

ALBANIA IN THE BERLIN PROCESS: MONITORING THE CONNECTIVITY AGENDA

MARCH 2020

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Keywords: Berlin Process, Connectivity Agenda, South East Europe - SEE, Transport

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Tirana, March 2020

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This paper was developed in the framework of the "*Preparing and Supporting Albania for the EU Accession Process - ALBE*" project, part of the MATRA programme, and with the support of the Embassy of the Netherlands in Tirana.

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LIST OF ABBREVIATIONS

CA	Connectivity Agenda
EBRD	European Bank for Reconstruction and Development
BOT	Build-Operate-Transfer
CEF	Connecting Europe Facility
ERP	Economic reform programme
AIC	Adriatic-Ionian Corridor
NSPP	National Strategic Programmes
PPP	Public Private Partnership
PTT	Tirana Public Transport Terminal
NSDI	National Strategy for Development and Integration
TEN-T	Trans-European Transport Network
WBIF	Western Balkans Investment Framework

Executive Summary

EU Connectivity Agenda in South East Europe Six (SEE6) aims at improving transport and energy connection with and between the Western Balkan and European countries. Up to 31 December 2019, Albania has received financing support for four infrastructure projects in the framework of this initiative. These projects - totalling EUR 300 million - cover road and rail transport, energy, digitalization, and maritime connectivity. Albania is the only SEE6 country that has received funding for projects in digitalization and maritime connectivity.

However, by the end of 2019 the execution of works had not commenced in any of the projects. Long procurement procedures - similar to other countries in the region - are the main explanatory variable. For example, the tendering procedure for Tirana-Durrës-Rinas Rail approved in 2016, has been postponed for nearly a year, and March 2020 was the new deadline for the completion of tendering procedures and the commencement of works. The Albania - Northern Macedonia (I) energy interconnection line: The Albanian section approved as a project in 2015, is still in the tendering phase, while works have already commenced for the Macedonian section.

In some cases, implementation pace has been slowed down by the requests to make changes to already approved projects. The project for the rehabilitation of Quays 1 and 2 (cargo) in the Port of Durrës - approved in 2018 and considered of high significance for Albania - is still in its initial phases because the Albanian Government is considering a change of destination towards the rehabilitation of passenger quays 3 and 4.

Another important project still in its initial phases is the Adriatic-Ionian Highway with an estimated budget that varies between EUR 2.4 and 2.7 billion, excluding VAT. There are two main considerations regarding this project. First, the cost of some segments on the way to be contracted through Public Private Partnership (PPP) format, is 30 to 40 percent higher than the initial feasibility study projections. One of these sections has now been contracted in this format, causing donors to withdraw the grant they had approved for the feasibility study of the section in question. Second, to date there is no detailed analysis on those sections' economic impact to the territory they cross, or on their contribution on the competitiveness to priority sectors.

Considering the reconstruction efforts and the respective financial aid promised for the 26 November 2019 earthquake, and in the framework of drafting the Economic Growth and Investment Pact, the Albanian Government can re-focus the development of connectivity infrastructure at the service of the economic and social needs and of the country's financing capacity. Consequently, the connection to European networks should come after. In this context, the economic crisis caused by the efforts to curb coronavirus renders the good management of connectivity infrastructure projects and of related funds even more important.

In addition, the benefits of Connectivity Agenda should also include assessment of the geo-strategic and local economy impact, as well as practical benefits for small businesses (that constitute up 84% of the enterprises in the country) affected, and Albanian citizens at large.

I. INFRASTRUCTURE PROJECTS IN THE WESTERN BALKANS CONNECTIVITY AGENDA

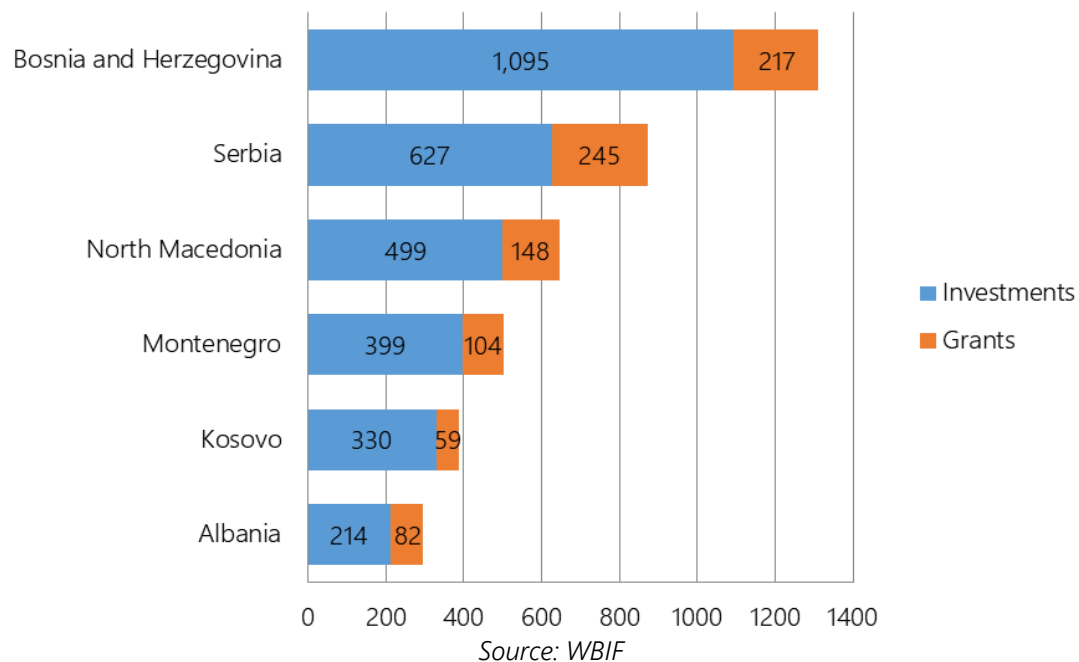
The Connectivity Agenda (CA) is considered as one of the main EU assistance mechanisms to support economic growth in the Balkan countries and to speed up the economic convergence of the region with EU member states.

The CA is also one of the main priorities of the SEE6 countries. In practical terms it consists on developing and financing concrete regional infrastructure investment projects in transport, energy, and digital connectivity, and on developing and adapting a legal and regulatory framework compliant with EU technical standards.

In 2015, the European Commission earmarked 1 billion Euro in grants to be awarded from the Instrument of Pre-Accession Assistance (IPA) by 2020, in support of the connectivity agenda. These grants are expected to leverage between 3.2 and 4 billion Euro in investments and create more than 45,000 jobs.

To date, 39 CA infrastructure projects have been approved for financing, reaching a total investment value of 3.2 billion Euro, with EU grants accounting for 880 million Euro of the total¹. Its distribution by SEE6 country is presented in the following chart, divided according to grants and investment components.

Chart 1. CA: Total infrastructure project amounts benefited by country 2015-2019 (mln Euro)



The selection and financing of SEE6 CA projects are coordinated through the Western Balkans Investment Framework (WBIF). WBIF is an EU-financed facility that supports the socio-economic

¹ Source: WBIF – The Western Balkans Investment Framework is a regional blending facility supporting EU enlargement and socio-economic development in Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia.

development and the EU integration process of the Western Balkans, through strategic investment financing and technical assistance. It is a joint initiative of the EU, international financial institutions, of bilateral donors, and of the SEE6 country governments.

The transport and energy networks of the Western Balkans Six have been included as an indicative extension of the Trans-European Transport (TEN-T) and Energy (TEN-E) Networks. They also include the core network, and the comprehensive corridors feeding the core network and priority projects predetermined for infrastructure investments. Extending core network corridors into the Western Balkans ensures closer connection with and integration into the EU, and makes up the basis for an efficient use of SEE6 infrastructure investments. The WBIF and the Connecting Europe Facility (CEF) are facilities serving this particular purpose.

Albania is included to TEN-T through Adriatic-Ionian Highway that joins the Mediterranean Corridor of the Trans-European Transport Network. This TEN-T Corridor crosses six EU member states (Spain, France, Italy, Slovenia, Croatia, and Hungary) at 6,000 km in length.

By December 2019, Albania had acquired approximately 7% of the total SEE6 connectivity projects' value, but it has the wider distribution by sector as compared with other Balkan countries (including transport, energy and the digital sector).

In addition to many technical assistance projects financed by Connectivity Agenda, until currently Albania has benefited funding for four infrastructure projects: i) the Tirana – Durrës - Rinas Rail; ii) the Durrës Port Rehabilitation of Quays 1 and 2; iii) the Albania - North Macedonia (I) energy interconnection line - Albanian Section; and iv) the broadband infrastructure project.

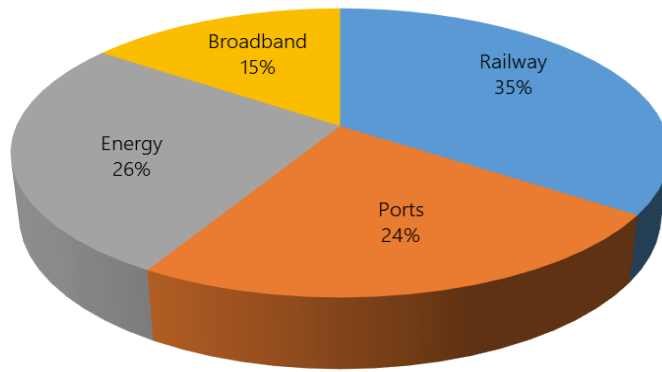
Another important project, which is in its planning phase, is also the Adriatic-Ionian Corridor.

Table 1. CA Infrastructure Projects benefited by Albania (mln Euro)

	Tirana-Durrës-Rinas Rail	Durrës Port Rehabilitation Quays 1 and 2	Albania – N. Macedonia (I) energy interconnection: Albanian Section	Broadband infrastructure project
Grants	38.4	28.1	15.4	11.2
EBRD Loan	36.9	25	50	24
Albania National Contribution	16.2	9.3	4.6	4.8
Total	91.5	62.4	70	40

Source: WBIF

Chart 2. CA - Infrastructure projects distribution by sector in Albania

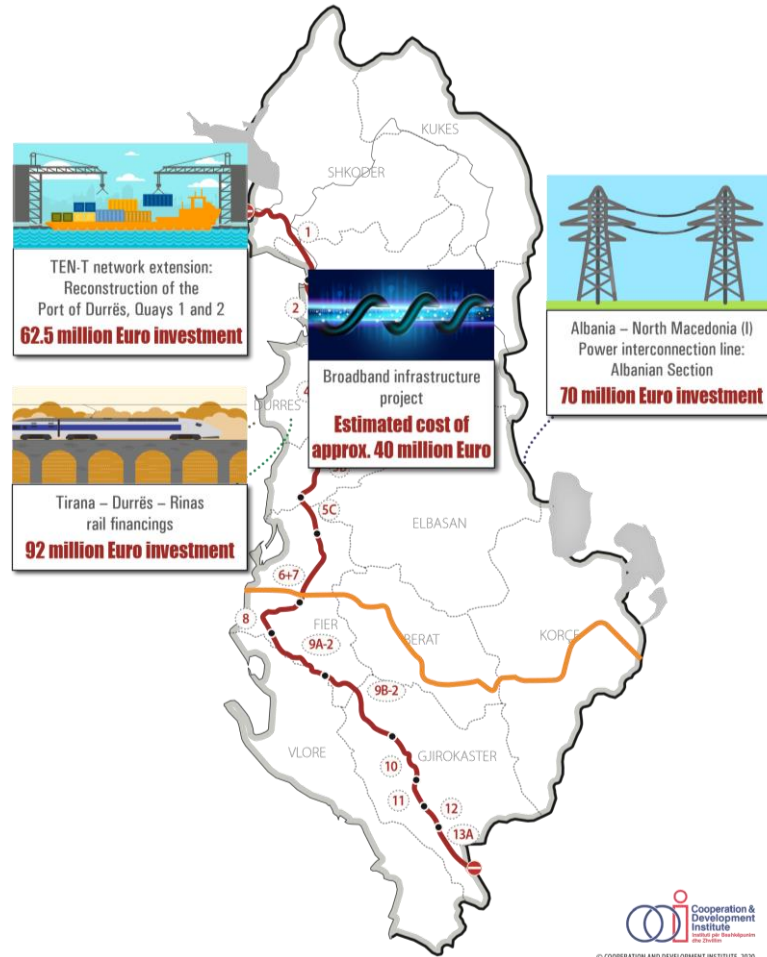


Source: WBIF

II. THE FOUR ALBANIAN CONNECTIVITY AGENDA INFRASTRUCTURE PROJECTS

Until December 2019, Albania had benefited financing in grants and loans for four infrastructure projects in the framework of the CA. Meanwhile, the biggest connectivity project in the region at an amount of EUR 1.2bn was being completed successfully: The Trans Adriatic Pipeline.

Map 1. Albanian Connectivity Agenda Infrastructure Projects - December 2019



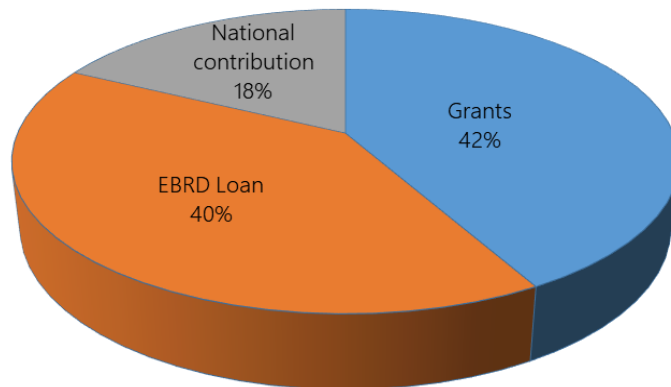
II.1. The Tirana-Durrës-Rinas Rail (the Mediterranean Corridor).

Total cost of 92 million Euro.

The project was approved in 2016. Its main goal is the rehabilitation of the 34.5 km rail link between Tirana and the main port in the country - the Port of Durrës. It also includes the construction of 7.4 km of new rail line between Tirana and the Mother Teresa International Airport at Rinas.

The international procurement process for the construction works is currently ongoing. Initially it aimed to be completed by March 2020, but its closure may be delayed due to the Covi19 restrictions. Construction activities were foreseen to start in June 2020 and are expected to last for two years. All those these timeframes will be pushed back as a result of the emergency caused by the coronavirus and relevant measures taken.

Chart 3. Tirana – Durrës Railway Financing



Source: WBIF

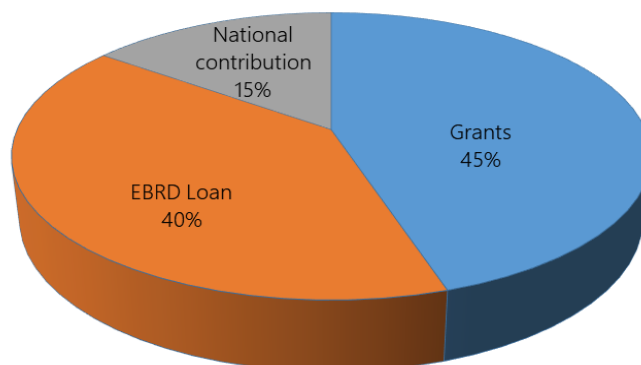
II.2. Port of Durrës Rehabilitation, Quays 1 and 2

Total cost of 62.3 million Euro

The project was approved in 2018. Its goal is the rehabilitation of Quays 1 and 2 in the Western Terminal of the Port of Durrës, which processes all cargo shipping for Albania, including minerals and grain.

The project is still in its initial phases, after the WBIF approved the application prepared and submitted by Albanian authorities. Currently, the project is at a standstill because of the Albanian government shift in priorities towards the rehabilitation of Quays 3 and 4 (instead of the original quays 1 and 2). The project is now in a 'waiting' status, pending the progress of the government request on the change of destination. This change of a previously-approved version by the donors², may possibly affect the disbursement of financial support.

Chart 4. Port of Durrës Rehabilitation



Source: WBIF

² Interview with WBIF representatives

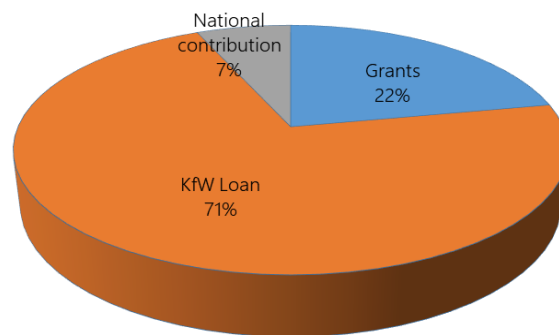
II.3. The Albania - North Macedonia (I) energy interconnection line: Albanian Section

Total cost of 70 million Euro.

The project was approved in 2015. It includes: i) the construction of a 400 kV transmission line to connect Fier to Elbasan and then to North Macedonia; ii) the construction of a new substation in Elbasan; and iii) the increase of the Fier substation capacity.

Currently, the project is in the works procurement phase. The project is slightly in delay compared to the North Macedonian Section, where the works have already commenced.

Chart 5. The Albania - North Macedonia power interconnection line



Source: WBIF

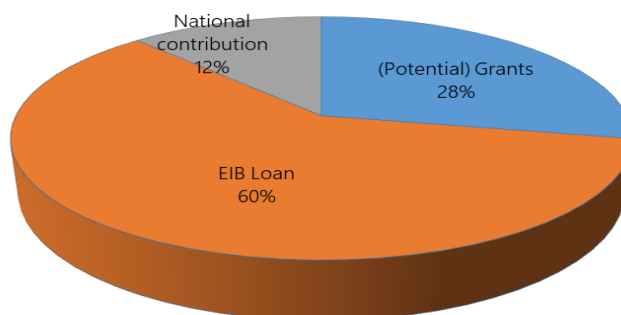
II.4. Broadband infrastructure project

Total cost of approximately 42 to 48 million Euro

The project was approved in 2019. It aims at completing a feasibility study and development plan for efficient and smart investments in broadband internet infrastructure across the country.

Currently, the Albanian government project has been selected and the WBIF has approved an initial grant of 520,000 Euro. In addition, the first draft of this study has been completed.

Chart 6. Broadband infrastructure project



Source: WBIF

III CASE STUDY: THE ADRIATIC-IONIAN CORRIDOR AND ITS ECONOMIC BENEFIT

The Adriatic-Ionian Corridor (AIC) is a strategic project for the Balkans and the entire South-Eastern Europe region. Once completed, it will connect Central Europe and Northern Italy to the Balkans Peninsula down to the Ionian Sea through Slovenia, Croatia, Bosnia and Herzegovina, Montenegro, Albania, ending in Greece. The Adriatic-Ionian Corridor runs along the Adriatic and Ionian coasts from Trieste, Italy to Kalamata, Greece. The highway is estimated to have a total length of 1,550 km³, of which 296 km are in Albania.

Albania is included in the European TEN-T network through AIC. It links Albania with the 6,000 km Mediterranean Corridor that starts in Spain (Almeria) and crosses 6 EU countries (Spain, France, Italy, Slovenia, Croatia, and ends up in Hungary). After traversing the Croatian and the Montenegrin coast AIC enters Albania at the Muriqan border in Shkodra Municipality. It crosses Lezha, Tirana, Fier, Tepelena, and Gjirokastra to reach Greece through the Kakavija border crossing. The majority of the AIC track in Albania coincides with the existing North - South road axis.

Along its approximately 300 km in Albania, the AIC will be a road mostly used for the development and promotion of the cultural and tourism sector, centered around personal vehicles mobility more than merchandises. In April 2019, the Albanian Road Authority (ARA) approved the Adriatic-Ionian Corridor track. This study was funded by the WBIF and was undertaken for the Montenegro - Albania road section only.

III.1. The Adriatic-Ionian Corridor route and costs

According to the WBIF-funded conceptual design, the Adriatic-Ionian Corridor in Albania is divided into 13 sections. In the Albanian territory, it starts at Muriqan and sequentially crosses Balldren, Milot, Thumana, Kashar, Lekaj, Konjat, overlaps with the Fier bypass, Levan, Poçëm, Memaliaj, Subash, overlaps with the Gjirokastra bypass, and exits in Kakavija.

³ <https://www.wbif.eu/project/PRJ-MULTI-TRA-002>

Table 2. The Adriatic-Ionian Corridor, segments and costs

Sections	Segment	Length (km)	Cost (excluding expropriations) mln Euro	Cost including VAT (mln Euro)	Expropriations cost	Total cost, including VAT at 20% and expropriations, mln Euro	Cost/km (excluding expropriations)
Section 1:	Muriqan (Border) – Balldren (Lezha)	40.95	294.5	353	10.6	364	8.6
Section 2:	Balldren (Lezha)- Milot	16.2	147.8	177	8.9	186.26	10.9
Section 3:	Milot-Thumana	13.5	35.1	42	3.1	45.22	3.1
Section 4:	Thumana-Kashar	21.05	162.4	195	8.7	203.58	9.3
Section 5B:	Kashar-Lekaj	33.6	486.8	584	12.9	507.06	17.4
Section 5C	Lekaj-Konjat	14.2	81	97	5.9	103.1	6.9
Sections 6+7	Konjat-Lushnja-Fier	28.04	168.7	202	8.8	211.24	7.2
Section 9A-2	Levan- Poçem	26.9	166.8	200	4.3	204.46	7.4
Section 9B-2	Poçem-Memaliaj	37.8	623.3	748	5.4	753.36	19.8
Section 10	Memaliaj-Ura e Subashit	20.1	271.1	325	1.1	326.42	16.1
Section 11	Ura e Subashit-Gjirokastra Bypass	10.3	68.4	82	2.1	84.18	8
Section 12	Gjirokastra Bypass	9.7	66.9	80	1.2	81.48	8.2
Section 13	Gjirokastra Bypass-Kakavija	23.8	143.9	173	3.3	175.98	7.3
	Total	296	2.717	3.260	76	3.336	10

Source: WBIF

According to the WBIF, the total project cost in Albania is estimated at 2.7 billion in construction works (or 3.26 billion Euro when including VAT). When adding expropriations, which reach a cost of 76 million Euro, the total cost of the Adriatic-Ionian Corridor in Albania is 3.34 billion Euro. The average cost per kilometre is estimated at approximately 10 million Euro (excluding expropriations).

Section 9B-2 (Poçem-Memaliaj) is the most expensive one with a total estimated cost of 748 million Euro (excluding expropriations), or approximately 20 million Euro per kilometre, as a result of the difficult terrain and interventions in the tunnels.

It is followed by the Kashar-Lekaj segment (580 million Euro in total, or 17.4 million Euro per km), and the segment Murriqan (border)-Balldren (Lezha) at 353 million Euro (excluding expropriations), or 8.6 million Euro per km. The conceptual design commissioned by the WBIF, is developed based on the assumption that this corridor will be constructed in compliance with European Union standards.

Map 2. The Adriatic-Ionian Corridor route and costs

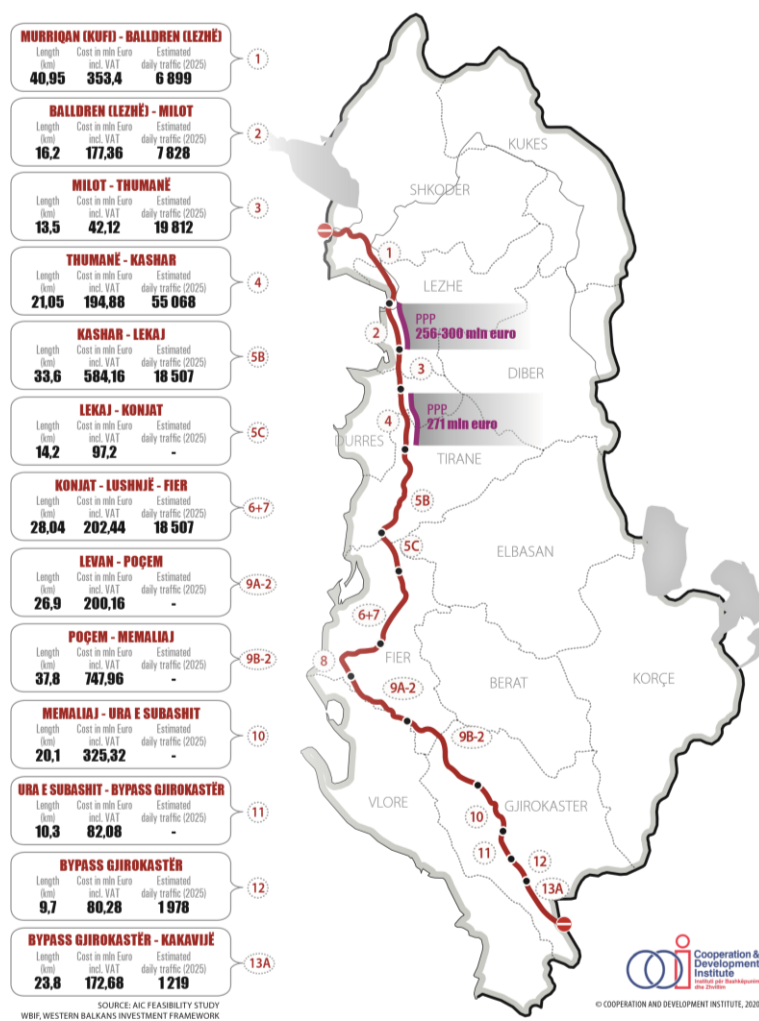


Table 3. Section ranking according to total cost per section (mln Euro)

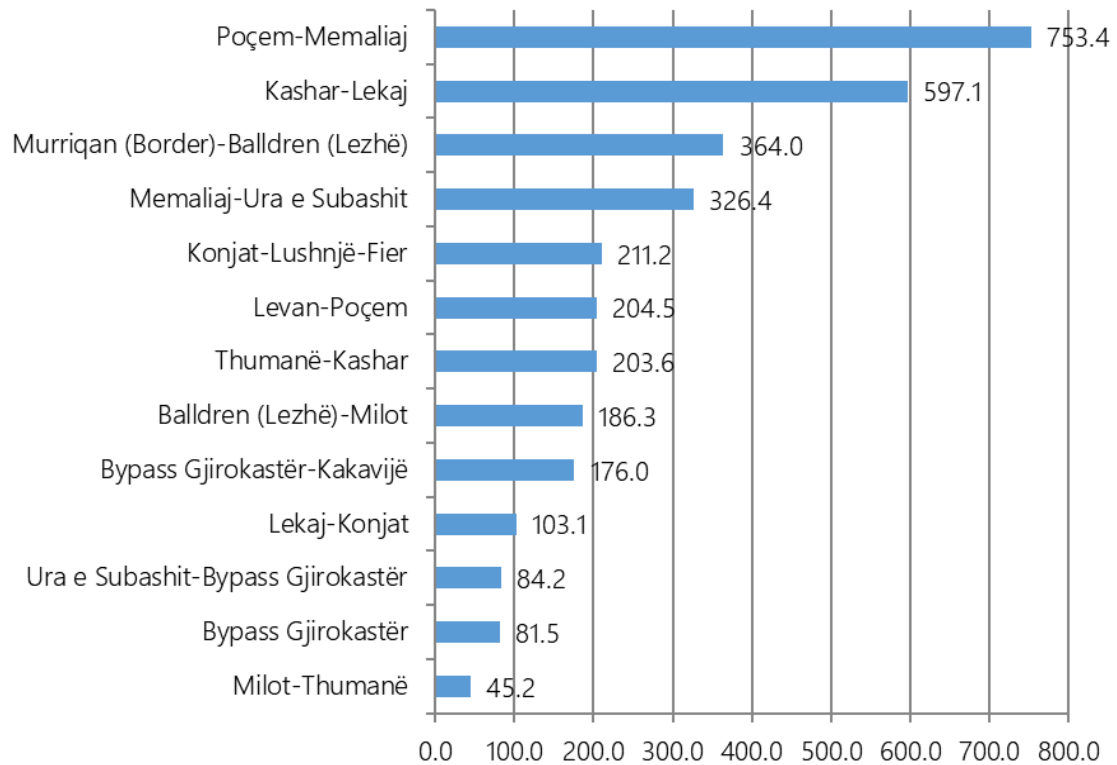
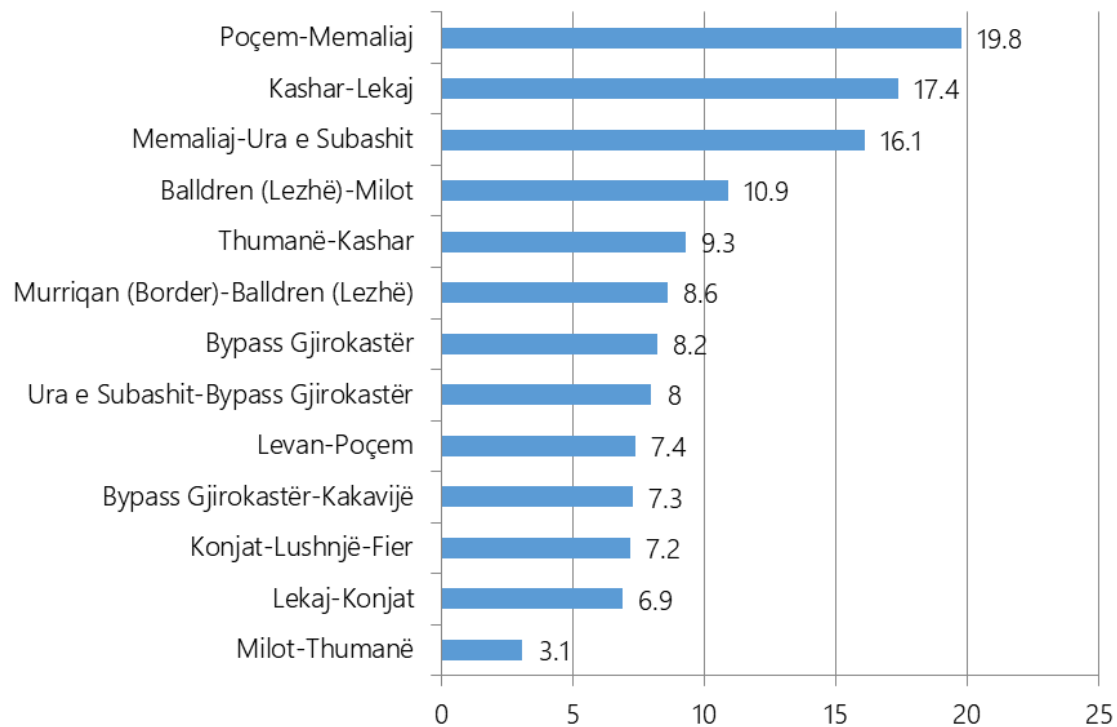


Table 4. Section ranking according to cost/km, Euro (excluding expropriations)



III.2. Overlap with PPPs

In parallel with the AIC pre-feasibility study development, the Albanian Government awarded a series of sections in this corridor for construction using the PPP methodology. The contracts were approved after unsolicited proposals made by private Albanian construction companies. The PPP contracting practice and the private contractor selection modalities have met with criticism by a number of international financial institutions. According to an EBRD report⁴, *“Large controversial PPPs continue to be awarded, especially in the road sector (for example the Milot-Balldren and the Orikum-Llogara sections), without an appropriate cost-benefit analysis and sufficient competition in the procurement process. This increases the potential social cost and exposes the government to implementation risks, considering also the general lack of data and the financial situation of the selected providers, in relation to the scale of the procured projects”*.

To give a factual perspective of the PPP phenomenon in the Connectivity Agenda in Albania we have provided below some data on the two unsolicited proposals - the Milot - Balldren (17 km) section proposed by the A.N.K Company, and the Thumana-Kashar section proposed by the Gener 2 Company.

i) Milot - Balldren section

The first PPP section of the Connectivity Agenda in Albania is the Milot-Balldren section for which the concessionary company has provided an offer of a total of 256 million Euro for 17 km. The procurement process was initiated by the government in 2018, after an unsolicited proposal by the Albanian A.N.K. Company. In October 2018, the A.N.K Company won the competition procedure for the award of the concession/PPP for the construction and maintenance of the Milot - Balldren road at a total construction and maintenance value of 161.6 million Euro, excluding VAT.

After renegotiating the interests (with no competition procedure)⁵, the contract value was increased to 213 million Euro, excluding VAT (or 256 million Euro, including VAT). The contract is an open contract, and its value could increase further up to 300 million Euro, if the contracting authority requests (and gets the approval) for additional works. The contract was adopted in the Assembly of Albania in July 2019, but its implementation has not yet started yet, as the constructor has encountered difficulties in securing loans from commercial banks.

In November 2018, soon after the ANK Company was awarded the contract, the WBIF cancelled the feasibility study for the Lezha bypass. According to the transcript of the minutes of the Project Financiers Group⁶, the European Bank for Reconstruction and Development representative

⁴ <https://www.ebrd.com/transition-report-2019-20>

⁵ A portion of the contract has been awarded based on a competition procurement procedure, while the rest of the interests have been renegotiated with no competition, which lacks any legal basis. The contract writes that *“According to the revised financial proposal, based on the statement of 19.3.2019, the estimated interest rate for all financing sources above, is 5%”*, (this concerns the three loan sources of the company, its own capital and suppliers at 140 million Euro). This renegotiation with no competition increased the contract value to 213 million Euro, which is an increase of 32%.

⁶ <https://www.wbif.eu/storage/app/media/Library/12.Meetings/2.%20Project%20Financiers%20%20Group/26th-PFG/1%20WBIF-26th-PFG-MoM.pdf>

confirmed that the Albanian government had accepted a PPP (unsolicited proposal) and that as a result the grant would be cancelled and the funds should be reimbursed to the financial institution (approx. € 351,750).

The ERBD⁷ specifically noted the Milot-Balldren case in its latest 2019-2020 Transition Report, to illustrate the insufficient capacity of the Albanian companies to develop large scale projects, the problem resulting from lack of data, and the weak financial strength of the selected contractors, in relation to the complexity and budgets of the contracted projects.

According to the conceptual design developed for the WBIF, the Milot - Balldren section has a total cost of 177 million Euro including VAT, or 10.9 million Euro per km (including VAT). This is approximately 30% lower than the option approved by the Government as per ANK Company proposal. In this case, the total cost difference for the whole segment is circa 80 million Euro. This cost difference could be eventually explained when considering the technical specifications of the unsolicited proposal, which vary from the road construction standards required by the European Union⁸. It appears that this section does not have the same technical specifications as the other AIC sections.

ii) Thumana-Kashar Section

The second section is the Thumana-Kashar segment. The PPP contract, which was proposed by the Albanian Gener 2 Company in July 2018 after an unsolicited proposal at a value of 226 million Euro excluding VAT (271 million Euro including VAT), was cancelled by the Albanian government at the beginning of 2019. This action was justified with the need to channel funds into the education reform after the student protests in the Fall of 2018.

However, the project remains a priority for the government and the concession procedure is expected to be re-announced in 2020. The contracting and financing modalities are expected to change, because chances are this contract will be awarded as a BOT (Build-Operate-Transfer). Under this method, the company will make the investment and will be paid back through collection of tolls⁹ from the use of the road for a specified period of time.

According to the official pre-feasibility version, the Thumana-Kashar section will be developed on a completely new track along its 21 kilometres, and is designed as a category A highway, with a maximum speed of 120 km/h. According to the conceptual design developed by the WBIF in the framework of the Adriatic-Ionian Corridor, this section would cost 162 million Euro, excluding VAT and 195 million Euro, including VAT. This estimate is 28% lower than the unsolicited offer (or 76 million Euro less). This section is one of the most important AIC segments in Albania, as it will cross a completely new route in the central region of the country, with heavy traffic.

⁷ <https://www.ebrd.com/transition-report-2019-20>

⁸ Interview with engineers involved in the Adriatic-Ionian Corridor conceptual design

⁹ According to the statements of the Minister of Infrastructure and Energy on 13 February 2020 on Euronews Albania <https://euronews.al/al/vendi/2020/02/13/lamtumire-ppp-tani-rruget-do-te-ndertohen-me-formulen-bot>

Table 5. PPP AIC section costs and WBIF estimated costs

	Milot-Balldren		Thumana-Kashar	
	PPP	Section 2 Adriatic-Ionian	PPP	Section 4 Adriatic-Ionian
Total cost (including VAT)	256-300	177	271	195
Cost per km	15-17	10.9	12.9	9.3
Difference (PPP – Section 2)	79-123		79	

Source: WBIF and author calculation

Without access to the technical files submitted by the concessionaires for the sections above, we can hypothesize that the difference of the cost per km between the WBIF proposal and the local proposals can be justified based on the change in technical specifications, which have eventually been improved in the offers of the local concessionaires. However, to date we have not been able to consult any studies justifying any change in road specifications from those initially proposed by the EU.

III.3. Benefits

i) investor's financial benefit

The total cost of the Adriatic-Ionian corridor is estimated at some 3.4 billion Euro, which is equal to 24% of the Gross Domestic Product (GDP), or approximately 80% of the annual budget of the Government of Albania. Thus, taking out - even partially - loans in this amount, would increase the domestic public debt to undesirable and unsustainable levels (in the worst case scenario, the debt would reach up to 90% of the GDP, compared to the current rate of approximately 70%).

Table 6. Data on cost and estimated daily traffic in 2025: AIC in Albania

Sections	Segment	Length (km)	Cost including VAT (mIn Euro)	Estimated traffic (2025)
Section 1	Muriqan (Border) – Balldren (Lezha)	40.95	353.4	6,899
Section 2	Balldren (Lezha)- Milot	16.2	177.36	7,828
Section 3	Milot-Thumana	13.5	42.12	19,812
Section 4	Thumana-Kashar	21.05	194.88	55,068
Section 5B:	Kashar-Lekaj	33.6	584.16	18,507
Section 5C	Lekaj-Konjat	14.2	97.2	-
Sections 6+7	Konjat-Lushnja-Fier	28.04	202.44	-
Section 9A-2	Levan- Poçem	26.9	200.16	-
Section 9B-2	Poçem-Memaliaj	37.8	747.96	-
Section 10	Memaliaj-Ura e Subashit	20.1	325.32	-

Section 11	Ura e Subashit-Gjirokastra Bypass	10.3	82.08	-
Section 12	Gjirokastra Bypass	9.7	80.28	1,978
Section 13	Gjirokastra Bypass - Kakavija	23.8	172.68	1,219

Source: WBIF

While seeming more attractive at the contracting moment, public private partnership projects are not always adequate long-term solutions for a series of reasons. Firstly, domestic companies - which to date have made the exclusive unsolicited PPP model offers - do not seem to have the financial and technical capacities to develop such projects.

Secondly, the unsolicited proposals have consistently higher cost, on average by 30%, compared to the options proposed, designed and financed by the EU and international financial institutions. No analysis explaining these cost differences have been made available to the public.

Thirdly, regardless of accounting methodology in national accounts, partner international financial institutions have considered PPPs as "hidden debt". Even though spread out in time, PPP payments would indirectly increase the public debt, as the state has the obligation to make payments in upcoming years, in line with the concession contract.

Financing through donors in the WBIF framework is more acceptable from a benefit perspective, because project financing is conditioned with the application of EU standards and aligned with EU technical rules and norms since their inception. Secondly, up to 50% of the financing (in the case of rail infrastructure) can be obtained as a grant (the rest is provided by the donors in the form of soft loans). However, the issue with the financial support approval by the EU for these projects is that the approval process is relatively long. In addition, taking loans from international financial institutions does, however slightly, also increase the public debt to unsustainable levels.

An alternative solution would be awarding these sections in a BOT (Build-Operate-Transfer) system, where the investors would invest their own funds and would then take that investment back - along with the profit rate - over a period of time in the form of toll payments from road users. After a certain period of time the road would then be handed over to the state. In this case, the private company takes over the risk in addition to the profits.

A BOT investment would require as a precondition that the segment in question be economically viable, when considering the expected traffic volume. According to traffic research, out of the 13 AIC Albanian sections, the only ones with financial interests are Section 4: Thumana-Kashar (total cost of approximately 203 million Euro); and Section 5: Kashar-Lekaj (cost of approximately 597 million Euro).

For both these sections, traffic is estimated to reach 60,000 vehicles per day, making them viable for large construction companies with adequate financial and technical capacities.

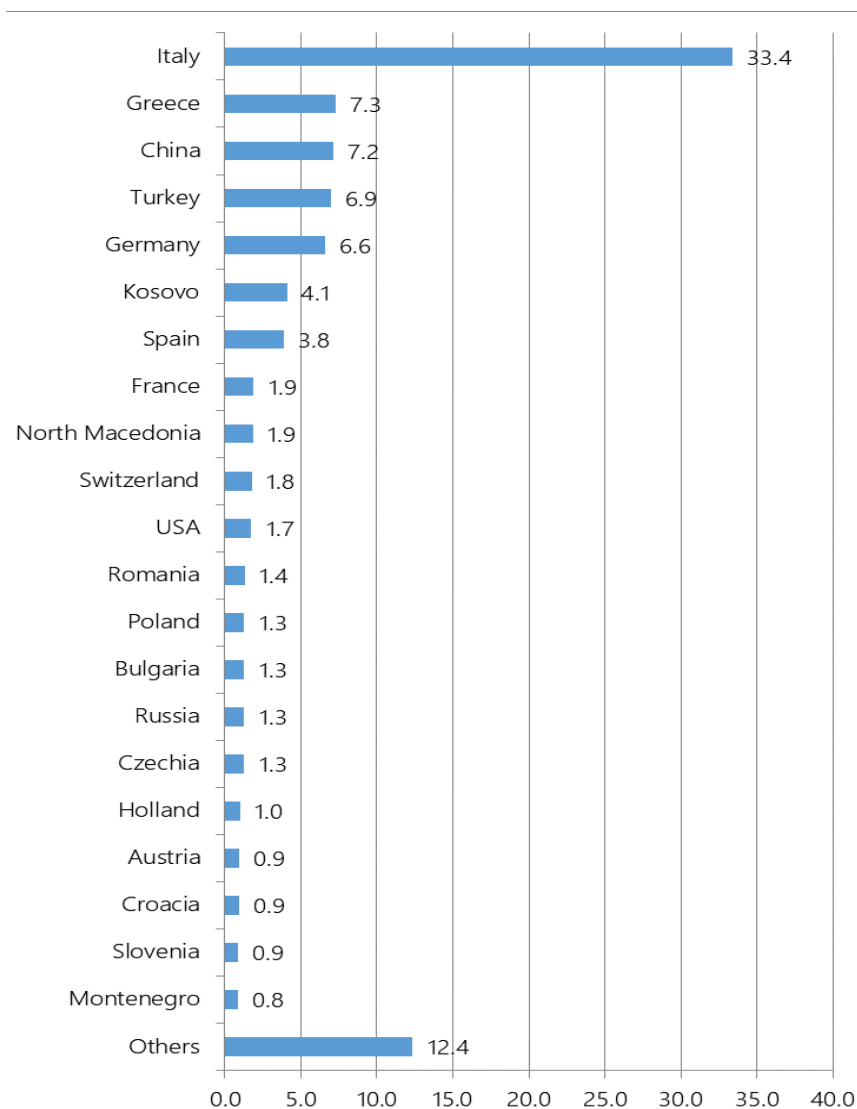
However, the application of a BOT requires highly specialized expertise and local institutions specialized in construction, drafting the legal conditions / contract, financial assessment of state-investor relationship, and contract monitoring during the lifetime of the contract.

ii) benefits for the country

A development argument used in favour of the Adriatic-Ionian corridor that goes beyond the financial viability of the road, would be the contribution in driving economic growth in the country, namely in trade and tourism.

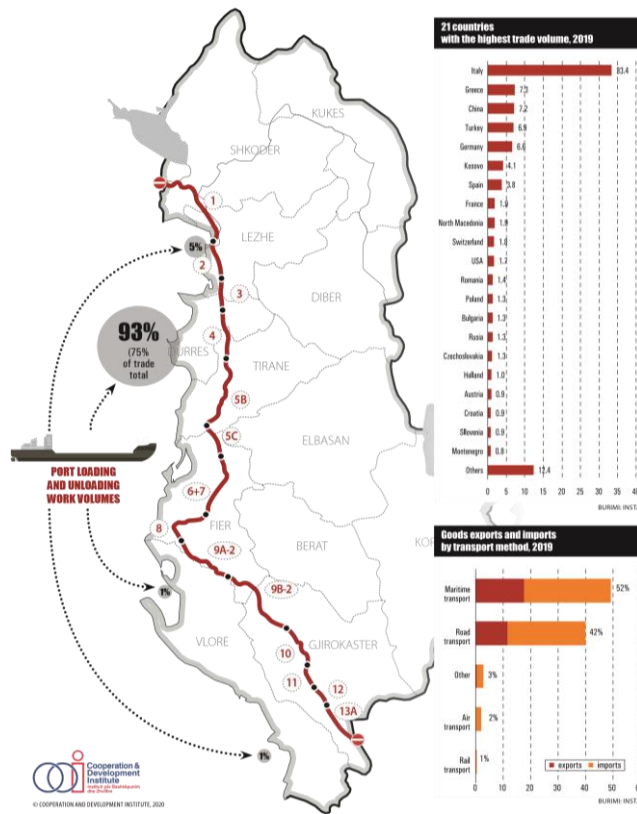
As regards trade, 33% of the Albanian trade volume is done with Italy alone. In total, approximately 70% of the trade is processed at the Port of Durrës. In addition, Greece, Kosovo, Romania, and Bulgaria are among the 10 biggest partners of the country.

Chart 7. Trade volume by partner state, 2019



Source: INSTAT

Map 3. Foreign trade channels



From this perspective, the development of East - West transport routes is very important for the Albanian economy. This means that Corridor VIII should receive increased attention. Corridor VIII also includes the deepening and modernization of the Port of Durrës quays and the re-construction of the Durrës - Rogozhina - Lin rail line.

The quay modernization in the Port of Durrës is currently suspended.

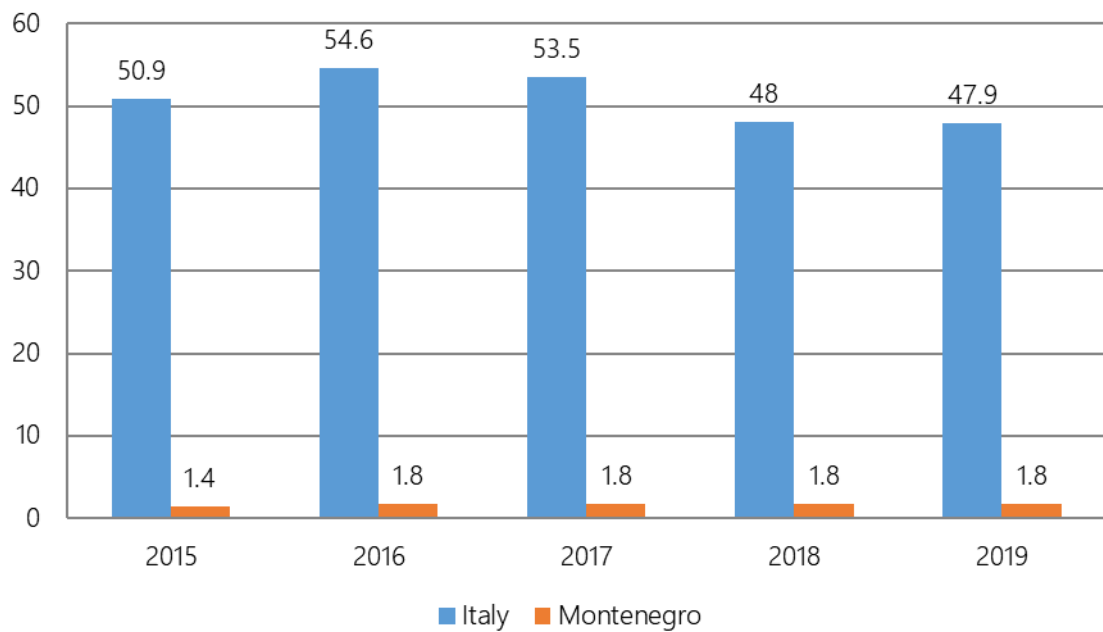
As regards the investment for the Durrës - Rogozhina - Lin rail, the works are in the following phases:

- the Tirana - Durrës section procurement announcement process is planned for March 2020, while the start of works is estimated in June 2020. However, there may be delays because of the COVID-19 situation.
- the Durrës - Rogozhina - Lin section is at an earlier phase. The feasibility study for the reconstruction of this road segment and for the preliminary design of the Durrës - Rogozhina segment are complete.

Map 4. Graphical representation of maritime connections between Albania and Montenegro with the TEN-T Scandinavian - East Mediterranean Corridor, by way of Puglia.

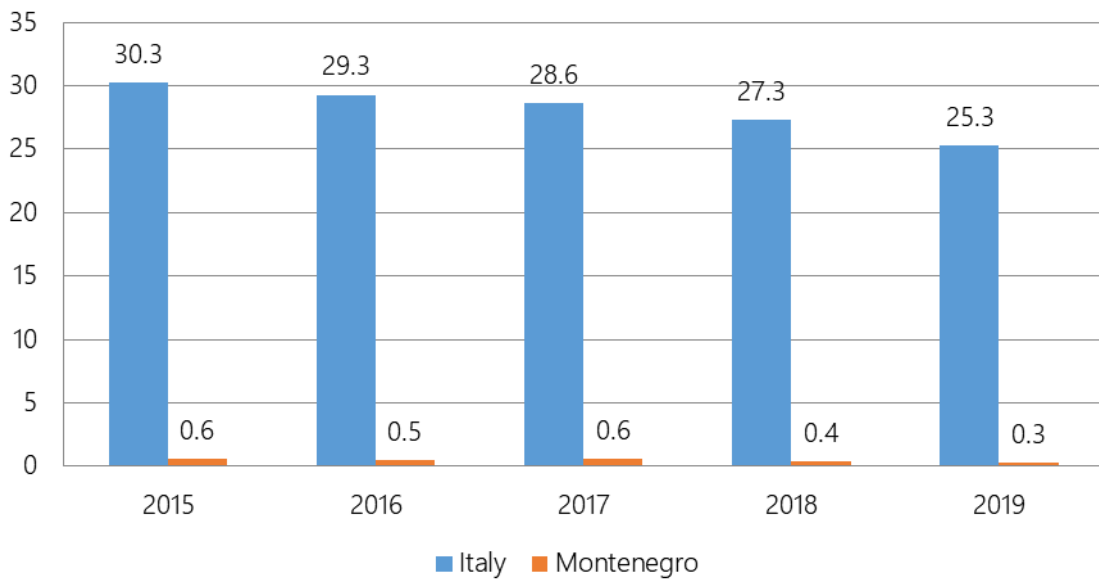


Chart 8. The weight of Albanian exports to Italy and Montenegro, as part of total (%)



Source: INSTAT

Chart 9. The weight of Albanian imports from Italy and Montenegro, as part of total (%)



Source: INSTAT

III.4. Recommendations for the Adriatic-Ionian Corridor (AIC)

The specialization and distribution of the value- and supply-chains in Albania prioritizes infrastructure investments along East-to-West routes, based on the rail connection with North Macedonia and the maritime connection with Italy. From an infrastructure investment perspective, the closest and least costly connection point to the EU TEN-T corridors for Albania, is the Port of Bari in Puglia, Italy.

The Adriatic-Ionian Corridor is of special importance for Albania's regional and European connectivity. However, in our assessment, prioritizing AIC investment should be better aligned with the country's budget capacities, production structure and the trade exchange structure of Albania with its partners. This can be achieved by prioritizing investments in sections that match the economic structure of the country and that offer quick investment return.

Currently, two AIC sections have been awarded for construction through a public private partnership scheme, one of which has been cancelled. PPPs have been at the focus of international financial institutions because of their impact on the state budget.

The author assesses that considering budget limitations, an alternative financing methodology for a number of sections in this corridor is the BOT (*Build Operate Transfer*) concession. To finance transport infrastructure Albanian institutions are currently considering other financing alternatives, including BOTs.

IV. THE CONNECTIVITY AGENDA AND THE ECONOMIC REFORM PROGRAMME 2020-2022

The Economic Reform Programme (ERP) 2020-2022 was adopted by the Government of Albania in February 2020. This programme presents the short-term priority measures of the Government of Albania, which aim to increase domestic production, stimulate new investment, ensure sustainable growth and improve competition.

The 2020-2022 ERP comprises eight main reforms, with the energy and transport sectors taking the top position, detailed below: i) Energy and transport; ii) Agriculture, industry and services; iii) Business climate and reduction of informal economy; iv) Research, development and innovation, and digital economy; v) Trade; vi) Education and skills; vii) Employment and the labor market; viii) Social protection and inclusion.

With regard to transport and energy, the 2020-2022 ERP includes two Connectivity Agenda projects: i) "Rehabilitation and construction of the Durrës - Rinas - Tirana rail; and ii) "Development of the 400 kV interconnection line (Albania - Republic of North Macedonia)". We note the absence of the project for the rehabilitation of Quays 1 and 2 in the Port of Durrës and of the Adriatic-Ionian Corridor in this document.

Another connectivity agenda project included in the ERP, is the development of broadband infrastructure for digital economy, in the framework of the "Research, development and innovation, and digital economy" reform.

i) The interconnection line

The construction of the 400 kV interconnection line (Albania - Republic of North Macedonia) is in line with the government objective for liberalizing the electric energy market and enhancing security of supply. Its construction aims at enhancing country's interconnection with the regional electric energy network, thus creating conditions for trade exchanges and unlimited electric energy transit in the region.

This reform measure is expected to considerably increase investments and will contribute to both employment and competition in the workplace, while also leading to decreased energy costs for consumers.

ii) Tirana-Durrës Railway

The rehabilitation and construction of the Durrës - Rinas - Tirana railway has been carried over from previous ERPs and aims at rehabilitating the 34.17 km rail line between the Tirana Public Transport Terminal (PTT) and the city of Durrës and at building a new rail and exchange line of approximately 5 km, to connect the Tirana – Durrës line with the Tirana International Airport. The project is part of the Rail Corridor VIII and promotes transport connection between Western Balkan countries as an important factor for economic development, regional cooperation and the EU integration of the region.

The Tirana – Durrës line is currently the busiest Albanian rail network section connecting the largest with the second largest city in the country (and with the Port of Durrës, which is the main Albanian sea gate to Europe and the rest of the world).

This is one of the strategic priority projects of the Government of Albania. The Tirana – Durrës Rail project and the link with the Tirana International Airport complement and enable the infrastructure network between the two metropolis to fully achieve the network multi-modality, thus creating an effective network combining road infrastructure, the international airport, and the largest port in the country and one of the most important in the region.

This project is expected to have considerable economic and social impact on the development of development poles/clusters in the growing Tirana/Durrës region.

IV.3. The Port of Durrës Rehabilitation project is absent

According to INSTAT, 93% of the Albanian ports loading and unloading volume is done at the Port of Durrës. 52% of the country import and export goods transport is done by sea, making the Port of Durrës the most important trade and processing hub in the country.

However, the 2020-2022 economic reform programme has no projections related to the Rehabilitation of Quays 1 and 2 of the Port of Durrës project. In a way, bypassing this investment somewhat diminishes the expected economic impact of the Tirana – Durrës Rail from a foreign trade perspective, but also as regards the extension of the Durrës - Elbasan - Pogradec rail network to further connect with rail lines in North Macedonia.

IV.4. Broadband Infrastructure Development

Broadband infrastructure development for digital economy is one of the 2020-2022 economic reform programme priorities, and it is a part of the framework of the fifth reform: “Research, development and innovation, and digital economy”.

The Government of Albania has identified the digital and broadband infrastructure development as key priorities, and has incorporated these developments in strategic documents, such as: The National Strategy for Development and Integration (NSDI) 2015-2020, the Digital Agenda Strategy, the Economic Reform programme (ERP) 2019-2021, and in the National Broadband Plan.

A complete broadband development feasibility study is being developed with support of the WBIF. This study will serve as the basis for the development of a National Broadband Infrastructure Development Plan in geographic areas where there is insufficient private interest to invest in this infrastructure. The project aims at achieving objectives of broadband connection speeds of at least 30 Mb/s, based on the orientation of the EU “Gigabit Society” strategy.

Broadband development according to ERP 2020-2022 specifications is in line with the EU Digital Agenda and one of the priorities of the Multi-Annual Action Plan for a Regional Economic Area (MAP-REA), adopted during the Trieste Summit in July 2017.

IV.5. Recommendations

Currently, all CA target sectors in Albania profit financial support in the framework of the Connectivity Agenda. However, Albanian Authorities should maintain - and whenever possible accelerate - the pace of developing high-quality projects in search of funding. In addition, projects for which funding has been approved should be implemented at a quicker pace.

Relevant state structures should profit from the 2020-2025 NSDI preparation moment to connect development and industrial policies, and the local economic development policies, with the Connectivity Agenda, especially regarding the planning and implementation of infrastructure, transport, energy, digital, and other infrastructure investments.

The Government of Albania should benefit from the Zagreb Summit of May 2020, to secure the best results possible by submitting concrete projects in the framework of the Regional Investment and Growth Strategy presented by the European Council President, Mr. Charles Michel during his visit to Tirana in January 2020.

V. NATIONAL STRATEGIC PRIORITY PROJECTS UNDER DEVELOPMENT - TRANSPORT

Applications for WBIF financing submitted by Balkan countries must be projects that belong to the National Strategic Priority Projects list (NSPP). This list ranks priority projects for each country. Before applying for financing of works component, every project should go through a series of steps to reach maturity. During this phase, the EU and various donors help with “soft” technical assistance.

In March 2020 the priority projects list in the transport sector was as follows:

Table 7. Transport NSPP list

No	Sectors	Sub-sectors	Mega Projects	Project Title	Project Description/Objective	Total Budget (indicative)	Implementation Status
1	Transport	Road transport	Middle-West Corridor Extension of the Middle Artery	Programme Infrastructure-Improving regional connectivity	The project will improve the regional connectivity with existing international network and facilitate cross-border mobility for areas between Albania and neighbouring countries, with the aim of strengthening the economic and social development in the region. Specific goal is to promote sustainable development in the region through improved road and border infrastructure	€ 195,145,000	On-going
2	Transport	Inland Waterways transport - ports	Adriatic Ionian Corridor (AIC)	Durres Port	The Port of Durres is an important facility for meeting the needs of import and exports of cargos in Albania and it currently processes almost 80% of annual volumes maritime trade of the country. Through this project a water depth of 11.5 m will be obtained for anchoring places	€ 62,500,000	Detailed Design
3	Transport	Road transport	Adriatic Ionian Corridor (AIC)	Construction of the Thumana-Kashar-Rrogozhina road	The Construction of the Thumana-Kashar-Rrogozhina Road project is part of Priority Project List of the SEETO MAP 2018, which is the most important strategic and planning document of the WB6 region in the field of transport. This project is also part of the Adriatic - Ionian Motorway/Expressway (Indicative Extension of the TEN-T Mediterranean Corridor) and can be considered as a bottleneck in all the road corridor.	€ 730,262,352	Detailed Design
4	Transport	Road transport	Adriatic Ionian Corridor (AIC)	AIC Section 3: Milot-Thumane (L=13.455 km)	The aim of the study and design work is to prepare a conceptual design for the preferred AIC in Albania, extending for about 319 km from Murriqan border crossing with Montenegro in the northwest to Kakavije border crossing with Greece in the south, as part of the wider TEN-T corridor that connects Trieste (ITA) with Kalamata (GRE).	€ 35,081,964	Detailed Design
5	Transport	Road transport	Adriatic Ionian Corridor (AIC)	Construction of the Tirana By Pass	The Construction of the Tirana By Pass project is part of Priority Project List of the SEETO MAP 2018, which is the most important strategic and planning document of the WB6 region in the field of transport. This project is also part of the Adriatic - Ionian Motorway/Expressway (Indicative Extension of the TEN-T Mediterranean Corridor) and also Corridor VIII.	€ 133,410,276	Detailed Design
6	Transport	Railway transport	Corridor VIII-Rail Connecti	Rehabilitation of the	Project will improve rail transport which brings economic development to the region of South East Europe and in particular to the countries of the Western Balkans and	€ 240,000,000	Detailed Design

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			on	railway Vora - Hani Hotit	Converting Shkodra (where the railway line crosses through Vora - Shkodra– Border to MNE) in an international passenger transport mainly in Montenegro and Albania as well as for the inhabitants of the northern part of the Republic of Kosovo.		
7	Transport	Railway transport	Corridor VIII-Rail Connection	Rehabilitation of the railway Durres-Pogradec -Lin and construction of new railway link to Macedonian border.	The project as part of the TEN-T network bridges 2 EU Countries (Italia and Bulgaria), with intermodal transport maritime and railways and enhance connectivity by rail of candidate (Albania, FYROM) in Western Balkan region and linking via corridor the other EU candidate country Turkey by maritime/rail. It enhances connectivity to Serbia, Kosovo and Greece by rail.	€ 335,000,000	Pre Detailed Design
8	Transport	Road transport	Middle-West Corridor Extension of the Middle Artery	Widening of Tirane - Durres Motorway	The Tiranë-Durrës Motorway connects the two largest country centers. Tirana as it is the capital of Albania with the largest port of the country, Durres port, as well as the touristic place of Durres especially for the sea length Durrës – Golem – Mali i Robit. In this way, this road is the busiest in vehicle traffic and culminates in the summer, especially in these last years with the construction of the new road from Kukës to Kosovo, and other regions.	€ 205,000,000	Detailed Design
9	Transport	Air Transport	South Intermodal Route Development Programme	Vlora Airport	Increase economic and tourism activity in the Southern part of Albania and also to increase the connectivity with more air carriers, serving in the region	€ 40,178,570	Tender open for CBO
10	Transport	Road transport	Middle-West Corridor Extension of the Middle Artery	The construction of Tirana Outer Ring Road (Northern Section)	The Outer Ring Road project aims to eliminate the through traffic (which has neither origin nor destination in Tirana) in the city. Hence, ideally speaking, the through traffic should be eliminated from the urban area, thereby relieving the urban area of traffic congestion and improving the urban environment. On the other hand, it also aims to promote sub-centre developments. Furthermore, traffic volume of Outer Ring Road may be different from section to section. It is also an important freight corridor of Tirana, which is located on the Pan-European Transport Corridor VIII.	€ 55,000,000	Detailed Design
11	Transport	Railway transport	Corridor VIII-Rail Connection	Construction of the new railway Pogradec - Korca – border to Greece	This project is related to SEETO comprehensive network and TEN-T Corridor VIII by rail from Pogradec- Korca to Kapshica/Ieropigi border of Albania and Greece and will establish joint border-crossing agreement to model of SEETO and EU MS and implementation for Albania/Greece to reduce CBCs Cross-border procedures on basis of model implementation of ongoing Action Plan of establishing the common border cross railway station of TUZI, under the protocols between both railway infrastructure of Albania and Montenegro.	€ 151,000,000	Feasibility Study

Source. Office of the Prime Minister of Albania

The construction of the Tirana Bypass, at an estimated cost of 134 million Euro, is a project included in the NSPP, and at the same time in the Priority Project List of MAP SEETO 2018. MAP SEETO 2018 is the most important strategic and planning document of the transport sector in the WB6 region. This project is also part of the Adriatic-Ionian Highway (Indicative Extension of the TEN-T Mediterranean Corridor) and also part of Corridor VIII.

In addition to the rehabilitation of the Tirana – Durrës railway, which is at an advanced phase, the government is working to further extend the rail network in the country, in line with the priority that the European Union has given rail. Furthermore, the EU provides grants for up to 50% of rail development costs to promote the construction of rail networks (much higher than in road infrastructure financing). A search through the infrastructure projects list published by the WBIF¹⁰, shows that the grant share in relation to loan varies from 10 to 20 percent of the total costs in the road infrastructure, with only a few cases being allocated grants reaching up to 40%.

A series of rail system rehabilitation projects aiming at connecting the Albanian rail network with Montenegro, North Macedonia and Greece - with a total cost of approximately 750 million Euro - are currently in the detailed design phase. These include:

- Rehabilitation of the Vora - Hani i Hotit Railway, at an estimated cost of 240 million Euro. The project aims at improving rail transport and transforming Shkodra into an international passenger transport hub on the Montenegro - Albania route, serving also the residents of the northern part of the Republic of Kosovo.
- Rehabilitation of the Durrës - Pogradec - Lin Railway and the construction of the new rail line to the North Macedonian border, at an estimated cost of 335 million Euro. As part of the TEN-T network, the project connects two EU members states (Italy and Bulgaria) with intermodal maritime and rail transport, and improves the connection with candidate country rail system (Albania, North Macedonia) in the Western Balkans Region.

The Durrës - Pogradec - Lin - North Macedonia Rail (Pan European Corridor VIII) is part of the Western Balkan Six network. Efforts are currently under way to qualify it as part of the Core Network until 2023, with the perspective of an indicative extension of the TEN-T Orient/East Med Corridor. The feasibility study for the reconstruction of this section and for the preliminary design of the Durrës - Rrogozhina road are complete. The next step is the application to the WBIF for a grant of 50% of the investment value (64 million Euro). This project has shown good prospects when considering the expected passenger traffic rate. The issue with this project is the North Macedonian works, which have a very high cost at approximately 600 million Euro. The next issue to be dealt with is finding common ground regarding the exit point from Albania. Initially the exit was planned in Lin, but concerns have been raised regarding the environmental impact of works¹¹.

¹⁰ <https://www.wbif.eu/project/PRJ-MNE-TRA-006>

¹¹ According to the statement of Mr. Thimjo Plaku, Director of Transport and Infrastructure Development Policies and Strategies at the Ministry of Infrastructure and Energy during the round table titled "The Berlin Process: strengthening regional connectivity and cooperation", organized by the Cooperation and Development Institute on 5 February 2020.

- Construction of the new Pogradec - Korça - Border with Greece railway, at an estimate cost of 151 million Euro. This project is part of the comprehensive SEETO network and the TEN-T Corridor VIII, by rail from Pogradec to Korça and then to the border between Albania and Greece at Kapshtica/Ieropigi. The project aims at reaching a joint agreement to regulate and manage joint border crossing based on the SEETO and EU member countries models, which will be implemented by Albania and Greece. This protocol would alleviate cross-border procedures as based on the Action Plan implementation model applied at the joint Albania – Montenegro cross-border rail station of Tuzi, Montenegro.

In the meantime, a pre-feasibility study for the rail connection between Albania and Greece (Kapshtica/Krystallopiqi) in the framework of the Albania-Greece INTERREG CBC programme is being developed. The project will be concluded in the beginning of 2021, to be followed by applications for the feasibility study and detailed design.



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Tirana, March 2020

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