

# Kosovo Quarterly Economic Briefing

January-March, 2007

## Road Infrastructure in Kosovo

Kosovo covers an area of almost 11,000 km<sup>2</sup> - stretching up to 190 km North to South and 150 km East to West. The territory of Kosovo is served by a road network of some 8,500 km, a 330 km single track rail system running North to South and North-East to West from Pristina, and a regional level airport (Pristina Airport).

*Table 1. Density of roads – Comparison*

	(km/1000 sq km)	(km/1,000 People)
Estonia	1,320	41.2
Hungary	1,733	15.7
Czech Republic	1,646	12.5
Slovenia	1,007	10.2
Croatia	506	6.4
Bosnia and Herzegovina	427	5.6
Serbia & Montenegro	494	4.8
FYR Macedonia	342	4.3
<b>Kosovo</b>	<b>783</b>	<b>4.2</b>
Albania	657	3.5
High Income: OECD	1,340	17.3
Upper middle income	1,076	9.2
Europe & Central Asia	580	8.6

Source: WDI and IEF databases

The majority of roads in Kosovo were built, or rebuilt, in the 1960s. The road network comprises some 647 km of primary roads, 1,347 km of regional roads and some 6,600 km of local roads, both urban and rural. Unpaved access roads make up nearly 90 percent of the local road sub-network: but there is no systematic data on their condition. The majority of main and regional roads have two lanes, although the width of the carriageway and shoulders are, in many cases, below international standards. In terms of the comparative scale of its road network, using a measure of road density - road kilometers per 1,000 people - Kosovo lags behind almost all regional comparators.

As a result of a substantial capital investment program undertaken since 1999, the primary network (main and regional roads with more than 3,000 cars per day), which has been estimated to carry 60 percent of all vehicle journeys, shows that 88 percent of the main network and 74 percent of the regional network are in good condition. The condition of the remaining portion of the secondary road network and the tertiary (local) road network is however much worse. Recent estimates indicate that 33 percent of the local paved

network required reconstruction or rehabilitation; and that 97 percent of the unpaved distributor roads require upgrading. It also estimated that many bridges are in need of urgent repair.

*Table 2. Road Accidents in Kosovo, 2003 -2005*

	2003	2004	2005
Fatalities	130	170	155
Persons Injured	2,012	2,053	4,206
Pedestrians deceased	14	41	49
Pedestrians injured	117	444	833
Youth deceased	9	12	33
Youth injured	65	200	722
Grand total of accidents (with fatalities, injured and non – injured persons)	5,416	6,564	13,917

Mortality and morbidity resulting from road traffic accidents is a serious and growing social and public health issue. Kosovo seems to compare favorably with regional neighbors in terms of road safety, however the figures are likely to be underestimated, reflecting the generic problem of significant underreporting of road traffic accidents.

A Road Safety Improvement Study (World Bank – MTC, 2004) estimated that the economic cost of road traffic accidents in Kosovo amounted to €17 million per year, or about 0.7% of GNP. The Ministry of Transport and Communication (MTC) is responsible for the main and regional road network whereas the municipalities are responsible for local roads, whether urban or rural.



The funding for the maintenance of the main road network is allocated to the MTC, as part of its overall budget, by the Ministry of Finance and Economy (MFE), from the Kosovo Consolidated Budget (KCB). Over three quarters of the road network lie within the responsibility of the municipalities, but limited resources prevent them fulfilling their responsibilities, which also include sections of the main and regional road networks which pass through urban areas. Municipalities receive a general grant from the KCB to cover a wide range of functions, within which priorities for expenditure between different types of infrastructure, or between capital and recurrent expenditure, are decided locally. However, resource constraints, both in terms of money and capacity, and conflicting priorities, mean that many municipalities undertake little in the way of road maintenance planning or monitoring of the condition of the roads.

The majority of the public spending on transport has been focused on the road sector, but expenditures have been focused on capital expenditures rather than recurrent expenditures for maintenance. Between 2000 and 2005, a total of €136 million has been spent on investments in road infrastructure. This emphasis on capital investment can be explained, at least partially, by the needs for reconstruction in the post-conflict context. However, maintenance has been neglected, and as a result the roads have been deteriorating at an exceptional rate, even those sections that received the capital investment.. Recent studies have found that rehabilitating a paved road is 3 times more expensive than maintaining it, in current terms, and around 35 percent more in net present value terms. In addition, it is estimated that failing to maintain a paved road increases user costs by a factor of three, in terms of additional time, fuel, and vehicular wear and tear, which represents a significant impediment to economic development in Kosovo.

Growth in traffic and transport in Kosovo will be due to the three determinants:

1. Economic recovery and an gradual increase in average income;
2. Kosovo's demographic figures and young population that forecast a substantial growth in demand for transport and travel;
3. Spread of uncontrolled settlements.

Historical traffic counts reveal strong demand growth. According to a recent forecast, traffic is projected to grow at nearly 9 percent per annum up to 2015. At approximately 90 vehicles of all types per thousand inhabitants, vehicle ownership is less than a quarter of that of Western Europe. It follows that, as incomes and employment rise, there is likely to be a significant boost to transport demand from increased car ownership and use.

**Table 3. Estimated passenger transport in Kosovo**

Passenger traffic, average daily traffic	Passenger km per day	Passenger hours per day
Public transport (including minibuses)	2,505,716	78,167
Private traffic	22,042,775	491,130
Total traffic	24,548,491	569,297
Public transport share of total traffic	10 %	14 %

Source: EAR/MTC KAMPSAX Study, 2005.

**Table 4. Vehicles ownership by type**

Vehicle Type	Number	Vehicles per 1000 inhabitant
Cars	177,683	74.4
Vans and trucks <3.5t	15,146	6.3
Mini-buses	14,409	6.0
Trucks > 3.5t	3,849	1.6
Buses	1,650	0.7
Trailers	1,363	0.6
Motorcycles	1,010	0.4
Tractors	394	0.2
Total	215,504	90.2

Source: Statistical Office of Kosovo, European Commission



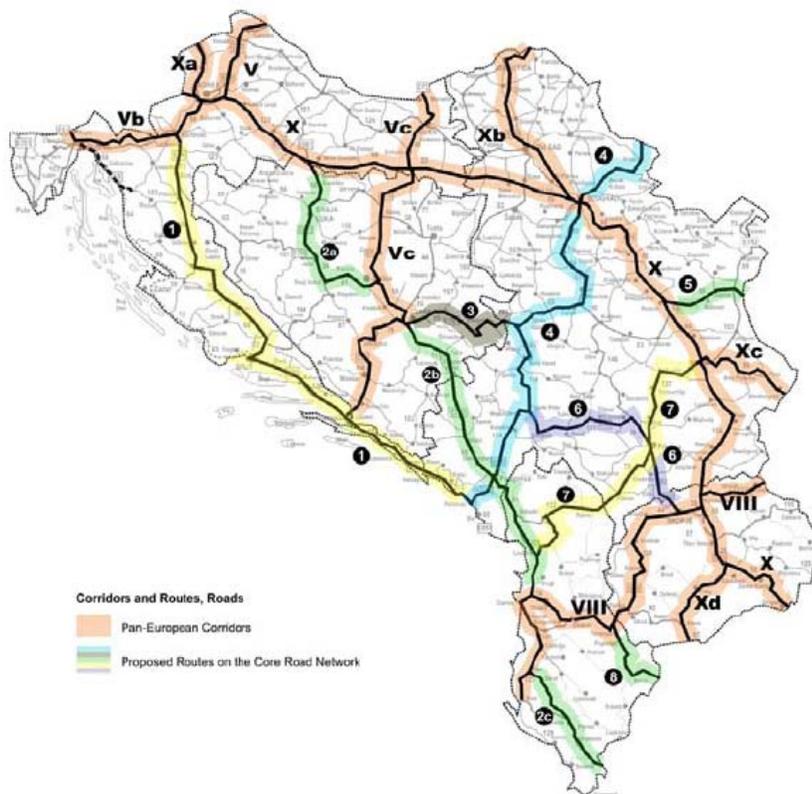
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Being an active partner in the EU supported Platform on the Implementation of the Core Regional Transport Network for South East Europe, MTC is requested to gradually fulfill the requirements for regional road and transport planning. UNMIK/MTC also attended the series of DGTREN Meetings in Brussels on the extension of the Trans European Transport Axes.

The core regional transport network of South East Europe was established by the REBIS project (Regional Balkans Infrastructure Study) funded by the Phare Program of the EU Commission and adopted in 2003 by the governments of the region. Two routes of this network pass through Kosovo, namely:

- **route 6**, running from Corridor VIII in FYROM (Skopje) via Pristina to route 4 in the Eastern part of Montenegro (approximately 75 km in Kosovo),
- **route 7**, running from Corridor X in Serbia (NIS) via Pristina to the Adriatic coast in Albania (approximately 120 km in Kosovo).



In 2005 a first Kosovo Policy Paper for Multi Modal Transport was prepared for the Government of Kosovo. One of the prime objectives stated in the paper was to support the development of links to the European transport network and - in line with this - to provide a priority road network linking the transport gateways to the areas of potential economic growth. Routes 6 and 7 constitute the main links to the neighboring capital cities and to the regional transport network in South East Europe. At the same time, they also connect some of the main cities and economic centres within Kosovo. They are also to link the Kosovo Roads Network to the Trans European Transport Corridors X and VIII. The routes are shown in the figures below.

The annual costs for maintenance and rehabilitation of the existing main and regional road network of Kosovo is estimated at 48 million Euro per annum and for a period of 10 years. Hence, the annual needs exceeded the MTC budget. The planned level of spending by the authorities in Kosovo on the road sector needs to be both adequate in aggregate terms, and well balanced between capital and maintenance expenditures. An analysis of the financing gap for expenditures on the local road network is more difficult, due to the lack of available data on both the spending requirements associated with unpaved access roads and the breakdown of budgeted municipal expenditure between capital and current spending. It appears likely that problems of underfunding and mis-allocation similar to those at the level of the MTC and the main and regional road sub-network are present at the level of the municipalities and the local road sub-network.



Revenue from current road user charges - excise, customs duties, and VAT on fuel, vehicle registration tax, and traffic penalties - contributed remarkably to the KCB annually. One option for raising incremental budgetary financing for transport sector expenditures is to attempt to increase this contribution. Two policy options have been investigated in this respect. The first is the imposition of an additional fuel duty of €0.01 per liter on petrol and €0.06 per liter on diesel, recognizing the environmental and social damage caused by the types of vehicle that use these types of fuel. It is estimated that these duties would raise around €15 million per annum. The second option suggested is for municipalities with urban areas to follow the lead of Pristina municipality and introduce on-street parking charges, which could result in revenues of up to €0.5 million per annum for each city. The authorities in Kosovo should, however, take care in considering this option of attempting to increase revenue from the road sector itself. The second-order effects of the options analysed would require evaluation. Both options would, for example, increase the cost of doing business in Kosovo. Moreover, given Kosovo's small size and open borders, the effects of changes in fuel tax and vehicle registration costs should be considered in a regional context: the possibilities that fuel purchase and transport services might be diverted to neighboring jurisdictions, or that there would be an increase in informal trading in fuel, should be borne in mind. The fiscal constraints on the Kosovo Consolidated Budget means that the Government is seeking to involve the private sector in the development of the transport sector in Kosovo in public-private partnerships. Whilst, at first glance, these operations appear attractive to fiscally constrained Governments, a lack of public investment is not an appropriate justification for the use of these approaches.

These type of approaches, if they are to be appropriate, require firstly an economically and financially viable project. Secondly, they need an investor friendly environment, including political stability, good political leadership, a history of regular payment and debt servicing, good macroeconomic policy, a convertible currency, rule of law and a high degree of transparency, together with a clearly defined institutional framework for Public Private Partnerships. In addition, open and transparent competitive bidding is a prerequisite to ensuring the efficient allocation and use of scarce public resources. It is crucial that the institutional framework is strengthened before large projects of this nature, or individual sections therein, are taken forward, or the result, as evidenced elsewhere in the region, is poor value for money, heavy Government involvement and a significant contingent liability. The MTC is currently receiving technical assistance, funded by the Public-Private Infrastructure Advisory Facility (PPIAF) to investigate

#### Key statistics at a glance

	2003	2004	2005	2006	Jan.	Feb.	2007 March
GDP (% change)	-0.1	2.1	0.3	3	..	..	..
Reg. unemployment	282.3	302	319.7	326	327.6	330.2	331.1
CPI (SOK)	1.2	-1.1	-1.4	0.6	...	...	...
Fiscal balance (€mn)	62.6	-134.3	-57.7	76.5	43.7	108.6	114.1
Exports (€mn)	35.6	56.5	48.9	79.2	1.4	7.3	17.4
Imports (€mn)	973.1	1,063.20	1,180.00	1,314.60	79.6	187.5	308.30

Note: Monthly fiscal balance, export and import figures are non-cumulative.

SOK (CPI) is % change year-on-year (e.g. Oct 2004 is change from Oct 2003 to Oct 2004). Registered unemployment in thousands.

Source: BPK, SoK, MFE, Kosovo Employment Office and IMF staff estimates

options for Public-Private Partnerships (PPPs) in the road sector, and the initial findings underline the need for caution. As incomes, and the willingness to pay of drivers in Kosovo is lower in than in some neighboring countries where these approaches are used currently, a concession based on tolls and operated purely on commercial terms is not realistic in the medium term. It is crucial that such approaches are taken forward within a strong sector policy and strategy, which indicates the priorities across the sector, and ranks those priorities according to the available resources.

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