

DUKAGJINI ROAD

Highway or Existing Road Extension?



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Extension?**

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SKRAĆENICE

BDP Bruto Domaći Proizvod

KDI Kosovski Demokratski Institut

MI Ministarstvo Infrastrukture

NRS Nacionalna Razvojna Strategija

PUŽS Procena Uticaja na Životnu Sredinu

SNEV Sadašnja Neto Ekonomska Vrednost

SNFV Sadašnja Neto Finansijska Vrednost

SOR Srednjoročni Okvir Rashoda

1. EXECUTIVE SUMMARY

Since the declaration of independence in 2008, capital investments have accounted for a high share in the state budget and Gross Domestic Product (GDP). Since 2008, the annual capital investment budget has accounted for 9% of GDP, which is higher than in other countries of the region. In addition, infrastructure capital expenditures have accounted for 35% of total public expenditures with an implementation rate of 90%. Nonetheless, in recent years, spending on highway construction in Kosovo has absorbed the bulk of capital budget. For almost the entire post-independence period, public capital expenditures have been dominated by the construction of Route 7, connecting Prishtina to the border with Albania (at a cost of 20% of GDP), and Route 6, connecting Prishtina to the border with Macedonia.¹

All of Kosovo's governments, without any proper economic analysis, have pursued billions of investments in road infrastructure, which, despite the good intentions, did not produce the proclaimed effects. Only the construction of two highways (Route 7 and Route 6) at 144 kilometers, has incurred costs to Kosovo's budget to the tune of 1.7 billion, a figure close to the state budget for 2017². On average, just one kilometer of highway has cost the Kosovo budget EUR 12 million.

Such predilections have produced adverse effects on the delivery of basic services to citizens, as these expenditures risk squeezing out funds for investments in priority areas, i.e. health, education, and other capital projects,

which could boost economic growth and reduce poverty.³ Investments in road infrastructure, in addition to encumbering the Kosovo budget for years, have been accompanied by poor planning, misuse, and corruption.

During 2018, the Government of Kosovo decided to establish an Inter-Ministerial Steering Committee for the development of the "Istog-Peja-Deçan-Gjakova-Prizren Highway"⁴ project, with an anticipated cost of around EUR 1 billion or approximately 50% of the 2019 annual state budget. Following this decision, the Ministry of Infrastructure had awarded the contract to the economic operator consortium Infraplus and Infratek, where together with the annex contract, the contract cost for the concept and implementation design for the highway had reached EUR 1.14 million. The commitment of funds for this tender was made from the budget line provided in the 2018 Budget for the Rehabilitation of Istog-Peja-Deçan-Gjakova Regional Road⁵, although the funds were to be spent on a project other than what was provided in the budget.

For the Highway track, there were three possible options offered by this company for the Inter-Ministerial Committee to determine the final concept design, which was used to develop the implementation design. According to the report prepared by the company engaged for designing the project, the estimated cost for highway construction was approximately EUR 590 million⁶, while together with the expropriation costs, the total cost was expected to reach

¹ IMF, Republic of Kosovo, 2018

² <https://mf.rks-gov.net/desk/inc/media/DC67BF47-157C-4802-9837-976CBBDE9F5B.pdf>

³ IMF, Republic of Kosovo, Public Investment Management Assessment, IMF, 2016

⁴ Decision of the Government of Kosovo, dated 13.02.2019

⁵ Request for Goods and Services, Ministry of Infrastructure, Commitment No. 2015-38338

⁶ Concept Design for the Construction of Istog-Peja-Deçan-Gjakova-Prizren Highway



EUR 1 billion⁷. Although the project was scheduled to start in the fall of 2019 and be completed within four years, it is yet to begin.

Prior to awarding the contract for designing the Dukagjini Highway Implementation Project, the Government had not undertaken any feasibility study or project cost and benefit analysis that would support the need for investment and disclose the public benefits from this investment. The “Dukagjini Highway” construction is not even foreseen in any state strategic documents, such as NDS or the Government Program of the Republic of Kosovo 2017-2019⁸. Such plans support only the reconstruction of existing Istog-Peja-Deçan-Gjakova-Prizren Road (R-107).

The realization of this investment could adversely affect other priority areas foreseen in the National Development Strategy as it would limit the possibilities for budget allocations to key priorities, such as rule of law, education or employment, in the next four years. As an illustration, the real cost in relation to the anticipated benefits of the recently completed “Pristina-Hani i Elezit” project has shown that this investment came at higher costs than benefits⁹. Additionally, in this regard, there is no analysis whether the construction of the Dukagjini highway would bring economic benefits exceeding the estimated cost of EUR 1 billion. In fact, the highway construction could reduce traffic on the existing road and could negatively impact the economy and businesses in the area.

Through this paper, KDI seeks to establish whether the previous government’s decision on the “Dukagjini Highway” capital investment reflects the priorities and needs of its citizens and is affordable for the state purse. First, the paper attempts to analyze how this project managed to deviate from the original projections related to the existing road reconstruction into a Highway Project. To do this, KDI researched the planning phase of this project, i.e. whether this project is feasible (viable), based on a

7 <http://www.mit-ks.net/sq/lajme/ministri-lekaj-per-autostraden-e-dukagjinit-ky-eshte-projekti-me-gjigant-dhe-me-atraktiv-qe-po-behet>

8 https://www.min-rks.net/repository/docs/programi_i_qeverise_se_republikes_se_kosoves_2017_2021.pdf

9 Chapter 4. 4. Are Highways Bringing Benefits? – Cost and Benefit Analysis, Arben Xhaferi Highway Case



2. Investments in road infrastructure, a way to disguise the lack of concrete plans for boosting employment and economic development?

In the last two decades, citizens of Kosovo continue to face numerous economic, political and social problems, while governing institutions continue to prove inefficient in developing, and especially implementing, policies that would underpin sustainable economic development and enhance the well-being of citizens. Although the National Development Strategy (2016-2021)¹⁰ has defined the highest development priorities and determined areas of weakness and measures to be taken to promote prosperity and economic development, in reality these areas still suffer from great weaknesses. Large investments, especially in physical school infrastructure, without any long term studies have not improved the quality of education¹¹ and have not reduced migration of population from rural areas¹², while mega-investments in road infrastructure, besides facilitating the movement of people and goods, have failed to produce the anticipated economic development, did not

increase the level of exports¹³ and have failed to reduce the unemployment rate¹⁴.

A comparison of values attributed to five key economic indicators in Kosovo against the average of Southeast European countries, per NDS 2016-2021¹⁵, clearly shows that Kosovo remains the poorest country in the region, with the lowest level of exports, the highest unemployment rate and the lowest gross domestic product. The World Bank Western Balkans Regular Economic Report¹⁶, where reviewing Kosovo, recommends better budget allocation, consequently leading to more investment in education and health, employment of youth and women, improving the justice system and addressing corruption.

The lack of transparency and accountability of past governments regarding the planning, contracting and implementation of the two highway projects, Ibrahim Rugova and Arben Xhaferi (R7 and R6), has been evident. Public

10 National Development Strategy 2016-2021

11 <https://ekonomiaonline.com/nacionale/shoqeri/testi-pisa-s-arsimi-ne-kosove-ne-nivelet-te-uleta/>

12 <https://indiksonline.net/alarmante-bie-numri-i-nxenesve-ne-kosove-shkak-migrimi-dhe-renia-e-natalitetit/>

13 <http://ask.rks-gov.net/media/3825/statistikat-e-tregtis%C3%AB-s%C3%AB-jashtme-dhjetor-2017.pdf>

14 <https://www.dw.com/sq/bb-kosova-me-rritje-ekonomike-44-por-me-papun%C3%ABsi-t%C3%AB-lart%C3%AB/a-48175664>


15 http://www.kryeministri-ks.net/repository/docs/Strategjia_Kombetare_per_Zhvillim_2016-2021_Shqip.pdf

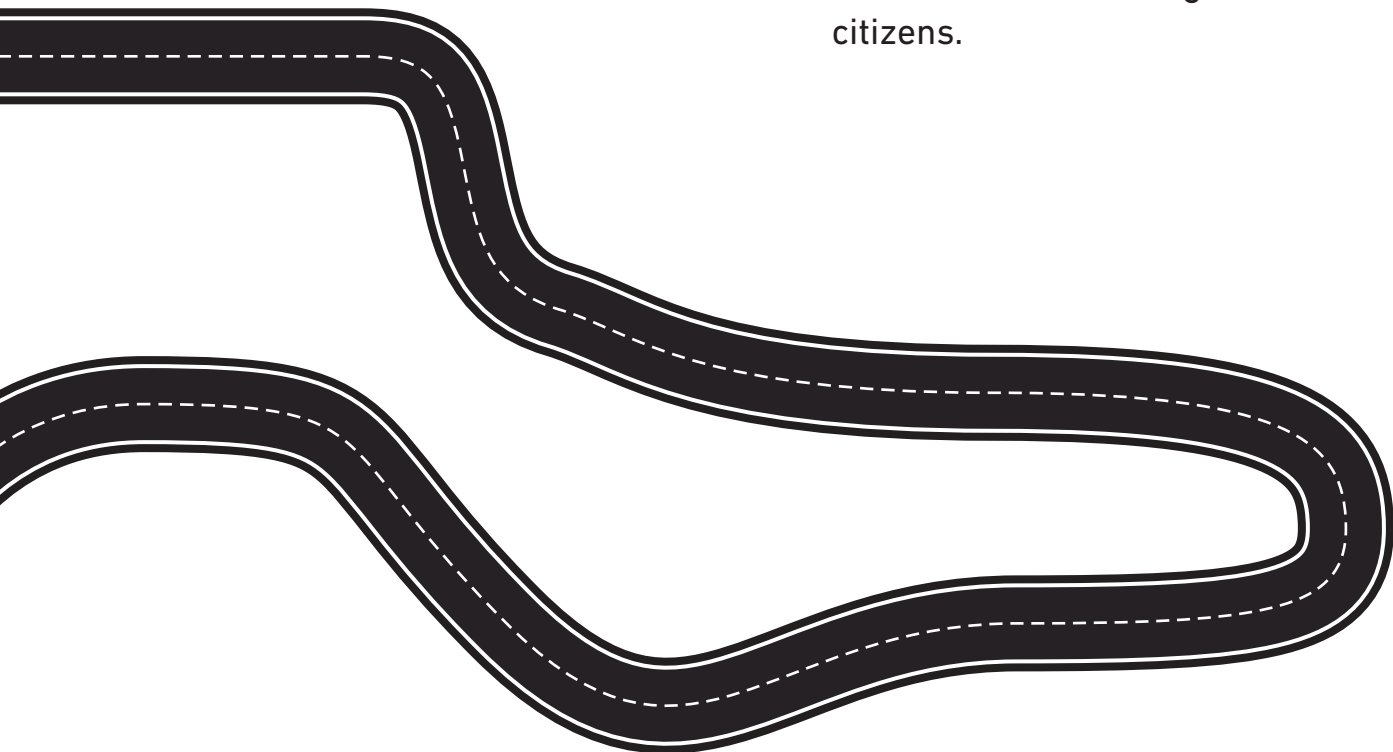
16 <http://documents.worldbank.org/curated/en/21923155413033324/pdf/Reform-Momentum-Needed.pdf>





access to the contract for the construction of Ibrahim Rugova Highway has been impossible for years and has only been made possible following years of litigation¹⁷. Poor planning coupled with the institutions' lack of accountability on these projects, has led to cost overruns compared to initial budget projections. In 2019, the Government of Kosovo was obliged to pay EUR 53 million in damages for delays in payments to Bechtel & Enka, contracted for the construction of the Prishtina-Hani i Elezit Highway - R6¹⁸.

 In the last two decades, citizens of Kosovo continue to face numerous economic, political and social problems, while governing institutions continue to prove inefficient in developing, and especially implementing, policies that would underpin sustainable economic development and enhance the well-being of citizens.



¹⁷ <https://ndertimi.info/lekaj-rrotull-thote-se-do-lejoje-qasje-ne-kontraten-e-autostrades-ibrahim-rugova/>
¹⁸ KDI - Press Conference, 24.12.2018, Chronic Government Neglect Costs Kosovo Citizens EUR 53 Million



3. Investment Planning Process and Strategic Priorities - From an Existing Road Reconstruction Project into Highway Construction?

In 2015, the Office of the Prime Minister, in order to improve the planning process at central level, published a document - Integrated Planning System - focused on a technical redesign of central processes for policy planning and financial planning by the Government. The underlying assumption of these changes was that the quality and coherence of such technical processes greatly impacts the achievement of Government goals and keeping promises made to the Kosovo people.

This document provided for the adoption of the National Development Strategy (NDS), a comprehensive framework presenting the country's long-term vision. The NDS would establish the foundation for developing sectoral and horizontal strategies in a coherent and consistent manner and provide grounds for defining policies for the Medium-Term Expenditure Framework (MTEF) process¹⁹.

In January 2016, the Office of the Prime Minister published the National Development Strategy (2016 - 2021), which contained a list of high priorities and aimed to address key barriers to Kosovo's development. The top priorities

with planned remedial measures were identified as follows: 1. Education 2. Rule of Law, 3. Doing Business and 4. Infrastructure; In line with this, the four-year Program of the Government of the Republic of Kosovo 2017-2021, published in September 2017, focused on four pillars: 1. Rule of Law, 2. Economic Development and Employment, 3. Euro-Atlantic Integrations and 4. Sectoral Development. Both strategies, under the framework of infrastructure priorities, had foreseen the reconstruction of the Istog-Peja-Deçan-Gjakova-Prizren Road rather than the construction of a new highway, currently known as the Dukagjini Highway. Additionally, the Sectoral and Multimodal Transport Strategy 2015-2025 and 5-Year Action Plan did not foresee the construction of the Dukagjini Highway.

These facts indicate that the Haradinaj Government circumvented its strategic plans for the existing road extension by designing the construction of the Dukagjini Highway on a new track. During April 2019, KDI requested from the Ministry of Infrastructure to provide documents that would justify the decision to change the existing road extension project (feasibility study, cost-benefit analysis),

¹⁹ Strategy for Improving Policy Planning and Coordination in Kosovo, Government of Kosovo, 2015



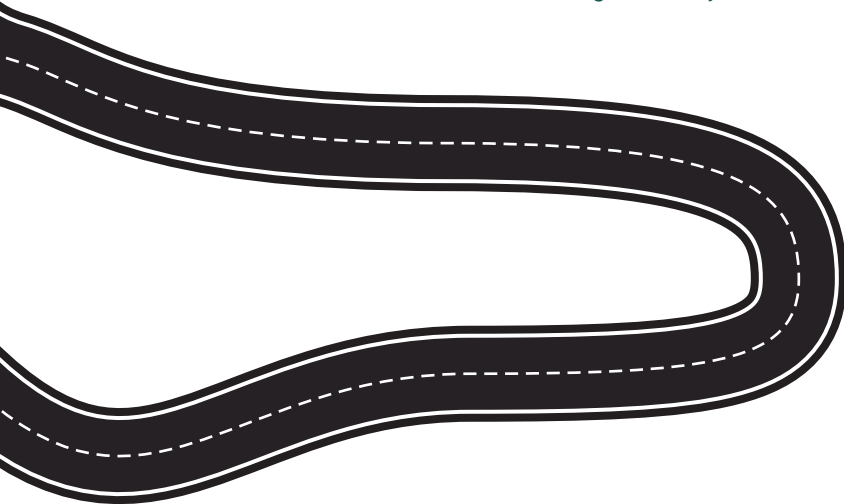


however such documents were not provided. Moreover, in a meeting with officials of the Ministry of Infrastructure²⁰, KDI was told that there hasn't been any feasibility study conducted for the Dukagjini Highway project. The decision of the Government of Kosovo establishing the Inter-Ministerial Steering Committee for the development of the "Istog-Peja-Deçan-Gjakova-Prizren Highway" project, dated 13.02.2018, which is a public record, provided that the Committee is to be composed of five ministers,

while the Ministry of Infrastructure is the contracting authority for the procurement procedure. Following this decision, in 2018, the Ministry of Infrastructure awarded the contract for the concept and implementation design to the consortium of Infra Plus and Infra Tek companies, worth EUR 1,039,532.80. This tender required the selected economic operator to submit the concept and implementation design for the new Highway in two options. The tender dossier did not contain any requirement for an analysis

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Due to the large number of vehicles and the inadequate regulation of access points and intersections on Regional Road **R107**, Segment: **Peja-Deçan-Gjakova-Prizren**, traffic safety is significantly reduced. There are traffic jams because the existing two-lane road cannot withstand the high influx of vehicles. There have been numerous accidents on this road. Some of them were accidents with fatalities, where people were seriously injured and, in some cases, died. On this road, due to heavy traffic, access points and intersections at one level, long lines are created, and the travel time is significantly extended.



20 Meeting with Mr. Sadri Jaha, Ministry of Infrastructure

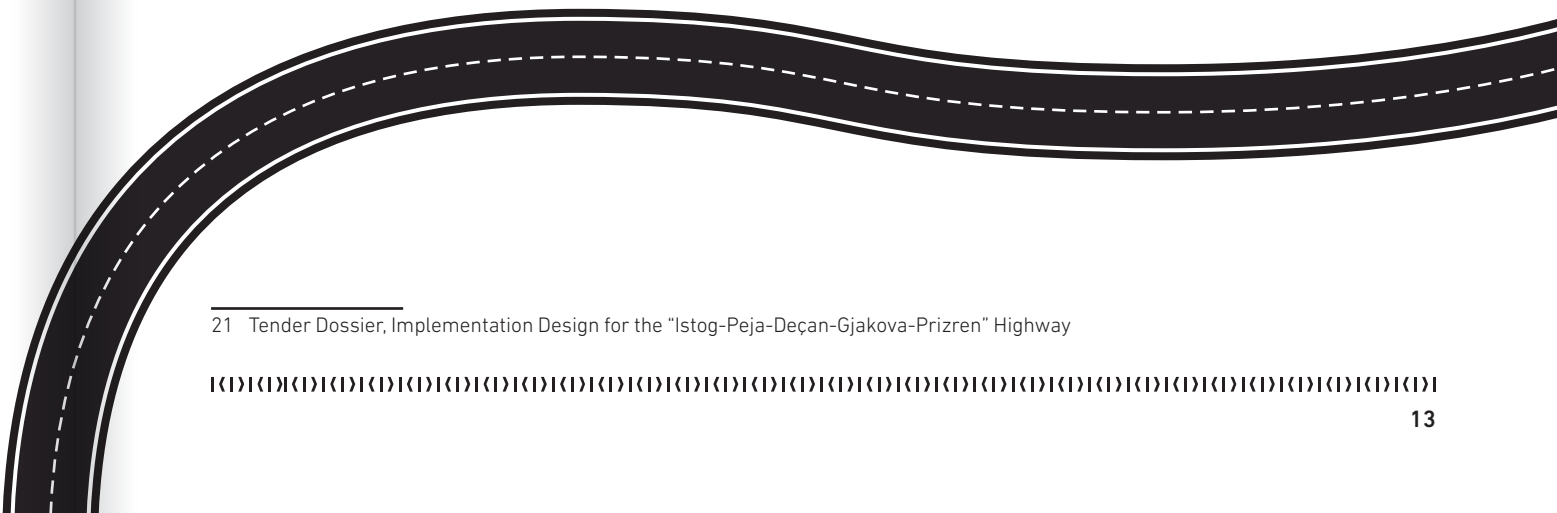


that would assess costs and benefits of this project. The operator had prepared three options (tracks) for the Highway, and none of them provided for an extension of the existing road. In the tender dossier announced for the concept and implementation design for the Dukagjini Highway, the MI outwardly mentions some of the reasons why widening the existing road is disadvantageous and why highway construction is needed. Clarifications from MI:

Although the elaboration states that the flow of 11,500 vehicles in 24 hours meets the criteria for widening the road from two to four lanes, it does not indicate whether this flow is sufficient to require the construction of a new highway, at a cost anticipated to overrun the costs for existing road extension. In the case of the Prishtina-Mitrovica road with a flow of more than 20,000 vehicles in 24 hours, the Government had decided on the option of widening the existing road only, and construction began in 2009.

Arsyetimet nga MI për ndërtimin e Autostradës së Dukagjinit

The option of widening the Regional Road **R107** and **R101** and **R103**, even with additional two lanes, does not provide an optimal and long-term solution, given the numerous settlements along and facilities built near the road, with access to the regional roads, which significantly reduces traffic safety on these roads. The volume of traffic running on the Regional Road **R107 (Peja-Deçan-Gjakova-Prizren)** is about **11,500.00 vehicles per 24hrs**, which meets the criteria for widening the road from two to four lanes. The technical solution with the Regional Road Extension **R107, R101** and **R103** on the existing track is flawed, as a significant number of buildings along the road must be demolished. Underpasses and overpasses for vehicles and pedestrians must be constructed. Along the road, there are underground and overland installations that must be relocated. The implementation of the project itself is quite difficult because the works shall take place in the immediate vicinity of the traffic and additional temporary roads need to be constructed to divert traffic during works and construction of structures (bridges, overpasses, underpasses, etc.)."²¹



21 Tender Dossier, Implementation Design for the "Istog-Peja-Deçan-Gjakova-Prizren" Highway





On 14.06.2019, KDI requested from the Ministry of Finance to provide information on investment financing plans for the Dukagjini Highway, and whether this project was included in the Medium-Term Expenditure Framework (MTEF). The response received from the Ministry of Finance was that there is no data on the “Dukagjini Highway” Project²².

Nevertheless, MI spent over 1.14 million on the concept and implementation design, which does not provide any cost-benefit analysis. The implementation design for the selected track option is expected to be submitted to the Ministry of Infrastructure 12 months after concept design approval, while the expropriation file 1 month after implementation design approval. Despite the reported construction and expropriation cost for the Dukagjini Highway of EUR 1 billion, there is still no concrete and detailed plan on how to finance this project.



The decision of the Government of Kosovo establishing the Inter-Ministerial Steering Committee for the development of the “Istog-Peja-Deçan-Gjakova-Prizren Highway” project, dated 13.02.2018, which is a public record, provided that the Committee is to be composed of five ministers, while the Ministry of Infrastructure is the contracting authority for the procurement procedure.

²² Email response from Ministry of Finance



4. ARE HIGHWAYS BRINGING BENEFITS? - COST AND BENEFIT ANALYSIS, ARBEN XHAFERI HIGHWAY CASE

In order to build a Bill of Quantities on the costs and potential benefits of investing in the Dukagjini Highway, KDI has referred to the Prishtina-Hani i Elezit Highway project.

Construction work on the “Arbën Xhaferi” Highway (Route 6, Prishtina-Hani i Elezit) had begun in 2014, but the lack of funds had caused construction work to be extended for an additional 17 months. Highway opened for traffic on 29.05.2019. Initial financial projections for the construction of this 65.5-kilometer highway were set to cost Kosovo taxpayers EUR 579²³ million, including expropriation costs.

Prior to this contract being signed, the Government of Kosovo established an inter-ministerial group, which in cooperation with the World Bank (WB) and the International Monetary Fund (IMF), conducted a feasibility study for this project. This study was conducted by a team of international consultants, who after presenting their analyses recommended to the Ministry of Finance (MoF) to proceed with the project.

According to the Costs and Benefits Analysis in the MI Feasibility Study Report, project costs were projected to be EUR 579 million, while the benefits of this project

were estimated to be EUR 709 million, which meant that the project would bring in net benefits of EUR 130 million, with an Internal Rate of Return of 10.6%.²⁴ However, based on the actual costs at the end of the project, it has been demonstrated that the project did not produce the expected benefits.

The tables below show projected costs and benefits according to the feasibility study before the start of construction and real costs at the end of project implementation. Actually, this study constituted the grounds for investment rationale for the construction of the Arben Xhaferi Highway.

Real construction cost, excluding expropriation costs, reached EUR 709 million, i.e. EUR 234 million more than the planned construction cost of EUR 475 million. This increase in the cost of construction did not bring the anticipated economic benefit (709 million) to the citizens of the country. In fact, they incurred a loss of EUR 78 million, excluding the calculation of real expropriation costs which, according to some statements by former Minister of Infrastructure, Mr. Lutfi Zharku, may be over EUR 100 million²⁵ and not EUR 46 million as presented in the feasibility study.

²³ Route 6: Prishtina-Skopje Highway, RIINVEST, 2015

²⁴ Route 6: Prishtina-Skopje Highway, RIINVEST, 2015

²⁵ <https://www.koha.net/arberi/166669/zharku-shpronesimet-e-cojne-ne-mbi-800-milione-euro-koston-per-arben-xhaferi/>



Table 1.0 Cost and Benefit Analysis of Prishtina-Skopje Highway Investment

Economic Costs	Costs per Feasibility Study ²⁶	Real Costs upon Project Completion
	Million Euro	Million Euro
Operating Costs	32	32
Expropriation Costs	46	46
Construction Costs	475	709 ²⁷
Total Economic Costs	579	787

Economic Benefits	Anticipated Benefits ²⁸	Anticipated Benefits
	Million Euro	Million Euro
Remaining Economic Value	278	278
Land Value at Project End	11	11
Time Saved Value	347	347
Accident Savings Value	49	49
Means of Transport Use Savings Value	20	20
Total Economic Benefits	709	709
Internal Rate of Return	10.6%	
Net Present Value	130	-78

26 Route 6: Prishtina-Skopje Highway, RIINVEST, 2015
 27 Monthly Progress Report No. 47, HILL International, 2018
 28 Route 6: Prishtina-Skopje Highway, RIINVEST, 2015



5. Opportunity Cost of Dukagjini Highway Investment

The table below shows the opportunity costs of investing EUR 1 billion in the Dukagjini Highway reflected in other primary sectors such as economy, education and health.

Investment	Result
EUR 1 Billion investment in Economy	<ul style="list-style-type: none"> The allocation of these funds to subsidize existing enterprises or new startups could generate around 40,000²⁹ new jobs
EUR 1 Billion investment in Education	<ul style="list-style-type: none"> Education expenditures in Kosovo in 2019 amount to about EUR 292.4 million, which is 4.1% of GDP. In EU countries, the share of spending on education is 4.7% of GDP. To meet this norm in Kosovo, an additional budget of EUR 42.6 million should be allocated annually. An investment of EUR 1 billion in education would support higher rates of education expenditures per year (to 4.7% of GDP) as in the EU for the next 23 years This would have an impact on enhancing the quality of education in Kosovo and addressing NDS priorities to boost human capital as a precondition for economic development.
EUR 1 Billion Investment in Health Care	<ul style="list-style-type: none"> Kosovo's health budget for 2019 accounts for only 3.3% of GDP, or EUR 225.6 million. The average percentage of government expenditures on health in EU countries is 7.1% of GDP. To achieve such standards, Kosovo would need to allocate EUR 485 million per year to health care An investment of EUR 1 billion in health care would support higher rates of health care expenditures per year (to 7.1% of GDP) for the next 4 years The quality of health care services could be improved for citizens, who pay about 40% of their total health care expenses out of own pocket.

29 The average cost of creating a job is estimated at USD 25,000.00 to 35,000.00. <https://blogs.worldbank.org/jobs/how-much-does-it-cost-create-job>



CONCLUSIONS

- The Government's decision on the Dukagjini Highway project was not preceded by any feasibility study or cost and benefits analysis, which would support the need to re-designate the project from existing road extension to highway.
- The "Dukagjini Highway" construction is not foreseen in any state strategic documents, such as NDS or the Government Program of the Republic of Kosovo 2017-2019³⁰. Strategic Documents support only the reconstruction of existing Istog-Peja-Deçan-Gjakova-Prizren Road (R-107).
- Investment in this project could adversely affect other priority areas foreseen in the National Development Strategy as it would limit the possibilities for budget allocations to key priorities, such as rule of law, education i.e. health or employment, in the next four years.
- The cost and benefits analysis of the newly finished Prishtina-Hani i Elezit Highway, provides that this project has costs than overrun the benefits it would provide to the community, therefore it is likely that continued investment in the construction of new highways can bring more costs than benefits for the people of Kosovo.

30 https://www.min-rks.net/repository/docs/programi_i_qeverise_se_republikes_se_kosoves_2017_2021.pdf



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