlike collaboration have been in place. It must be emphasised that the experience of other countries shows that in cases when PPP ideas/projects are new (without previous experience), there is a risk and it is recommended to be started with smaller projects. So, it could be argued that this was a major project to be included in the PPP, even though the World Bank (WB) and country’s civil society recommended the Ministry of Transport and Communications (as it was called back then) to seriously consider the involvement of private capital in the two main roads; Route 7 and Route 6. But, neither in the case of the “Route 7”, nor most recently in the case of the “Route 6”, has this recommendation not been taken into consideration. While the funding of the “Route 7” was completed entirely from public funds, the funding of the “Route 6” is not entirely clear.

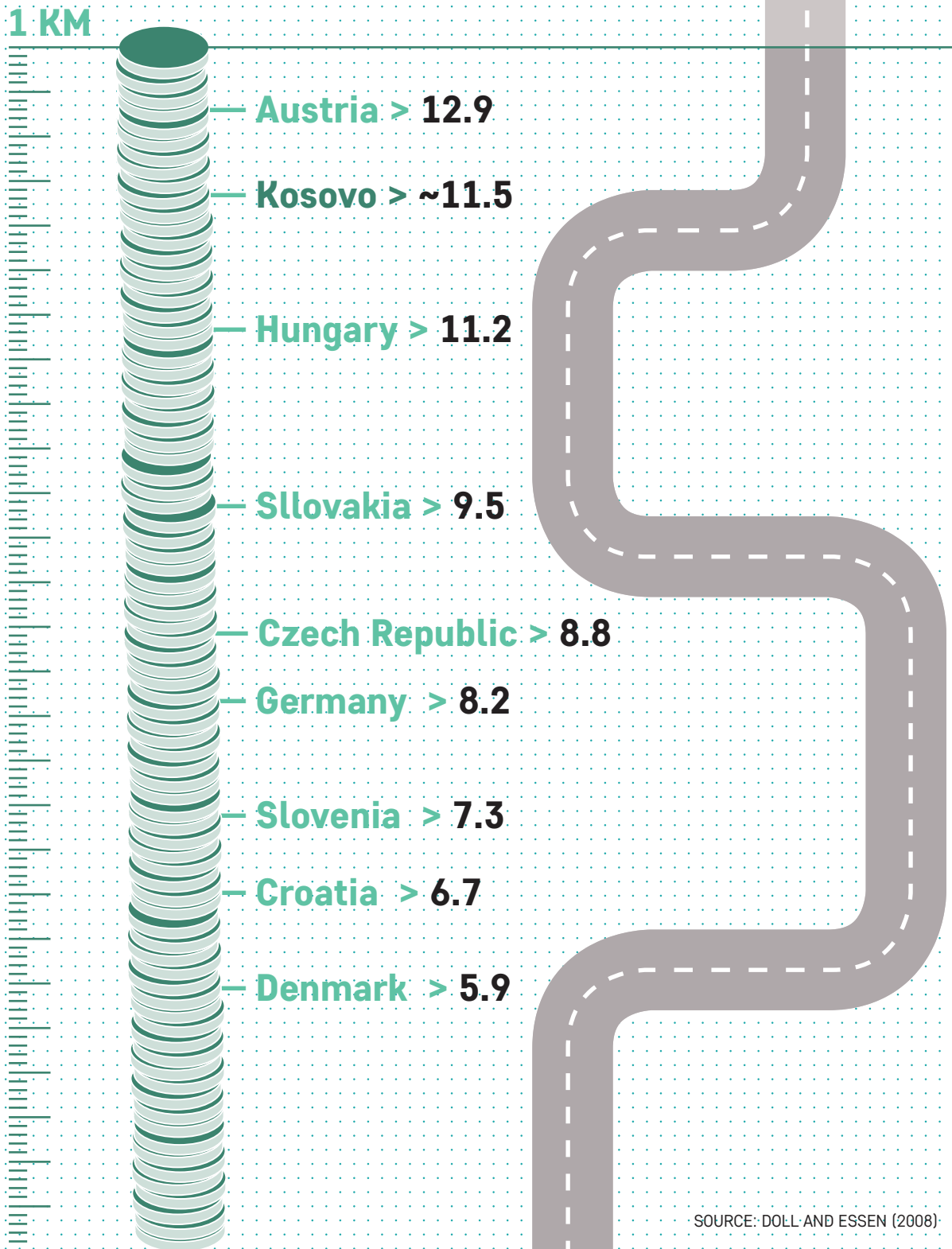
Other means of funding in cases of such projects are long-term loans (low interest loans) from the international financial institutions which have been used by other regional countries. The European Bank for Reconstruction and Development (EBRD) plays a special role in this regard, whose funds have financed many road projects in the regional countries, remarkably due to the international character of roads. The Riinvest report (2011) called ‘State and Budget’ analyses how the road projects in the region, such as the Corridor 5C in Bosnia and Herzegovina were funded by the EBRD and the European Investment Bank (EIB). The road project of Pan-European X corridor had come to collaboration terms with Greece and Macedonia, which would use IPA European Union funds (the Instrument for Pre-accession Assistance in EU), as well as of the Hellenic Plan for the Economic Reconstruction of the Balkans. Such important funds for assistance for countries in transition and in journey to European integration would have facilitated the construction of infrastructure in the country. It would be great if projects that could potentially be funded through assistance funds for the EU integration are planned to be carried out at the time when Kosovo is fully eligible to use them. Since such funds are not available in the country at present, commercial loans remain an alternative option then; introducing the private capital through PPP projects or selling of public assets to cover project obligations.

### 3.2 Several examples of construction of highways in regional countries

According to Doll and Essen (2008) who have published an important study on the construction of highways (and their costs) in European countries, by comparing eight European countries, Austria turns out to be the country with the highest cost of road construction. The report shows that the highway construction cost in Austria is estimated at €13m per kilometre on average. The other country with the highest highway construction cost turns out to be Hungary, with over €11m per kilometre, followed by Slovakia with some €10m per kilometre and Czech Republic with €9m per kilometre. On the other hand, the average cost of highway construction in Denmark is merely €6m per kilometre. Croatia and Slovenia are listed higher with a cost of some €7m per kilometre, whereas Germany has an average cost of highway construction of some €8m per kilometre. If Kosovo were to be included in this list, it would be ranked second to Austria, with over €11m per kilometre.

These data actually prove the statements of a large part of the public opinion and local companies that the price of

**TAB. 02 AVERAGE COST OF CONSTRUCTION OF HIGHWAYS IN EUROPEAN COUNTRIES** (IN MILL. EUR PER KILOMETER)



SOURCE: DOLL AND ESSEN (2008)

road construction in Kosovo has been above the market average, particularly when given the ground on which the Route 7 has been built.

According to Doll and Essen (2008), the mountainous terrain usually increases the cost of highway construction and as a result the construction cost could go up to €26m per kilometre, like in Germany's case, or some €25m per kilometre in Austria's case.

As aforesaid, one of the main remarks made by the public opinion was related to the high price that the society has paid for these projects. Amongst other things, the high price paid for the construction of roads has been criticised by the political party, which at the time when the contract was signed was an opposition party but now is in power. Lutfi Haziri, deputy head of Kosovo Democratic League (LDK) (Gazeta Express, July 2014) criticises the commencement of the project for the construction of "Route 6", at a time when the country had just seen election and was yet to form new institutions. On this occasion, he criticises the high price that the society has paid for "Route 7" construction, which would also be paid for "Route 6" construction.

### 3.3 The effects of projects on employment

The creation of new jobs was one of the main arguments of the Government when justifying the construction of two motorways. Obviously, such major projects will create new jobs, particularly over the course of their construction period. Nonetheless, those jobs are not stable as they have a short lifespan, since as soon as the project is completed, the employment ends too. Lots of studies on this matter (Kandrand Koolwal, 2011; Mu and van de Walle 2011; Lokshin and Yeemtsow, 2005 and Mayer, 2014) show that the construction of new roads could ease the access to labour market, boost the level of self-employment, as well as could ease the access to first raw materials, these are, however, indirect effects of the project that can hardly be measured.

Some 3,000 local<sup>5</sup> workers were considered to be engaged in the construction of Prishtina-Morina motorway (Route 7). Normally, not all these workers were engaged in the project all the time, many of them would work in a certain part of the project. Based on the secondary data that we have analysed (workers' presentation to the ATK by Bechtel&Enka

Company), it results that in 2010, there were some 1,000 workers employed in Bechtel&Enka Company (in Kosovo).

If we are to suppose that there were 3,000 workers engaged in the project (as reportedly said in the media), who worked for 12 months each on average, it would then result in 36,000 labour months (3,000 workers x 12 labour months), and if we are to suppose that they were paid about €400 per month on average (which is a higher salary than the average salary in Kosovo<sup>6</sup>), it would then result in €14.4m paid for local workers' salaries, which in fact is only 1.7% of the overall project cost (€830m).

In the best case, if we are to suppose that 3,000 workers engaged have worked 24 months each in total, then it would mean that 72,000 labour months, with a monthly salary of €400, would result in €28.8m paid to local workers, which makes some 3.5% of the overall project cost. In both of the scenarios, the cost of workforce engaged in the project is under the average of similar projects' cost, which is some 10% of the overall project cost.

A similar workforce engagement is expected in the "Route 6" construction. On the other hand, worker unions would in various forms complain constantly about the severe working conditions, injuries at work, overlong hours at work and low pay per hour. Over the course of interviews, the local companies declared that workers engaged by the Bechtel&Enka Company were paid €1 per hour, which is a lower pay per hour than in the labour market, as the lowest starts from €1.5 per hour.

### 3.4 The Route 7 effects on Foreign Trade

Although the increase of trading volume and access to new markets was one of the key reasons for the construction of the "Route 7", it was very important for us to analyse the impact of the project in this regard.

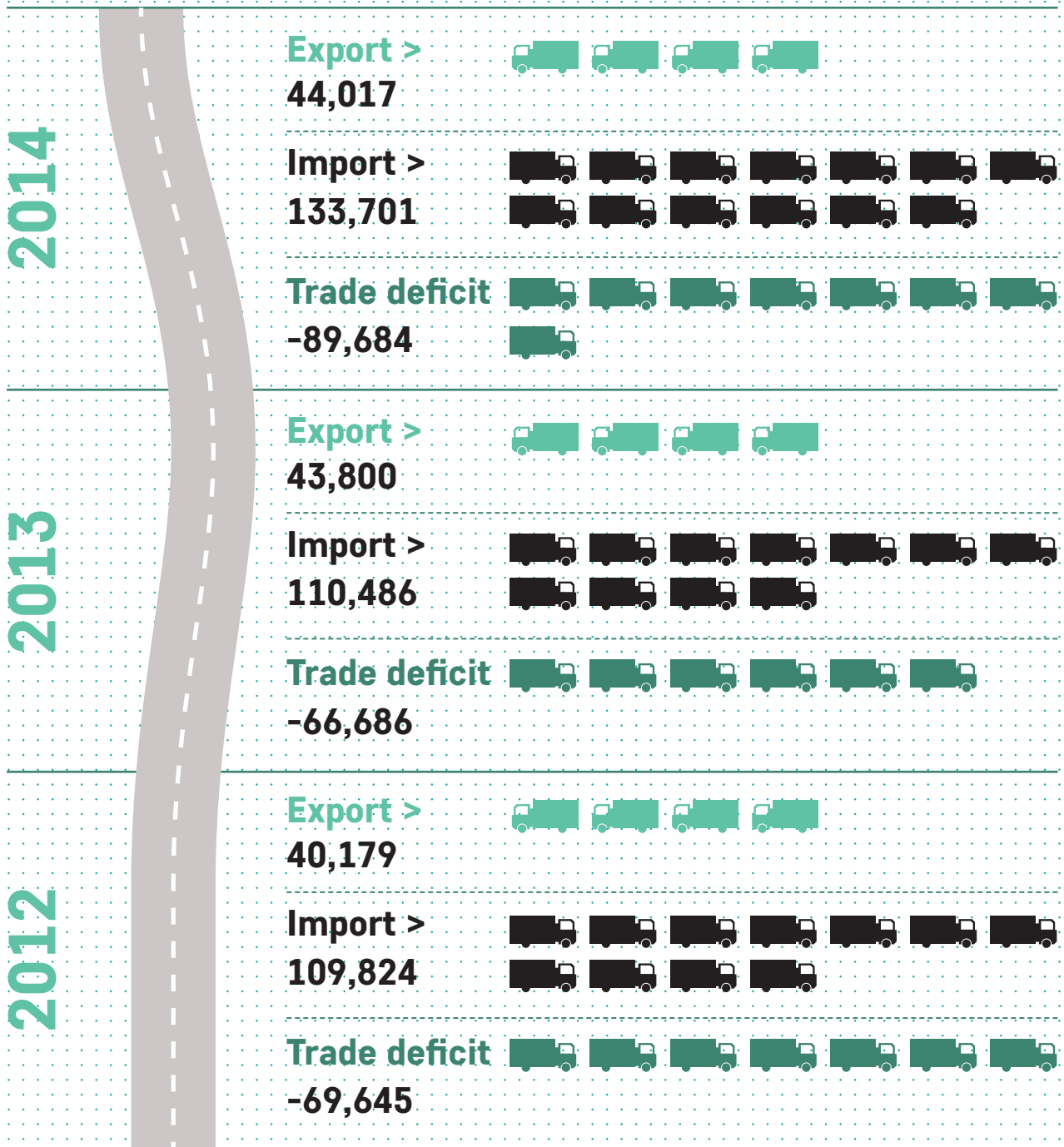
The table below presents trade exchanges between Kosovo and Albania in last three years. When analysing the Kosovan export to Albania, we find there is no significant increase in the past three years, in which we believe the construction of "Route 7" should have had an impact. While in 2012, the Kosovan export to Albania was estimated at €40.2m, in 2014 was estimated at €44m, which sees a 9% increase in

<sup>5</sup> Bechtel&Enka company statements on local media.

<sup>6</sup> See Riinvest Institute Report (2014) on the private sector development in Kosovo.

# TAB. 03 TRADE EXCHANGES BETWEEN KOSOVO AND ALBANIA

(IN '000 EUR)



export to Albania. Undoubtedly, this increase of 9% cannot be attributed to the road construction alone, as many other factors could have well contributed to it, which is impossible to be controlled by us with the current methodology.

On the other hand, there is an increase in import when comparing 2012 with 2014 (see table 3). While in 2012 Kosovo imported from Albania in an €109.8m estimated value, the figure went up to €133.7m in 2014, which marks an 18% increase. In this context, the trade deficit between Kosovo and Albania had just deepened in the last three years. The trade deficit in 2012 was estimated at €69.6m, whereas in 2014 it had gone up to €89.6m, or some 22% higher.

Based on this, we can come to a conclusion that, given the methodology (comparison) shortcomings, the construction of "Route 7" has seen Albanian manufacturers benefit, and not the Kosovan ones. On the other hand, however, we would like to underline that the Kosovan consumer, as a result of "Route 7" construction, has had access to products in a larger scale, and in many occasions (potentially) may have consumed those products in rather lower prices, due to lower transport cost.

Nevertheless, despite the fact that "Route 7" has not influenced that much the export of Kosovo to Albania, it is serving now as an alternative route to exporting to other countries (Bosnia and Herzegovina, Serbia and Macedonia) in Albania through Kosovo. Hence, the motorway has replaced Macedonia and Montenegro as transit countries for Kosovo's export as well as other countries towards Albania. The use of "Route 7" for goods transport to the neighbouring countries via Albania could trigger indirect benefits to Kosovo's economy (to increase revenues if the toll road is applied, by selling petrol/gas/oil and in the restaurant and hotel industries, etc).

Based on the data of Kosovo Customs, Kosovo's export whose final destination is Montenegro is being transported via "Route 7" and as a result has reduced to a greater extent the use of 'Tower' as Customs point. Also, Customs point in Morina (Vermice) is now being used for exports from Kosovo and Albania whose final destination are European countries or Balkans countries respectively.

### **3.5 The Route 7 construction impacts on the local road construction sector**

The road construction sector/industry in Kosovo in the last ten years had been on course of development, particularly after a significant boost in the budget of Ministry of Infra-

structure (the then-Ministry of Transport and Post-Telecommunication). Given the infrastructure budget increase, as well as government's plans for investments in road infrastructure, many local new companies were introduced in this industry and invested in machinery and equipment in order to be able to compete when bidding for projects.

The situation, however, changed when the budget of Ministry of Infrastructure was merely focused on the construction of "Route 7" and later "Route 6". And, as a result of this new situation, the only possibility for local companies to be engaged was left the collaboration with Bechtel&Enka Company, or the engagement in maintaining current roads. Many local companies chose the first alternative and got underway collaboration with Bechtel&Enka Company.

Based on the interviews we have conducted with local road construction companies and their union, it results that they have worked in difficult contractual conditions. According to them, Bechtel&Enka Company had many demands, which in many occasions were unreasonable, that in fact had constantly increased the cost of activities. They also declare that the Bechtel&Enka Company had imposed lots of fines for different contractual deviations.

The local companies in general complain about bad relations with Bechtel&Enka Company. In some occasions they would terminate the contract and cancel construction due to lack of funds to go on with their activities. Most recently, fully in line with our talks with the local companies contracted by Bechtel&Enka company, the local media has reportedly said that as many as 15 local companies have cancelled construction in "Route 6". The cancellation comes as a result of the pressure put by Bechtel&Enka company for reducing the contractual prices, which have anyway been low.

The local companies declare that the contractual prices for construction have constantly gone down, amongst other things, as a result of the competitiveness between the local companies to get engaged in this project.

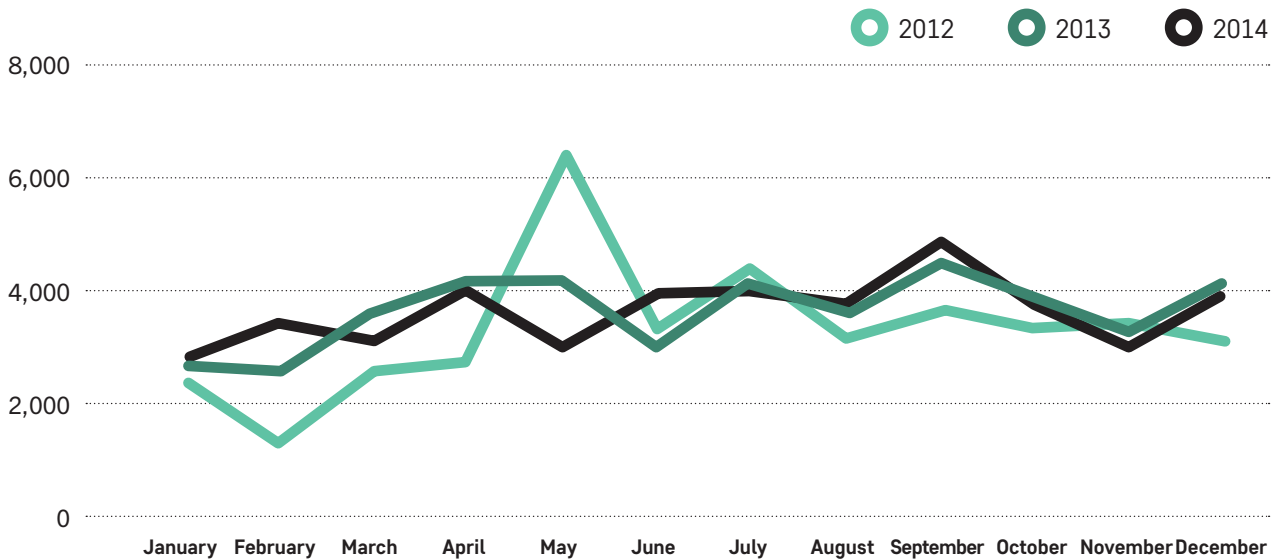
It is believed the Bechtel&Enka Company has taken advantage of the lack of planning knowledge shown by local companies. The interviews indicate that local companies would not analyse in-depth the contract, or in other occasions lack of capacity to analyse/understand in details the signed contract.

According to local companies, Kosovo institutions (Ministry of Infrastructure to be more precise) have not looked into the contract properly, and consequently have given full



## FIG. 05 THE EXPORT TO ALBANIA IN LAST THREE YEARS

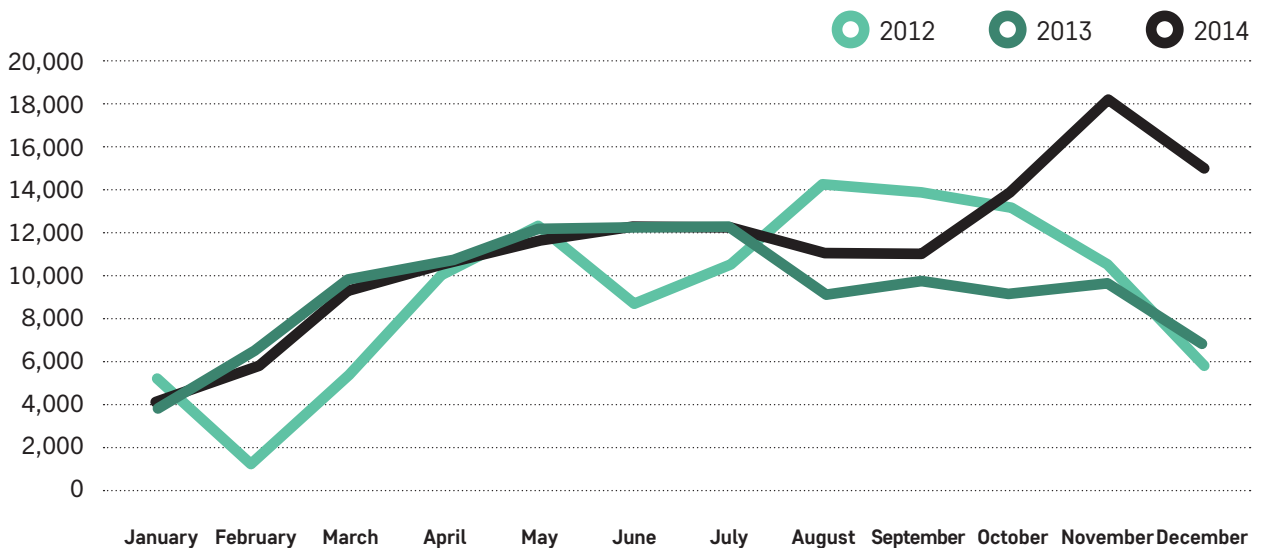
(IN '000 EUR)



Source: Kosovo Agency of Statistics (2014)

## FIG. 06 THE IMPORT FROM ALBANIA IN LAST THREE YEARS

(IN '000 EUR)



Source: Kosovo Agency of Statistics (2014)

freedom the main contractor to exploit local resources. The non-engaged local companies in other projects and under financial pressure have competed against one another for the offers that Bechtel&Enka company had called companies to make, by reducing the price of services under the market price and under each financial reasonable price.

Over half of the construction in "Route 7" has been done by local companies, according to them, but under strict monitoring of Bechtel&Enka Company obviously. The local companies complained that there has been lacking in institutional backing in their relations with the key contractor. Some of the local companies that have been engaged by Bechtel&Enka company in a similar project in Albania, emphasised that they have had better experiences, remarkably due to greater monitoring of the contract by the Albanian Government. According to them, local companies in Albania were much protected by the Albanian Government.

The same conclusion is drawn by the discussions that we have had with Kosovo MPs. They declare that the contract and work monitoring in Route 7 construction has not been permanent and that an experienced international company should have been contracted to exclusively deal with monitoring of the contract. This is one of the vital recommendations on Route 6 construction. Most of the MPs consider that the Ministry of Infrastructure currently lacks in capacities for monitoring the contract and that this situation could well be 'exploited' in various forms by the contractor.

In fact, Kosovo Government in both cases, in the case of Route 7 and Route 6, contracted an international company "Hill International" to monitor the construction of both projects. The whole process of monitoring and reporting to Kosovo Government was outside public discussions and non-transparent. Moreover, it is considered that "Hill International" is close to "Bechtel&Enka" company, and as a result there is a conflict of interest. According to "Jeta në Kosovë" journal (JNK), "Hill International" is managed by ex employees of Bechtel.

The other problem underlined by the MPs about the "Route 7" construction is the change of road direction, which was made amid lack of studies and detailed plans, as well as unreasonably. The same practice must by

no means be put in place in the project for "Route 6" construction. More to it, local companies emphasise that the majority part of road inputs (such as stone and gravel) have not been paid at all, nor have been paid taxes for them. The contracted price has been per unit, not per kilometre and this has complicated the observation and the transparency of the project.

"The Funding merely with budget means is the next problem. Other financial sources have not been taken into consideration. The "Route 6" construction has not been an emergency, as it could have been built at a later time, whereas at this time, the current road should have been extended."

"The contracted prices with Bechtel&Enka company were simply too low. There is no room for profit with such prices. Those prices don't even cover the amortisation of used machinery and equipment. The road construction sector in Kosovo is on course of going down because the state budget is focused on motorways and there is little space left for other small projects. A part of us is bankrupting, as the other part is engaged in maintaining regional roads and are in this way surviving this stage. But, these are very small projects compared to other previous major road construction projects, we meant about the time before the two major roads 6 and 7 were contracted."

### 3.6 "Design – Build" Contract

The contract signed between Kosovo Government and the Bechtel&Enka Company for the construction of "Route 7" was of 'Design – Build' type. This type of contract is usually used in the construction projects, in which the contractor is responsible for projecting and construction of the project. This type of contract is usually characterised by the elements as follows:

1. The contractor projects the construction on several frames determined by the employer (the Government), but there are cases when it is responsible for projecting the construction since the very beginning of the project.
2. The projection and construction takes place in stages and in parallel.
3. The employer (the Government) usually engages an agent (it could be a domestic group if there are capacities) in administrating and observing the contract.

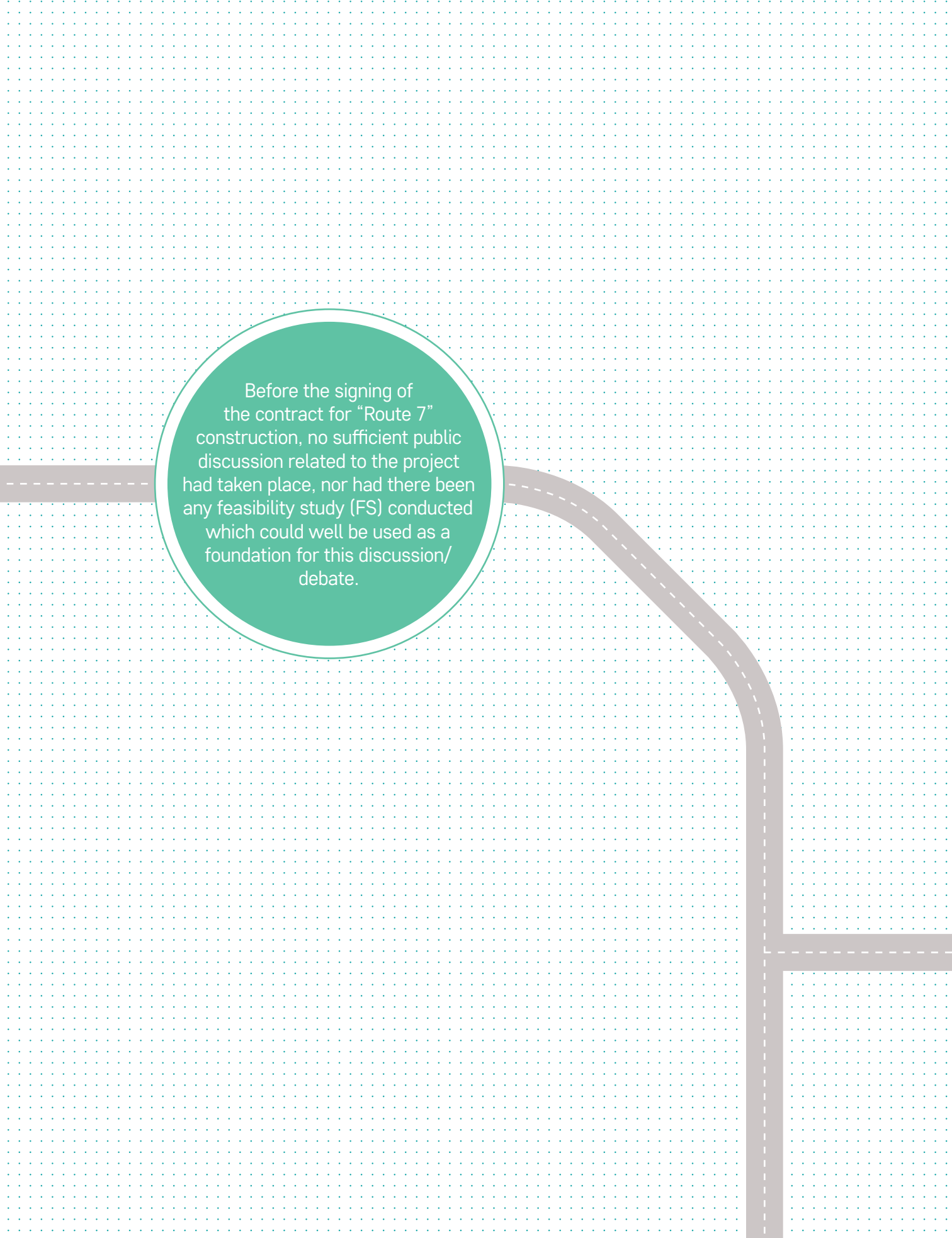
The advantages of this contractual form are considered to be: 1. Full responsibility for the project remains to the contractor, meaning responsibilities are not shared and as a result there is no complication in competences. 2. Lower level of conflicts between the employer (the Government) and the contractor. 3. It allows the contractor to make possible changes and consequently higher profits. 4. The implementation of possible changes is simpler and faster. 5. The administrative responsibility of the employer (the Government) is reduced. 6. It is suitable for projects that need to be completed more quickly.

On the other hand, the key problems with this contractual form are: 1. The contractor can focus on designing the project with as low as possible cost, which might well result in lower quality of the project. 2. There could be double costs during the managing stage. 3. Lack of control (by the Government) during the project designing.

By analysing the advantages and disadvantages of this contractual form, we could have an idea as to why had this contractual form been chosen in the “Route 7” construction. The lacking in domestic projecting and administrating capacities has pushed Kosovo government to going for this contractual form.

Also, we believe that the ‘Design – Build’ contracting form is suitable in cases of major emergencies, while in the case of “Route 7” construction, there has been no major emergency, particularly not in constructing “Route 6” or Pristina-Skopje motorway.

We will be presenting below an analysis on the course of the construction process of “Route 6”, Pristina – Hani i Elezit.



Before the signing of the contract for “Route 7” construction, no sufficient public discussion related to the project had taken place, nor had there been any feasibility study (FS) conducted which could well be used as a foundation for this discussion/ debate.

# 4. ROUTE 6 – PRISHTINA – SKOPJE MOTORWAY

As we have underlined above in the report, Kosovo Government has focused since 2006 on constructing two main roads; Route 6 and Route 7, which connect Pristina with Skopje and Tirana respectively. Route 7 has been built between 2010 and 2012, which we have analysed in the previous session of this report, while “Route 6” construction has commenced in 2014 and is planned to be completed in a 42-months’ time.

Prior to the signing of the contract for “Route 6” construction, Kosovo Government set up a ministerial group, which in collaboration with the World Bank (WB) and International Monetary Fund (IMF) came up with a feasibility study on the “Route 6” construction project. This feasibility study was conducted by a team of international consultants who after presenting their analyses recommended Kosovo Ministry of Finance (MF) and Ministry of Infrastructure (MI) to go ahead with the project. The recommendations made by the group of experts will be discussed as below in our analysis.

From the discussions that we have had with various parties on this project, as well as with members of Kosovo parliament, it is underlined that one of the key problems in the “Route 7” construction was the lack of a feasibility study<sup>7</sup>. Without a feasibility or reasonability study, it is difficult to take the decision on major capital projects, like in the case of the “Route 7” construction or like in the case of “Route 6”.

After taking into account this constant remark and this huge deficiency in the project for the “Route 7” construction, the government engaged foreign experts to conduct a feasibility study on the construction of the “Route 6”.

According to MI and the documents we have been given access to, the EGIS International, this consulting company with international expertise in road projection, has been engaged in projecting the construction of the “Route 6”.

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<sup>7</sup> Feasibility study or the study of reasonability is an assessment document for the economic and social reasonability of a certain project or plan. Decisions on whether or not to proceed with a certain project are taken based on this study.

Route 6 is composed of two very important parts:

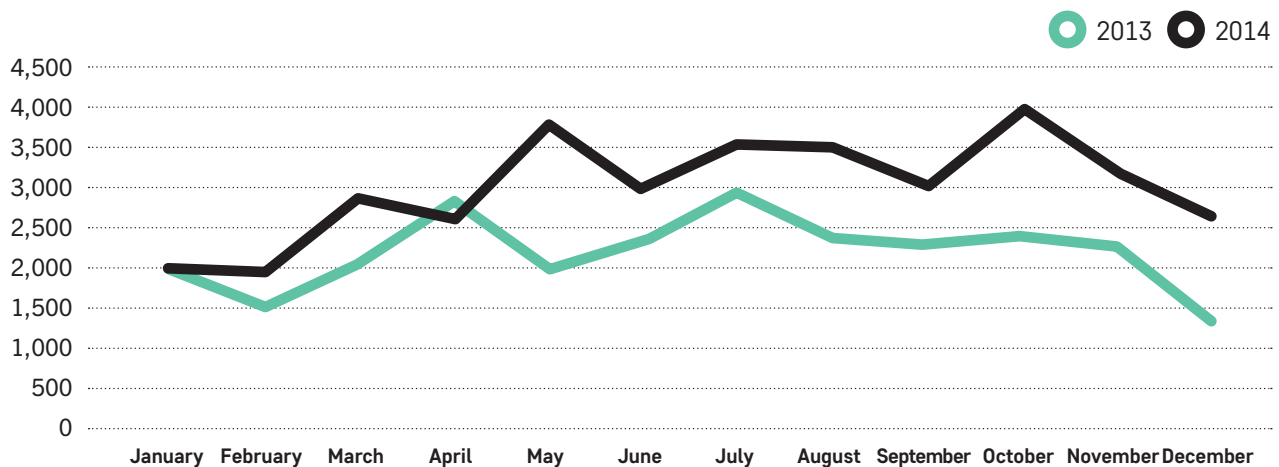
1. Northern part, which begins by linking “Route 7” to the north of Lipjan and expands to Kacanik in an approximately 40km distance. And,
2. Southern part, which continues from Kacanik through Hani i Elezit to the border with Macedonia. This part is anticipated to have a distance of 15.5km.

The northern part of “Route 6” will have four connections: in Lipjan, Babush village, Ferizaj and in Doganaj village, which link the “Route 6” with the current Pristina – Hani i Elezit road. This part of the road has a flat terrain and is expected to be constructed without many problems. Since it is an open terrain and without any mountainous terrain, the road is projected to allow a speed limit of 120km/h. Meanwhile, the southern part of the “Route 6” goes through a mountainous terrain and bridges. This part of the road is expected to be more challenging both in terms of construction and traffic movement, hence it is projected to have a speed limit of 80km/h. This part of the road also sees the construction of a tunnel. Precisely the construction of the tunnel in Kacanik town, some 2.2km in length, has been the main reason why the winner tender company, Bechtel&Enka came up with two different offers. The first offer, without the construction of a tunnel, was made €500m, but with the construction of a tunnel, the winner company then offered a price of over €600m.

In the case of “Route 6”, like in the case of “Route 7”, the huge remarks made by the public opinion were related to the project transparency in general. Right from the road projecting to the signing of the contract, there has been lacking in transparency. Ministry of Infrastructure presented the contract for Pristina – Skopje motorway, by allowing access to it for those interested, though merely in its own offices and in a very limited time.

The way the Ministry of Infrastructure allowed access to the contract for the construction of Route 6 is contrary to the law nr. 03/L-215 on Access to Public Documents. According to the article 11 of law on Access to Public Documents,

**FIG. 07 KOSOVO'S EXPORT TO MACEDONIA DURING 2013 AND 2014 (IN '000 EUR)**



Source: Kosovo Agency of Statistics (2014)

when being allowed to have access to public documents, the seeker has the right to elect whether they want to control the original or a copy of the document, or to receive a copy of the document any form or format available depending on their choice. None of these rights of the opinion public have been allowed in this case.

There has also been a low transparency in the justification for launching such a project. Despite the fact that the feasibility study had been conducted, it was never really made public or discussed with the wide public opinion. The opposition parties opposed the project with the justification that there needed to be other capital projects, not yet another new road.

“This Government, just like deciding on many things without parliament’s knowledge, without consultations and consensus, in this case too, it hasn’t changed its mentality”, Haziri said. (Gazeta Express 02/07/2014)

From our meetings with officials of Ministry of Infrastructure, it results that the “Route 6” construction is going to have a fixed price (some €650m), which is a huge advantage, as opposed to the previous contract for the “Route 7” construction. It is about the contract, what’s the word: ‘Key in hand’, which will have its own advantages also in terms of procurement. The overall cost of the construction of “Route 6” is made of private properties expropriation cost and by the cost of road construction. Based on the experiences of private properties expropriations for “Route 7” (Pristina – Morina), the cost of expropriation is expected to be some €1m per kilometre. If we suppose the “Route 6” is some

60km in length, then merely private properties expropriation will cost about €60m or some 10% of the overall road cost.

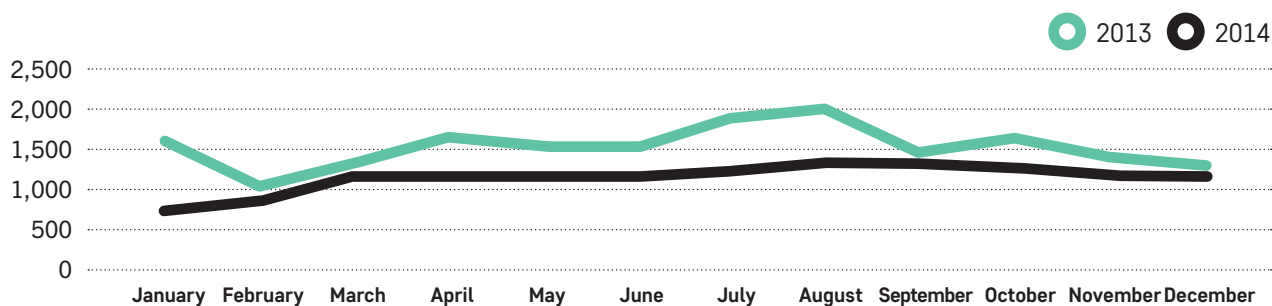
#### 4.1 The socio-economic effects of Route 6 project

In order to analyse the socio-economic effects of the construction of a road, one cannot focus only on its direct effects and on a short-term period of time, but one must analyse the indirect effects and that on a long-term period of time. Based on the some studies (Striple, 2001 and Mroueh, 2000) it is considered that the longevity of such a road (modern motorway) like Route 6 or Route 7, is approximately 50 years. Hence, the analyses of socio-economic effects or return on investment should as a result be conducted on a longer period of time (as long as the longevity of the project) which without a doubt makes the conduction of an analysis difficult.

In this regard, in this report we are going to make an effort to analyse economic and social aspects (some of which are hardly measurable in financial terms), such as road effects on country’s foreign trade, the value of spared time, the amount of accidents, the amount of operation of transport vehicles, social profits, effects on the land price as well as potential effects on the environment.

All the calculations have been based on the Feasibility Study prepared by international advisers to the Ministry of Infrastructure. So therefore, we are going to comment on their main suppositions in these conclusions.

**FIG. 08 THE IMPORT FROM MACEDONIA DURING 2013 AND 2014**  
(IN '000 EUR)



Source: Kosovo Agency of Statistics (2014)

**THE EFFECTS OF ROUTE 6 ON COUNTRY'S FOREIGN TRADE** – one of the main arguments in favour of “Route 6” construction stated in the feasibility study, as well as by Kosovo Government, is the positive effect that “Route 6” could have on trade ties between Kosovo and Macedonia in general.

As clearly seen by the figures in the table as below, Kosovo has had a consecutive trade deficit with Macedonia, so Kosovo has imported about €140m products from Macedonia in 2014 alone, and exported to Macedonia some €36m in products. Consequently, the trade deficit in 2014 alone has been estimated at €103m. This has been the case in the previous years as well. It must be emphasised that there was a decline in trade deficit in 2014, compared to 2013, with nearly €159m (see table 6). This decline in trade deficit could well be attributed to the boost of trade volume with Albania.

From the regional and international experience, as well as from our new experience gained by “Route 7”, we can come to a conclusion that “Route 6” will potentially increase the level of trade exchange between Kosovo and Macedonia.

Due to greater transport conditions, we expect that the transport costs are lower and this to reflect also on the price of imported or exported products. As a result, Kosovan manufacturers could be more competitive in the Macedonian market and regional markets and vice-versa; the new road will make the Macedonian or regional products even more competitive in the Kosovan trade.

The “Route 6” may have an impact on the trade volume increase, but not necessarily on the decline in the trade deficit, as Kosovo Government insists in some occasions.

Actually, if we are to be base on the experience of trade relations with Albania following the construction of “Route 7”, the trade deficit with Albania has even increased. The case might be with Route 6 construction too, or trade relations with Macedonia. On the other hand, however, as seen in figure 7 and 8 below, Kosovo’s export to Macedonia has marked an increase in recent years, as the import has declined. If this trend is to continue in the coming years too, the new road would then have a positive effect in this regard.

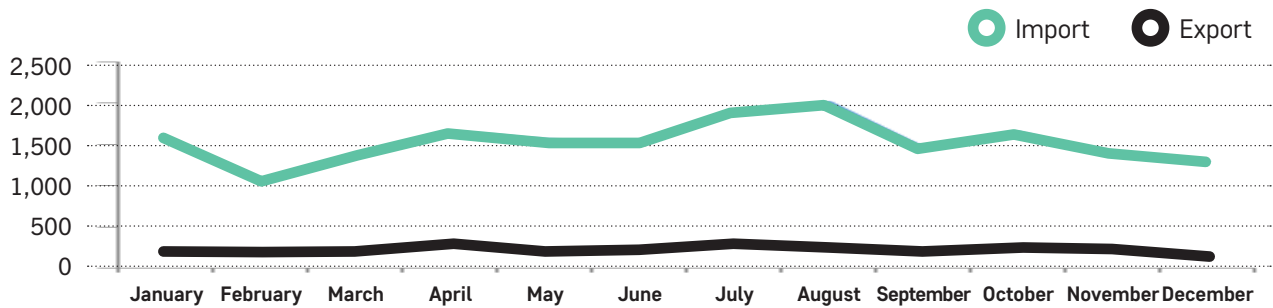
We also consider (it was a conclusion we also came to during discussions with Kosovo parliament members) that “Route 6” will become a direct concurrent to “Route 7” in terms of transportation of imported as well as exported goods. While the “Route 7” has strengthened Customs point in Morina, and the movement of goods through Albania and the Port of Durres, the “Route 6” could bring into focus the Customs point in Hani i Elezit and strengthen the use of Thessaloniki Port in Greece.

The busiest Customs point in the past five years has been that of Hani i Elezit (border to Macedonia), through which 35% of overall all Kosovo trade exchange circulates or in an estimated €4.3bn.

**THE COSTS OF OPERATION OF TRANSPORT VEHICLES** - it is considered that the construction of modern roads, such as the construction of “Route 6”, reduces to a large extent the costs of operation of transport vehicles. The cuts in costs emerge from various directions, such as from fewer usages of fuels, as well as from slower amortisation of transport vehicles.

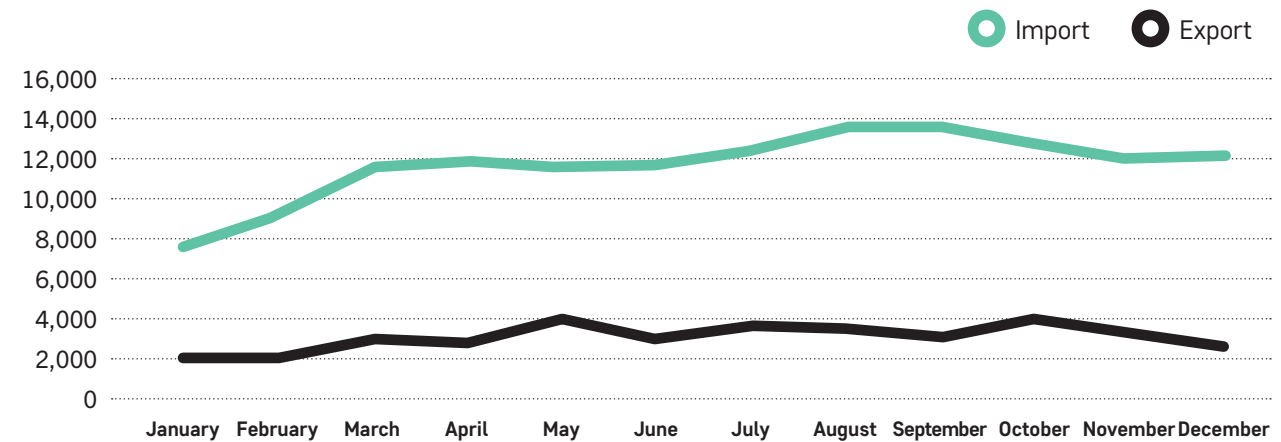
The international advisers to Ministry of Infrastructure, in their analysis, have come to a conclusion that the project

**FIG. 09 THE TRADE DEFICIT WITH MACEDONIA (2013)** (IN '000 EUR)



Source: Kosovo Agency of Statistics (2013)

**FIG. 10 THE TRADE DEFICIT WITH MACEDONIA (2014)** (IN '000 EUR)



Source: Kosovo Agency of Statistics (2013)

for Route 6 would reduce the costs of operation of transport vehicles by €20m in total, in the first 20 years of road operation (see table 8 below). So, it has been concluded that the new road is going to save about €1m ever year from the saving of fuel and transport vehicle amortisation.

**ENVIRONMENT COSTS** – in the feasibility study, the reduction of level of air pollution is presented as a positive effect of the project on environment, but on the other hand, the negative effect of the road construction on the agricultural land is not mentioned whatsoever. The line in which the Route 6 is going to be built is known as an agricultural land, so therefore the road construction will have negative effects on the agricultural manufacturing in that space, as well as in the spaces around the road.

**EFFECTS ON EDUCATION, HEALTH AND TOURISM** – Route 6, in addition to connecting Pristina with Skopje, it will in fact be a connector to other Kosovan centres

with Pristina. In particular, here we take into consideration Ferizaj, Kacanik and Gjilan. This easier and quicker connection of these centres with Pristina is considered to have positive effects on the quality in education and easier access to higher education. The same positive effect is expected to be on the health sector too. The “Route 6” will facilitate the access of other centres to the health services at University Clinical Centre of Kosovo (UCCK). Consequently, this could potentially have a positive impact on the improvement of Kosovo citizens’ health and their productivity. It is also considered that the Route 6 will facilitate the access to tourism location of Brezovica and as a result will have a positive effect on boosting the level of tourism.

**SAVINGS FROM TRAFFIC ACCIDENTS REDUCTION** – the other argument in favour of the road construction stated in the feasibility study is the reduction of traffic accidents’ costs, or in other words the savings as result of decline in accidents.



## TAB. 08 THE AVERAGE LEVEL OF ROAD ACCIDENTS IN REGIONAL ROADS AND MOTORWAYS

	Average (Current roads)	Average (Motorway)
Fatalities per 100 million km travelling	4.9	4.2
Serious injuries per 100 million km travelling	22.9	3.1
Minor injuries per 100 million km travelling	71.7	7.8

Source: MI documents and the feasibility study on Route 6

Table 8 below shows the average level of accidents in regional roads compared with motorways. The results show that the average of serious and minor injuries per 100 million kilometres travelling is way lower in the motorways than in regional ordinary roads. If we take into account the average costs of injuries in accidents (and material damages), it is then anticipated that from the reduction of accidents, the society saves €49m (in 20 years time).

Table 9 below shows the analysis of costs and benefits from the construction of Route 6, presented in the feasibility study to which we are referring. According to this analysis, the domestic norm of return<sup>8</sup> on investment will be 10.6%, which indicates that the investment in this project would be returned in little less than 10 years. We do agree that this is a solid norm of return on investment for suchlike projects, but on the other hand we have our suspicions in its calculation, especially when it comes to the calculation of spared time from the use of road, which at a monetary value is estimated to be €347m.

We will comment on the base suppositions of the calculation presented in the Ministry of Infrastructure Feasibility Study, which in fact, is the key part upon which base the decision on the construction of Route 6 has been taken.

First of all, it must be emphasised that the overall economic cost of the project is going to be higher than the one presented in the Feasibility Study, meaning the cost will not be €579m, but rather some €660m. This change in the overall economic cost of the project does undoubtedly change the domestic norm of return on investment. Second of all, we consider that the monetary value of the spared time has

been rather exaggerated. In order to come down to this calculation, the international advisers to the Ministry of Infrastructure have counted the spared time of the passengers in transport vehicles by supposing that they are employed and by counting the labour price per hour, which when turned into financial labour value, results in €347m for 20 years (original calculation in annex 1). But, what is very important to be underlined is that the high rate of unemployment in Kosovo was not taken into account there.

In this analysis (table 9) is presented also the Net Present Value (NPV), which is €130m. The Net Present Value presents the current value (of nowadays) of benefits and costs of the project. It is recommended that each project with a positive NPV (above zero) is seriously reviewed for approval. Since the project NPV has been presented as €130m, the approval of the project had then been recommended. But, in this case too, if taking into account the high cost of the project, the real NPV would then be much lower, or estimated at some €50m.

**OPPORTUNITY COST** – one of our main remarks for the analysis presented by the Ministry of Infrastructure is that the opportunity cost was not included in the project, or in other words in which the same funds could be focused and what affects could it have. This actually is a standard demand for conducting a feasibility study. We think that at this stage of socio-economic development, Kosovo has not needed yet another road of such dimensions. At this time, Kosovo's economy priority is to carry out projects that ensure higher employment rates and create stable jobs. On the other hand, such funds would be much needed for the education or health sectors.

Our conclusions drawn by this analysis and few recommendations to different actors are as follows.

<sup>8</sup> A financial indicator that shows projects' return on investment. The higher this indicator is the more wanted the project is

## TAB. 09 COSTS AND BENEFITS ANALYSIS ON ROUTE 6

### ECONOMIC COSTS

Operative costs	32
-----------------	----

Expropriation costs	46
---------------------	----

Construction costs	475
--------------------	-----

The overall economic costs	579
----------------------------	-----

### THE ECONOMIC BENEFITS

The economic amount left	278
--------------------------	-----

The land amount left in the end of the project	11
--	----

The saved time amount	347
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The amount of savings from accidents	49
--------------------------------------	----

The saving amount from the usage of transport vehicles	20
--	----

The overall Economic Benefits	709
-------------------------------	-----

The Internal Rate of Return	10.6%
-----------------------------	-------

Net Present Value	130
-------------------	-----

Source: MI documents and the feasibility study on Route 6

According to the World Bank (2010), only two out of nine parts of this road (those nearby the centre – Pristina), could be economically feasible.

The contract signed between the international company Bechtel&Enka and Kosovo Government has never been made public.

The financing process of “Route 6” seems to be unresolved, and this can be seen in the Budget of 2015, presented by the Ministry of Finance.

Based on regional and international experiences, but also based on the experience from “Route 7”, we can conclude that “Route 6” potentially will increase the level/volume of trade between Kosovo and Macedonia.

# 5. CONCLUSIONS AND RECOMMENDATIONS

This report presents a qualitative research on the so far progress of Pristina – Skopje motorway (Route 6), as well as the outcomes and lessons learnt from the construction of Route 7 (Pristina – Morina). The main goal of this report was to present and analyse the course of construction of these two projects and their impacts on the economic and social development of Kosovo, including the effects that these two projects have had on the road construction sector in Kosovo. The report begins by an analysis on the experiences gained from the Route 7 construction, in which the funding and possible ways of funding of these two projects is analysed. It then goes on by giving several examples of similar motorways' construction in the regional countries and their costs. In the follow-up, a special part of this report is dedicated to the impact of the two projects on employment. The report also analyses in depth the effects that the Route 7 construction has had on Kosovo's Foreign Trade. An important part of this report is also the effect of construction of two major roads on the local road construction sector. Meanwhile, the fourth part of this report is exclusively dedicated to the Route 6 (Prishtina-Hani I Elezit) and the potential socio-economic impacts of this project.

From the presented analysis, we would to initially conclude that the way these two roads were contracted has been and remains an important discussion topic in the Kosovan society, remarkably due to the socio-economic importance that these two significant capital projects have, as well as due to the high financial and opportunity cost. The construction of the Route 7 (Prishtina-Morina), which has cost Kosovo's

budget at about €830m<sup>2</sup>, is regarded as one of the biggest projects of the recent decades, whereas the Route 6 construction cost is estimated at €650m. Both of the projects altogether, in little more than five years, will cost Kosovo's budget some €1.5bn. In this regard, it is important to underline that in spite of public discussions having taken place in connection with these two significant projects, this is the first in-depth report on these two projects to this day.

The company contracted to two build these two major roads has shown low transparency. Bechtel&Enka company is little present in the public and barely answers to the media and opinion public questions. More to the point, it has also stayed away off any activity of social responsibility (what is known as corporate social responsibility).

Also, a conclusion that this report comes to, as well as a remark underlined constantly by the public opinion, is the high price that the society has paid for the construction of these two roads. The Route 7 was constructed with an average price of €11m per kilometre, which is considered to be a price above the average of similar experiences, particularly when given the terrain on which the road has been built. This conclusion drawn by the report is even more backed by a study conducted by Doll and Essen (2008), according to which only in Austria the cost of construction of roads is approximate to the Route 7 construction cost in Kosovo, whereas in many other countries, including Croatia, Slovenia and Germany, the road construction cost is approximately at under €10m per kilometre.

Based on the data that we have analysed we can come to a conclusion that the Route 7 has not had the anticipated effects on trade ties between Kosovo and Albania. The trade volume has not increased to the expected extent, but even as such, it is still in favour of import from Albania. The deficit with Albania has just grown. The same effects are expected from the Route 6 construction, too.

One of the key findings of this report is that the construction of the two major roads; Route 7 and Route 6, has triggered severe consequences in the local road construction sector. Many companies in this sector have happened to reduce manufacturing and number of employees due to lack of funds.

All the elaborations made above bring about several recommendations, whose implementation demands a quick reaction. The report recommendations listed based on their importance demand in particular:

1. A key characteristic of these two projects is the lack of transparency shown by the government in connection with projects since their planning and designing stage to their contracting and construction. The processes have been closed to the opinion public and many questions have remained unanswered. So therefore, we recommend that the Ministry of Infrastructure along with the construction company come up constantly with details about the processes and be part of public discussions on these topics.
2. Our research's outcomes show that one of the significant problems in the progress of processes in the Route 7 project has been the lack of a permanent professional monitoring of the project, hence, we recommend in this regard the Government to be more transparent in the whole process of monitoring suchlike projects. We also recommend that the level of transparency is boosted in all entire process of project construction, both by the main company and the Government.
3. Both of the projects have also come under criticism for the way they had been funded. Kosovo Government elected to fund both of the projects with the public funds (entirely), without properly reviewing and without giving any justification whatsoever for other funding possibilities, whose use would most certainly allow public funds be used for investment in other sectors. We consider that the possibility of engaging the private capital in such projects is great, given that this has been proven by regional experiences, and the lack of engaging the private capital in both cases is a failure of the Government. We consider that there is chance that a part of the project could be funding with loads from international financial institutions.
4. The local companies engaged in the project need technical and institutional backing so that their contractual relation with Bechtel&Enka company is clearer and easier.
5. And, last but not least, we recommend that Bechtel&Enka company takes part in activities with social responsibility.

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# APPENDICES

## ANNEX 1 – CALCULATING THE TIME SAVED

Value of time per vehicle	Passengers per vehicle	Passenger working time (EUR/hr)	Passenger non-working time (EUR/hr)	Cargo delay cost (EUR/hr)
Passenger cars	3.15	4.76	0.98	0.00
Minibuses	5.30	3.28	0.98	0.00
Pick-ups	3.30	4.76	0.98	0.03
Buses	29.00	3.28	0.98	0.00
Small trucks (2 axles)	1.50	0.00	0.98	0.07
Medium Truck (3 axles)	1.50	0.00	0.98	0.67
Large trucks (>3 axles)	1.50	0.00	0.98	1.02

Source: Consultant's Services for Update of the Traffic and Economic Evaluation of the Route 6 Motorway between Pristina and Hani I Elezit (Border with Macedonia), December 2012

