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| Connectivity for  Development: |
| Taking the Highway  for Economic Growth |

Connectivity for

Development:

Taking the Highway for Economic Growth

November 2018

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**List of abbreviations**

CEFTA - Central European Free Trade Agreement

CFCU - Central Finance and Contracting Unit of the Ministry of Finance of Serbia

EBRD - European Bank for Reconstruction and Development

EIB - European Investment Bank

EMS - Electricity Transmission System Operator in Serbia - Elektromreža Srbije

ENTSO-e - European Network of Transmission System Operators for Electricity

EPS - Electricity Transmission Operator

ERP - Economic Reform Programme

FIDIC - The International Federation of Consulting Engineers

IPA - Instrument for Pre-Accession Assistance

MCTI - The Ministry of Construction, Transport and Infrastructure of Serbia

NSDI - National Strategy for Development and Integration

OST S.A - Albanian Operation Transmission System S.A.

PPF - Project Preparation Facility

RCC - Regional Cooperation Council

REA - Regional Economic Area

RRC - Republic Revision Commission

SAA - Stabilization and Association Agreement

SME - Small and Medium Sized Enterprises

TEN-T - Trans-European Transport Networks

TEN-E – Trans-European Energy Networks

TEU - Twenty-Foot Equivalent Unit

WBIF - Western Balkans Investment Framework

# Introduction

The Berlin process has brought up a new impetus in establishing a closer economic, political and social cooperation between the countries of the Western Balkans 6. This positive momentum was followed up by the 2018 strategy of the European Commission entitled “A credible enlargement perspective for and enhanced EU engagement with the Western Balkans”.[[1]](#footnote-1) Since 2015, the Berlin process has been supporting the so-called ‘Connectivity Agenda’ on concrete measures that are expected to bring concrete benefits to all citizens throughout the region.[[2]](#footnote-2) This agenda constitutes an innovative and favourable framework for stimulating Western Balkans 6 economic growth, improving competitiveness and trade exchanges, as well as for fostering regional cooperation among neighbouring countries. It entails the facilitation of the region’s integration into a common regional value chain, which would enhance competitive advantages and, last but not the least, provide tangible results to the life of the citizens. The Connectivity Agenda represents the mutual interest of both the Western Balkan 6 countries and EU member states, and it is part of the six flagship initiatives promoted by the European Commission within the new enlargement strategy.

In 2015, the European Commission set aside up to €1 billion in grants until 2020, from the EU Instrument for Pre-Accession Assistance, to support the Connectivity Agenda in the Western Balkans. The projects approved for each of the Western Balkan countries own a strong regional component and are partly funded by EU funding mechanism and partly by individual countries’ contribution.[[3]](#footnote-3) Undoubtedly, avoiding a forced paced reconciliation, with divergent political rhetoric often pitting countries against each other, the Connectivity Agenda, *inter alia,* aims at creating the preconditions that would enable the countries of the Western Balkans to rebuild mutual trust and regional stability. Reasonably, it has created high expectations for both the Western Balkan countries and the EU counterparts for a bandwagon towards regional development and bilateral disputes resolving. However, reaching a cooperative equilibrium becomes especially difficult when partner countries try to maximize their individual gains from the regional public good and maintain a detrimental political position through the process – in addition to the regional economic and policy reforms’ vulnerability.

Realising a closer and more integrated Western Balkans region still remains a challenge for the Connectivity Agenda, while success is difficult to define at this stage. The uneven developmental levels between the participating countries, conjured with their insufficient internal capacities to implement soft and hard measures pertaining the connectedness of the region, adversely affect the progress of the on-going projects and the achievement of the overarching objectives of the Connectivity Agenda. Notwithstanding, accepting the past and finding solutions to the long-running disputes amongst the Western Balkans Six countries proves to be a difficult task to achieve. In turn, the political domino damage stemming from the highly sensitive bilateral disputes overshadows the progress the Western Balkans states have made in their connectivity transformation and EU integration processes.

The assessment of the success of the Connectivity Agenda in the region becomes especially difficult given the lack of quantitative indicators that demonstrate the degree of progress, coupled with the significant absence of individual countries’ public data concerning the current state of play on the ongoing projects, as well as future plans for intervening in addressing the current pitfalls. Moreover, the prolonged period of time between the preparatory phases and the actual commencement of the construction on the ground on the connectivity projects lowers the level of prioritization of the projects by the Western Balkans 6 governments, resulting in a lack of commitment and consistency in pushing forward the Connectivity Agenda. Addressing these challenges requires a closer look at the Western Balkans connectivity’s achievements and its shortfalls.

This policy paper’s goal is to contribute in the documentation of progress that Albania, Kosovo\*[[4]](#footnote-4) and Serbia have achieved in implementing the commitments taken in the framework of the Connectivity Agenda. It seeks to draw the attention on the need to develop monitoring mechanisms at regional level, so as to ensure a timely implementation of these priority investment projects at cross-border level, as well as to enhance visibility, raise awareness and transparency for the domestic constituencies. Finally, the paper aims to identify concrete recommendation on improving the situation on infrastructural connectivity between Albania, Kosovo\* and Serbia in the context of economic growth and future prosperity that facilitates the EU integration process, by highlighting priority areas and potential win-win outcomes.

Improved reforms, better prioritization and increased cooperation can contribute to the progress towards the economic growth driven by specific evidence-based policy options for enhancing infrastructural connectivity. This paper draws from evidence provided mostly by the Western Balkans Investment Framework (WBIF) and European Commission reports, national reports and strategies, as well as semi-structured interviews conducted in July-September 2018 with national stakeholders from Albania, Kosovo\*, and Serbia.

# ALBANIA

The National Strategy for Development and Integration (NSDI) 2015-2020 considers the connectivity agenda as a cornerstone for the socio-economic development of Albania.[[5]](#footnote-5) The benefits rising from its materialization should contribute to creating new job opportunities and improved physical connectivity. The projects in infrastructure are expected to lay down the foundations for a national multimodal transport system – which would then increase the volume of trade exchanges and economic growth. Meanwhile the investments in energy are expected to make an optimal use of the electricity nation-wide, reduce the network losses and frequent interruptions to households and business consumers, besides raising the credibility and quality of the provided service.

Up-to-date Albania has seen approved four connectivity projects, out of which three are in the field of transport - namely in railways, road infrastructure and rehabilitation of parts of the Port of Durres - and one in the energy sector.

**Table 1:** 2015-2018 Connectivity Agenda projects endorsed for Albania

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Project code** | **Title of operation** | **Partner institutions** | **Total Project value** | **EU Grant** | **National (beneficiary) contribution** | **Loan** | **Loan institution** | **Expected completion** | **Current phase** |
| **PRJ-ALB-TRA-002** | Mediterranean Corridor: Montenegro-Albania-Greece rail interconnection (Rehabilitation of section Durres-Tirana, new railway to Rinas branch) | Ministry of Finance and Economy; Ministry of Infrastructure and Energy; Albanian Railways | 90.45 mil | 32.9 mil (works and supplies); 2.7 mil (project implementation support); EBRD grant 0.87 mil (institutional capacity building) | 16.06 mil | 36.87 mil | EBRD | 12/31/2020 | Trending |
| **PRJ-ALB-TRA-013** | Durres port, reconstruction of quays 1 & 2 | Ministry of Finance and Economy; Ministry of Infrastructure and Energy; Durrës Port Authority | 62.5 mil | 27.7 mil | 9.3 mil | 25 mil | EBRD | 12/31/2018 | Preparation |
| **PRJ-MULTI-TRA-002** | Feasibility Study for Adriatic Ionian Highway/Expressway (Route 1 & Route 2) | Ministry of Infrastructure and Energy | 3.5 mil | 3.5 mil | / | / | / | 4/30/2019 | Preparation |
| **PRJ-ALB-ENE-004** | Albania - the former Yugoslav Republic of Macedonia power interconnection (I): Grid section in Albania | Transmission System Operator in Albania (OST sh.a.); Ministry of Finance; Ministry of Infrastructure and Energy | 70 mil | 14 mil (20% of investment cost), out of which 2.53 mil (project identification and preparation costs); 1 mil from other grants | 5 mil | 50 million | KWF | 12/31/2021 | Tendering |

*Source*: WBIF, 2018; Albanian Parliament 2017.

As illustrated in table 1, the projects are at different stages of realization, and somehow in line with the respective deadlines for implementation. However, some key challenges to their timely delivery are intrinsically linked to the expropriation of land for national priority purposes, affected vulnerable groups (i.e. Roma community) living in the projects’ running areas, housing informality, followed by the administrative and absorption capacities and respect of the compulsory technical standards. Today Albania is assessed of having some level of preparation in the area of trans-European networks and particularly with regards to the preparation of the strategic frameworks in the area of transport and energy networks.[[6]](#footnote-6)

## Status of the projects

### Transport: The shape of paper projects

A strategic priority for Albania is the integration of the national transport system into the regional and European networks, along with establishing an integrated multimodal system of the inland and maritime transportation routes. According to the last World Bank’s Connectivity Index, today Albania exploits only 35% of the road infrastructure potential, whereas the utilization of railways is almost non-existent.[[7]](#footnote-7) In fact, the country still lacks modern and well-connected roads both nationally and with the neighbouring countries, which fully comply with the European standards.

#### Mediterranean Corridor: Montenegro – Albania - Greece rail interconnection

In the frame of the *Connectivity Agenda 2016*, Albania got approved a significant rail interconnection project, as part of the extension of the Mediterranean Corridor[[8]](#footnote-8)to the Western Balkans, namely Corridor X linkingAlbania with Montenegro in the north and Greece in the south. This railway project is composed of two components, namely the rehabilitation of the section Durres-Tirana, long around 34.5 km, and the construction of 7.4 km new railway connecting Tirana to Rinas airport.[[9]](#footnote-9),[[10]](#footnote-10) The national contribution to this project consists in the land expropriation costs and VAT coverage, and it should be covered by the budget of the Ministry of Infrastructure and Energy for the period 2017-2019. The loan beneficiary is the Albanian Railways S.A. - a state-owned company - and the loan’s interest rate is 1.25%, to be repaid within 15 years.

At the moment, there has been already concluded the feasibility and environmental impact assessment studies of the project. In May 2018, it was concluded the international pre-qualification phase for companies interested in implementing the rehabilitation and construction of the new railway segments. Whereas the tendering procedure closed in October 2018, and once the contract is signed, the construction phase is expected to last for about 2.5 years. The tender procedures are managed by the national authorities, although they have to comply with the procurement rules and regulations of EBRD.

The works commencement was initially foreseen for mid-2018 but this timeline is hardly feasible at this point in time. The tendering procedure for the works commencement is expected to be published in the coming months. This railway project is expected to be concluded by the end of 2020, although there are credible assumptions that there would be some postponements until the end of 2021. In this regard, the Deputy Minister of Infrastructure and Energy declared in the public hearing session at the Parliamentary Committee on Production Activities, Trade and Environment, that the rehabilitation of the segment Durres-Tirana is doable within 2.5 years; whereas the new segment to Rinas airport may need additional time.[[11]](#footnote-11) According to the Commission, at the moment “there are no activities planned for 2019 and 2020 despite the complexity of the project”.[[12]](#footnote-12) Moreover, a considerable budget and time is required also for the construction of new bridges and rehabilitation of five major three span others on which the railway tracks will pass over.[[13]](#footnote-13)

After more than two decades of perpetual degradation of the national railway system, this major railway investment is expected to bring considerable benefits in terms of new jobs – up to 2,200 persons employed.[[14]](#footnote-14) The savings from using the railway to alternative transportation means is esteemed to be around €55 million/year,[[15]](#footnote-15) which will also lead to reduced maintenance costs and less pollution in the environment. This project foresees the utilization of diesel engines, with a speed up to 120 km/h, which should reduce the distance between Tirana and Durres to nearly 22 minutes and from Tirana to the airport to 12 minutes. The electrification of these railway tracks is excluded for the moment and an additional €10 million envelop is needed for such purposes.[[16]](#footnote-16) According to the Commission, the estimated competitiveness impact of this investment project seems overoptimistic; whereas some risks have been identified but not accompanied by the necessary mitigation measures.[[17]](#footnote-17)

#### Mediterranean Corridor: Adriatic-Ionian Expressway

The Adriatic-Ionian Corridor is considered as the ‘highway of the future’, and it aims to connect the major Adriatic and Ionian ports with other cross-cutting transport routes. Its length is estimated to be approximately 1550 km and parts of it are already build, while other segments are either already identified as constituting routes or are still under consideration.[[18]](#footnote-18) At present this corridor has reached the city of Ploce in Croatia and there are approximately 600km new roads in order to reach the Port of Piraeus in Greece.[[19]](#footnote-19) With regards to the Albania’s section, 13 sections have been proposed, whose length is esteemed to be around 330 km - out of which very few sections are already in place while others need to be built and/or upgraded to the European standards.[[20]](#footnote-20)

This expressway is considered a crucial investment project which will lead to a considerable economic development of the countries involved, especially for the Western Balkans. A grant of €3.5 million was approved back in 2015 for Albania and Montenegro in order to conduct the feasibility study on the detailed analysis of the investment as well as the technical documentation.[[21]](#footnote-21) This would serve then as a basis for obtaining the financial support from the International Financial Institutions. In November 2017, the Minister of Infrastructure and Energy of Albania and his counterpart in Montenegro met in Podgorica and declared that the feasibility study was underway, while no addition details were made public on the company/consortium involved and/or the timeline of delivery. Yet there is no additional information on this infrastructure project and any available analysis on the potential social outcomes of this project as well as the financial aspects for the construction and maintenance of the expressway. On its side, the Commission stated that this core investment project is “at a very preliminary stage and can hardly be considered a structural reform even if it does address a structural need”.[[22]](#footnote-22)

Back in 2015 the two countries signed a Memorandum of Understanding with a Chinese company - Pacific Construction Group Corporation Limited – for the construction of the respective segments of this expressway, by means of a public-private partnership arrangement. Afterwards, this idea was abandoned without any further public follow up. It remains to be seen to what extent the Chinese companies will be engaged in the construction of the Albanian and/or Montenegrin sections.

#### Core Network, Durres Port: Reconstruction of Quays 1 & 2

The Port of Durres is the biggest in Albania, handling around 75% of trade exchanges, although its quays (i.e. are suffering of serious structural problems, such as the extensive corrosion extent or the limited cargo capacities, which requires a soon to be intervention on the ground. A feasibility study was completed in 2014, however it did not have any follow up at that time.[[23]](#footnote-23)

At the moment the financial agreement has not been signed yet, apart from the approval of the EU grant of €1.1 million grant in order to conduct a new feasibility study (to be completed by the end of 2018[[24]](#footnote-24)), the update of the detailed project design and the tender documentation. Upon condition of the loan approval in time by EBRD, the works on the ground should start by mid-2019 and get concluded by 2023. Together with the railway project Durres-Tirana-Rinas airport, this investment at the port is expected to contribute to the establishment of a major multimodal transportation core network corridor section in Albania and at the regional level.

### Energy: On hold until further notice

Albania prioritizes its firm anchoring in the regional energy grids, among which the establishment of the interconnection grid with Macedonia and the operability of the grid with Kosovo\*, as well as the integration in the ENTSO-E network. At the moment it has in place functional power interconnection grids with Kosovo\*, Montenegro and Greece, where the former was completed in 2017 and is yet not operational due to the bilateral dispute between Kosovo\* and Serbia. Although not functional, this power interconnection line constitutes a financial burden for both Albania and Kosovo\* and a solution is needed before the system starts deteriorating.

Notwithstanding the field ambitions, in terms of present challenges, Albania still needs to sufficiently meet the domestic energy demand so as to guarantee an adequate economic and social development, along with establishing of a competitive energy market and consolidating the related institutional and legislative framework.

#### Albania - the Former Yugoslav Republic of Macedonia power interconnection (I): Grid section in Albania

The construction of the 400kV power interconnection line between Albania and Macedonia is part of the East-West power transmission corridor that aims to connect Bulgaria with Italy, going through Macedonia, Albania and Montenegro. The section between Bulgaria and Macedonia is already in place, whereas the section from Macedonia to the border with Albania has already started the works on the ground. In the meantime, the section between Montenegro and Italy will be built through an undersea cable and the project is still in the planning phase.[[25]](#footnote-25)

Regarding the national sections in Albania, there is already in place the power line with Montenegro, whereas this new investment project under Connectivity Agenda 2015 is expected to complete the missing segment of roughly 130 km long – namely the power transmission system will connect Fier with Elbasan and the latter with Bitola in Macedonia. This power investment project is composed of two phases, namely the construction of two single circuit transmission lines (Fier-Elbasan and Elbasan-Qafe Thane) and the reconstruction/reinforcement of the substations Fier and Elbasan 2.

The national beneficiary is the Albanian Operation Transmission System S.A. (OST S.A.), which is also expected to contribute with nearly €5 million to the project realization. The loan agreement was signed in early 2017 and ratified by the Albanian Parliament with the Laws no. 3/2017[[26]](#footnote-26) and 4/2017[[27]](#footnote-27). To this loan it has been issued a sovereign guarantee,[[28]](#footnote-28) meaning that in a potential case if OST S.A. does not fulfil its duty to repay back the loan, then the Ministry of Finances and Economy should substitute the former and pay back the outstanding balance. The clause of sovereign guarantee was utilized with the aim to allow to OST S.A. to contract a loan with favourable conditions, namely a repayment period of 12 years with a fix loan interest rate of 1.25%. The approval of this sovereign guarantee opened up a Pandora box, which resulted in a time consuming bureaucratic process, which reasonably affected the project implementation. In a nutshell, the Energy Community Secretariat asked in February 2018 the Albanian State Aid Commission to investigate on the acceptability of granted sovereign guarantee to OST S.A, as the latter is a state-owned company. The State Aid Commission adopted its final decision in April 2018, stating that the guarantee constitutes a state aid but it is compatible to the national legislation, and so it is to be considered as a legitimate action.[[29]](#footnote-29)

The latest public information available on the progress of this project refer to the annual country report of the Commission, stating that “the tendering procedure for project preparation is still ongoing”[[30]](#footnote-30). To date the work commencement on the ground is postponed to mid-2019 and it is not yet certain that the investment project will manage to be concluded by June 2020.[[31]](#footnote-31)

## Concluding remarks

Despite the high priority allocated to the connectivity projects, to-date it is not yet possible to assess how much time and additional funding these investments would need before being concretely materialized. Yet the country has not created an enabling environment for the projects’ realization, which implies a duly implementation in a short timeframe of the connectivity soft measures in transport and energy sectors – as agreed during the Vienna Summit – which have had so far a fragmented implementation level.[[32]](#footnote-32) Moreover, there needs to accelerate the harmonisation of the domestic legislation with the Union’s acquis, accompanied by an effective adoption and implementation of the regulations TEN-T and TEN-E[[33]](#footnote-33). Progress is also expected in the timely financing and delivery of works, in respect of both Albania’s fiscal space and Union’s standards on the quality of public works.

In terms of visibility, there is a lack of publication of the related information on the online platforms of the government. In particular, special attention should be paid also to the collection and publication of official data on these national priority projects, which are partially financed by public money. The lack of official data, easily accessible information, visibility and transparency risks to hinder the overall credibility of this common endeavour.

# KOSOVO\*

Kosovo\* finds itself at an important stage in its European integration agenda, the lynchpin of the country’s reform processes. To meet the obligations deriving from the Stabilisation and Association Agreement (SAA), Kosovo\* committed to a constructive and pragmatic approach towards an effective regional cooperation.[[34]](#footnote-34) As such, the Connectivity Agenda is assumed to provide an opportunity for Kosovo\* to anchor meaningful policy reforms and physical infrastructure enhancement as drivers of economic growth and competitiveness, as well as offer better connectivity with the region and wider Europe. Three years down the line, Kosovo\* is still grappling with challenges related to the full implementation of the objectives set forth in the Connectivity Agenda. Facing a complex regional trade environment, lagging behind the development levels of its regional counterparts, and suffering from detrimental repercussions of an unchanging position on its status by two of its Balkan peers, Kosovo\*’s connectivity challenge has crucial strategic implications.

Since the inception of the Connectivity Agenda in 2015, Kosovo\* has been a direct beneficiary of two connectivity projects in the transport and energy sectors.[[35]](#footnote-35)

**Table 2:** 2015-2018 Connectivity Agenda projects endorsed for Kosovo\*

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Project code** | **Title of operation** | **Partner institutions** | **Total Project value** | **EU Grant** | **National (beneficiary) contribution** | **Loan** | **Loan institution** | **Expected completion** | **Current phase** |
| **PRJ-KOS-TRA-001** | Orient/East-Med Corridor: The Former Yugoslav Republic of Macedonia – Kosovo\* – Serbia R10 Rail Interconnection | Kosovo Railways JSC (InfraKos Sh. A.); Ministry of Finance; Ministry of Infrastructure | 95.4 mil euro | 43.05 mil | 13.07 mil | 38.5 mil | EBRD; EIB | End of 2021 | Implementation/Preparation |
| **WB19-KOS-TRA-01** | Technical Assistance - Orient/East-Med Corridor: Kosovo\* – Serbia R7 Road Interconnection, Pristina – Merdare Section | Ministry of Finance and the Department of Road Infrastructure within the Ministry of Infrastructure | 137 mil | 4.4 mil | / | / | / | End of 2022 | Preparation |

*Source*: WBIF, 2018

The progress on the major ongoing infrastructural projects in Kosovo\* has been mixed and success is difficult to fathom. Despite the efforts announced in national strategies and regional commitments,[[36]](#footnote-36) implementation of projects on the ground has not fully materialized due to numerous issues that have hampered them. From an internal perspective, Kosovo\*’s political instability, lack of institutional alignment on the project approach and prioritization, marred by the lack of inter-institutional coordination in fulfilling EU conditionality and implementing fundamental policy reforms in general, stand out as the main culprits of the slow progress. The assessment of progress on connectivity becomes especially difficult owing to the lack of quantitative indicators, coupled with the poor quality of public data gathered by the Kosovo\* institutions concerning the current state of play and future objectives for the implementation of the connectivity projects. However, at a closer look the main impediments Kosovo\* faces in the framework of the Connectivity Agenda for the Western Balkans relate to the unresolved bilateral disputes and the continuous denial of its statehood by Serbia. These constitute the key factors hampering Kosovo\*’s progress in increasing its connectivity with the regional partner countries as well as the EU.

## Status of the projects

### Transport: Approaching the EU one kilometre at a time

The Connectivity Agenda is rooted in the vision of a well-connected transport driving economic growth and jobs in the Western Balkans, with seamless integration within the region as well as with the EU as the ultimate goal.[[37]](#footnote-37) In line with these objectives, the Kosovo National Development Strategy 2016-2021 promotes support to national and regional infrastructure development in transport, with a view to achieving economic and strategic credibility in the region.[[38]](#footnote-38) The investment in expanding and improving transport infrastructure is of pivotal importance for Kosovo\*, deemed to be a driver of the economy and exports. The need remains precarious especially in terms of better and faster connection with the region, in order to allow for greater mobility of labour, goods and capital, and increase of the foreign direct investment in the country.[[39]](#footnote-39)

#### Orient/East-Med Corridor: The Former Yugoslav Republic of Macedonia – Kosovo\* – Serbia R10 Rail Interconnection

In February 2018, Kosovo\* institutions signed one of the first grant agreements approved under the Connectivity Agenda at the 2015 Vienna Summit, aimed at upgrading Kosovo\*’s only international rail link. The Kosovo rail route 10 is part of the core railway network of the Western Balkans, an extension of the Core Network Corridors of the Trans European Transport Network (TEN-T).[[40]](#footnote-40) The R10 project, which connects Kosovo\*, Serbia and Macedonia, covers three sections - railway from Fushë Kosovë running southward to the Macedonian border, Fushë Kosovë northward to Mitrovicë/Mitrovica, and Mitrovicë/Mitrovica to the Serbian border.[[41]](#footnote-41) Its rehabilitation ensures significant improvement in rail transport between Kosovo\* and its neighbouring countries, as well as the wider European network through Pan-European Corridor VIII and Corridor X.[[42]](#footnote-42)

The project on the revitalization of the Macedonia-Kosovo\*-Serbia R10 interconnection railway, which is being implemented by Kosovo Railways JSC (InfraKos Sh.A.), the Ministry of Infrastructure and the Ministry of Finance in Kosovo\*, amounts to €95, 421, 000 euro. So far, the project has benefited from €43,051,600 in grants from WBIF and EBRD for costs associated with the preparation of the feasibility study along the entire route 10, preparation of design, project management and supervision of work. The remainder cost of €38, 500, 000 constitutes Kosovo\* national contribution and loans from EIB and EBRD.[[43]](#footnote-43)

Since the signing of the grant agreement, Kosovo\* has already started the implementation of two out of the three phases of the project. The tender dossiers for Phase I and II – the rehabilitation of the 64 km railroad connecting Fushë Kosovë and FYR Macedonia and the upgrade of the 34.4 km line that goes from Fushë Kosovë to Mitrovicë/Mitrovica – were concluded in May 2018, hence the construction is anticipated to start in the last quarter of 2018 and be completed by the end of 2021.[[44]](#footnote-44) However, the third and the last phase of the project has not yet begun as it is under preparation,[[45]](#footnote-45) and it is highly unlikely to start implementation in the near future. The ownership of tasks for the finalization of the third section of the Rail Route 10 has been established in April 2018. Yet, due the rise of issues of political nature from the Serbian counterpart, the third phase of the rehabilitation of the rail line has been halted upon a new agreement.[[46]](#footnote-46) The most important issue looking forward in the implementation of the third phase is the Serbian claim over Kosovan territory (North Mitrovica) and the existing railway infrastructure. Although speeding up the resolution of bilateral disputes between the Western Balkans states and accelerating the efforts in overcoming challenges and barriers along the process is the core idea behind the EU supported Connectivity Agenda, the failure to start the implementation of the third phase of the R10 railway - connecting Kosovo\* and Serbia, indicates once again that dispute resolution has still a long way to go between the two countries. The start of implementation of the third phase of Railway 10 depends on the efforts between Kosovo\* and Serbia to resolve the issue.

It is anticipated that the integration of Kosovo\* railway network into the Orient/East-Med Corridor will give rise to an efficient rail transport for approximately 50% of the population of Kosovo\* and secure improvement of passenger and cargo rail capacity and travel time. The Kosovo National Development Strategy 2016-2021 asserts that upgrading international railway network will help the export of minerals and agricultural produce and the cumulative effect will translate into higher economic growth.[[47]](#footnote-47) According to WBIF, the investment amounting to €80.9 million is expected to bring at least double the amount into the Kosovo\* local economy in the medium to long term.[[48]](#footnote-48) Unfavourably, there is an absence of thorough public official data on the foreseen economic gains for Kosovo\* from the investment in the revitalization of the railway infrastructure. At any rate, political relations between Kosovo\* and the Western Balkans 6 partner countries, namely Serbia and Bosnia and Herzegovina, as well as restricted trading representation of Kosovo\* in the EU market, remain matters of concern for the maximization of economic profits from the R10 project. Kosovo\*’s contested status by its two regional counterparts creates challenges for fair regional competitiveness for its businesses, from difficulties of travel to complications in the exchange of goods and services.  An additional challenge for SME’s in Kosovo\* compared to other firms in the region is that they are not in the best competitive position with regard to the EU market, taking into consideration their limited capabilities. They grapple with higher transaction costs, adaptation costs, inadequate government policies, low level of technology, and low level of cooperation with other EU firms.[[49]](#footnote-49) Albeit the economic outcomes from the Connectivity Agenda are far from insignificant, the lower level of development and trade barriers of Kosovo\* as compared to its regional partners are cause for concern for harnessing the full economic potential of the projects.

#### Technical Assistance - Orient/East-Med Corridor: Kosovo\* – Serbia R7 Road Interconnection, Pristina – Merdare Section

At the 2018 Sofia Summit, Kosovo\* was endorsed for a technical grant within the financial scheme of the Connectivity Agenda in transport. The grant amounting to €4.4 million involves technical assistance in the supervision services required for constructing the missing 23 km dual carriageway from Pristina to Merdare, part of the Route 7 section which ensures Serbia’s connection with the Albanian Adriatic Sea ports. Once granted, the procurement of work – which will be under the supervision of the main institutional partners, namely the Ministry of Finance and the Department of Road Infrastructure at the Ministry of Infrastructure – Kosovo\* is expected to commence the construction by mid-2019 and conclude it in 2022. The estimated total investment reaches up to 137 million euro.[[50]](#footnote-50) While the project will ensure more efficient multimodal transport route along the Route 7 and is expected to improve economic opportunities for the citizens working and living along the new route on both sides of the border, the ultimate expectation is that of improving the political and economic situation between Kosovo\* and Serbia.[[51]](#footnote-51) It remains to be seen whether the implementation of the “Highway of Peace” will face similar obstacles as the third phase of the Railway 10 corridor.

### Energy: Arrested development and slowing clocks

The 2015 Vienna Summit and the 2016 Paris Summit of the Western Balkans 6 reaffirmed the need for a closer cooperation on a regional level and integration of the markets into the pan-European one. It also re-emphasized the initiative’s commitment towards setting up a regional electricity market.[[52]](#footnote-52) Together with the other Western Balkans countries, Kosovo\* committed to implement the framework of energy soft measures, in order to boost the institutional structures necessary for the functioning of the market in line with the Energy Community Treaty and relevant EU acquis, and to remove existing legislative and regulatory barriers between the countries.[[53]](#footnote-53)

#### Soft measures in energy sector

With respect to the implementation of the energy soft measures and crosscutting measures, Kosovo\*’s progress is mixed. In practice, according to the latest quarterly monitoring assessment of the Energy Community Secretariat in June 2018, Kosovo\* is the laggard among the WB6 countries in soft measures implementation.[[54]](#footnote-54) Nonetheless, in terms of fulfilling the removal of major legal and contractual obstacles to establishing the regional electricity markets, Kosovo\* has shown progress in fulfilling its tasks by adopting a set of primary laws defining the legal and contractual framework for the establishment of the organized markets. Specifically, Kosovo\* drafted the Law on Electricity, stipulating the legal possibility for transmission system operators to acquire cross-border balancing services from all operators in the national and regional market under competitive conditions.[[55]](#footnote-55)

Although the opening of the markets and regional market integration are expected to mitigate the problems of stable energy supply in Kosovo\* – an acute issue thus far – it will not solve all of the country’s woes in this sector. The rehabilitation of the existing capacities and construction of new capacities as a replacement of the outdated plants to provide sustainable, high-quality, safe and reliable energy supply, and to meet European standards and international obligations, is very costly for Kosovo\*’s public purse.[[56]](#footnote-56) Financial and capacity support – both significantly lacking at the moment – is needed to make Kosovo\* a competitive player within the Western Balkans 6 integrated energy market. Moreover, achieving an increased implementation of the soft measures in the energy sector in Kosovo\* hinges on sufficient political will. Alas, the lack of communication between the line ministries (?) and the low capacities of the public administration, in addition to the general under-prioritization of the energy reform by the Kosovo\* institutions, play an important role in the slow-paced progress of Kosovo\*’s catching up with the European acquis and the implementation of the soft measures in the area of Energy. [[57]](#footnote-57)

#### Cross-border energy cooperation

An element that has not reached any substantial and tangible progress and has proven particularly challenging for Kosovo\* is cross-border cooperation. Beside the inadequate internal capacities to push forward the agenda of energy connectivity, the legacies of the past with Serbia seriously hamper Kosovo\*’s progress in this sector. Under such circumstances, the entire regional energy market integration in the Balkans is at stake. The 2014 Energy Agreement, signed by the prime ministers of Kosovo\* and Serbia under the mediation of the Energy Secretariat[[58]](#footnote-58) - a technical agreement between the electricity transmission system operators of Kosovo\* and Serbia - has not been implemented.[[59]](#footnote-59) The agreement foresees the establishment of a new power trade company managed by the Serbian electricity transmission operator EPS, which covers electricity import, export and transit. Although agreed for the company to apply in accordance with Kosovo\* legal and regulatory framework, the applying Serb companies do not follow any of the procedures, thus blocking the process of the registration of the transmission company.[[60]](#footnote-60) As a consequence, the dispute has affected the signed connection agreement between the transmission system operators of Kosovo\* and the European Network of Transmission System Operators for Electricity (ENTSO-E)[[61]](#footnote-61), which is still not in force. It has blocked the operationalization of the newly constructed electricity transmission line between Albania and Kosovo\*.[[62]](#footnote-62)

Declining the presence of Kosovo\*’s state symbols in the signatory documents represents the denial of Serbia to recognize the sovereignty and authority of Kosovo\* as an independent state. [[63]](#footnote-63) The dispute echoed across Europe – not only because it slowed down the clocks of the EU citizens[[64]](#footnote-64) – but also because it became a subject of a dispute settlement procedure within the Energy Community. However, the political and commercial issues between the countries are not been properly served under the sanctions envisioned by the Energy Community Treaty[[65]](#footnote-65), thus the on-going dispute can hardly be resolved only by political mediation by third party actors. Efforts to resolve the deadlock in the resolution of bilateral issues among Kosovo\* and Serbia need to be stepped up for the sake of regional connectedness.

## Concluding remarks

Kosovo\*’s path to regional connectedness is still very much a work in progress. Rather predictably, the internal decision-making barriers (prioritization and information issues), implementation barriers (sectoral coordination bodies, capacity, and regulatory structures), and regional barriers (economic and political disputes), have directly obstructed its share in the implementation of the regional projects.

Looking at the progress of the Connectivity Agenda in Kosovo\*, an enabling environment for deeper policy reforms, especially in energy and transport sectors, is crucial for securing effective implementation of the connectivity projects. The realization of the regional projects requires an improved cross-sectoral collaboration and communication within the Kosovo\* institutions in order to secure an effective implementation of the projects and to harness them for economic growth. Moreover, the issue of the lack of information on projects’ progress requires greater attention, as the insufficient data limits the ability to weigh costs and benefits of connectivity projects, which may hinder their overall credibility. Finally, Kosovo\* should seek to overcome political disputes with its neighbors, namely Serbia and Bosnia and Herzegovina, in order to reap the fruits of the connectivity projects and the overall connectivity agenda. The economic blockade by Serbia has played a key role in the stalling of at least two projects, underscoring the importance of addressing unresolved bilateral issues for enhancing connectivity in the region.

# SERBIA

Transport linkages are among the main developmental challenges of Serbia. This applies both to connection of Serbia with other countries of the region, but also to transport linkages between different regions and major cities within the country. Therefore, projects that are implemented under the umbrella of the Connectivity Agenda should help improving Serbia’s trade, economic and political relations with the region, and also foster socio-economic development of the country itself. Serbia has been approved seven investment projects in total within the Connectivity Agenda, five of which are in the transport sector – railways and roads, and two are related to important investments in energy – electricity and gas corridors.

All projects are based on the two relevant strategic documents and goals set in them. The development of energy sector is envisioned in the *Strategy of the Development of Energetics of the Republic of Serbia* until 2015 (in further text, *Energetics Strategy*). Among the main developmental goals in the development of this sector are both of the projects financed through the Agenda. Transport projects are derived from the *Strategy for the Development of Rail, Road, Water, Air and Intermodal Transport of the Republic of Serbia from 2008 to 2015* (in further text, *Transport Strategy*).

Although both strategic documents expired in 2015, goals set in them are long-term and still relevant, set long before the Agenda was conceived. The fact that they were not achieved during the timespan of Strategies may imply that Serbia needs financial and technical support to achieve them, which Connectivity Agenda provides.

**Table 3:** 2015-2018 Connectivity Agenda projects endorsed for Serbia

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Project code** | **Title of operation** | **Partner institutions** | **Total Project value** | **EU Grant** | **National (beneficiary) contribution** | **Loan** | **Loan institution** | **Expected completion** |
| **WBIF CF 1003 SER ENE** | Trans-Balkan Electricity Corridor (II): Grid Section in Serbia Kragujevac-Kraljevo | Electricity Transmission System Operator in Serbia (JP EMS); Ministry of Mining and Energy | 28 mil | 6.6 mil (24%, 5.6 mil investment and 1 mil technical assistance) | 7.13 mil | 14.27 mil | KfW | End of 2018 |
| **IPA 2017/040-500.6** | Project of Energy Community Interest: Serbia (Niš) - Bulgaria Gas Interconnector | Ministry of Finance; Ministry of Energy and Mining; Public Enterprise Srbijagas | 85.5 mil | 49.6 mil (works and supplies; technical assistance) plus 1 mil previous EU/WBIF contribution (for project preparation) | 35.9 mil | / | / | End of 2022 |
| **IPA 2015/038-442** | Orient/East-Med Corridor (CX): Serbia – the former Yugoslav Republic of Macedonia Rail Interconnection | Ministry of Construction, Transport and Infrastructure; JSC Serbian Railways - Infrastructure (Železnice Srbije Akcionarsko Društvo) Central Finance and Contracting Unit (CFCU) - Ministry of Finance | 62.7 mil | 47 mil (75% of investment cost); 1.5 mil (project preparation support) | 15.7 mil | / | / | End of 2019 |
| **IPA 2015/038-442** | Orient/East-Med Corridor (CX): Intermodal Terminal in Belgrade, Serbia | Ministry of Construction, Transport and Infrastructure; Central Finance and Contracting Unit (CFCU) - Ministry of Finance City of Belgrade | 15.5 mil | 13.8 mil (89% of investment cost); 2 mil (project preparation support) | 1.7 mil (City of Belgrade contributes additional 4 mil for land expropriation) | / | / | End of 2019 |
| **WB-IG01-SRB-TRA-01** | Orient/East-Med Corridor: Serbia-Bulgaria CXc Rail Connection | Ministry of Construction, Transport and Infrastructure; JSC Serbian Railways - Infrastructure (Železnice Srbije Akcionarsko Društvo) | 84.4 mil | 40.7 mil (works and supplies); 2.9 mil (project implementation support) | 4.1 mil | 36.7 mil | EIB | End of 2019 |
| **WB-IG02-SRB-TRA-01** | Orient/East-Med Corridor: Serbia – Bulgaria CXc Rail Interconnection (Niš – Dimitrovgrad – Border with Bulgaria) | Ministry of Construction, Transport and Infrastructure; JSC Serbian Railways - Infrastructure (Železnice Srbije Akcionarsko Društvo) | 56.4 mil | 28.4 mil (works and supplies; technical assistance) | 4 mil | 24 mil | EIB | End of 2022 |
| **WB-IG03-SRB-TRA-01** | Orient/East-Med Corridor: Serbia – Kosovo\* R7 Road Interconnection, Niš (Merošina) – Pločnik (Beloljin) Section | Ministry of Finance; Ministry of Construction, Transport and Infrastructure; Public Enterprise Roads of Serbia | 212.6 mil | 41.4 mil | 10.2 mil | 100 mil;  52.3 mil | EIB, EBRD | End of 2023 |

*Source*: WBIF, 2018

## Status of the projects

### Energy: Improving the supply and diversification of sources

#### Trans-Balkan Electricity Corridor: Kragujevac - Kraljevo Section

Part of the Trans-Balkan Electricity Network project that is planned to be realized through the Western Balkans 6 Connectivity Agenda is a section which should connect Kragujevac and Kraljevo, two major cities in central Serbia. The Project was approved at the first Connectivity Agenda 2015, during the Vienna Summit[[66]](#footnote-66).

Media reports that one section of the Trans-Balkan Corridor, 68km long 400 kV transmission line connecting Belgrade and Romania was completed and put in operation in December 2017, and that the construction of Kragujevac-Kraljevo section was planned to start during 2018[[67]](#footnote-67). Serbian state-owned power grid operator EMS has signed a loan agreement with the Germany's development bank KfW[[68]](#footnote-68). In February 2017, Italian electricity transmission system operator Terna said it has completed the laying of the undersea section of the power transmission cable linking Montenegro to Italy.

Once completed, the entire Trans-Balkan Electricity Corridor will connect Romania, Serbia, Bosnia and Herzegovina, Montenegro, and Italy. The line will go from Resica in Romania to Pančevo, Obrenovac and Bajina Bašta in Serbia, then to Pljevlja in Montenegro and Lastva, and then under the sea to Vilanova in Italy.

Section in Serbia, between Kragujevac and Kraljevo, is the key segment for Serbia and one of the key segments for the Corridor in general, since it is currently seriously congested due to the very old and dilapidated infrastructure, and as such disables the proper energy flow and trade. Its upgrade would allow an increase of the energy transits from Eastern to Western part of the region and trade in the energy across the whole of the region and with Italy, which would be beneficial for Serbia as well as all the countries involved. In Serbia, the upgrade of this segment would improve the electricity supply for one million residents in Zlatiborski, Moravski, Rasinski and Raški districts, and reduce EMS’s network losses by approximately 7,000 MW/h per year, which equates the annual savings of around €380,000[[69]](#footnote-69).

#### Serbia-Bulgaria Gas Interconnector

The second energy project under the Connectivity Agenda is the construction of Serbia-Bulgaria Gas Interconnector. The Gas Interconnection will run from Sofia to the Serbian territory of Dimitrovgrad and then to Niš , and will connect national transmission networks.

At the website of Bulgarian Ministry of Energy, it is said that a Memorandum of Understanding for this project between the two Governments was signed at the Western Balkans Summit of Leaders in Sofia. However, Bulgarian Government started with this project in 2011, and under the roadmap developed then, the pipeline was planned to be put into operation in late 2015.[[70]](#footnote-70)

Serbian media reported in January 2017 that Serbian side should only start the construction when they receive the IPA 2017 funds, which was expected to happen during 2018.[[71]](#footnote-71) Serbian Minister for Energy said that it is also necessary to expropriate the land and finish other preparatory activities before the construction can start.[[72]](#footnote-72)

The main goal of the project is to boost the diversification of energy sources in the Western Balkan region, reduce dependency on one dominant supplier and increase energy security.[[73]](#footnote-73) At the moment, natural gas for Serbia is supplied through only one entry point, at the border with Hungary, through the pipeline that runs from Russia through Ukraine and Hungary. This source covers over 80% of current demand, and constructing new pipeline will allow diversification and competition of suppliers over the same customer pool, but also make gas available in regions which are not currently connected to the system, and better opportunities for socio-economic development of one of the poorest regions of Serbia.[[74]](#footnote-74)

### Transport: Corridor X and its extensions

In the transport sector, connectivity projects in Serbia are mainly focused on the improvement of existing and completion of missing parts on the rail and road Corridor X.

In the Strategy for the Development of Rail, Road, Water, Air and Intermodal Transport of the Republic of Serbia from 2008 to 2015, rail Corridor X and its extensions – Xb and Xc, were identified as a “backbone” of the national rail network, since it makes for around 25% of total rail networks and over 50% of all rail transport of the country. The largest chunk of income that Serbian rail network makes also comes from this Corridor, through transit transport and cargo. The Transport Strategy sets the reconstruction and rehabilitation of the rail Corridor X among the top mid-term priorities of rail infrastructure development in Serbia.

#### Intermodal Terminal in Belgrade

This project’s strategic importance is stressed in IPA Annual Action Programme 2015, since it represents the base for further development of intermodal transport in the country, supporting the development of transport alternatives and more environmental friendly transport having in mind that, at the moment, 95% of goods in Serbia travel by road. Starting the intermodal concept with a small bi-modal terminal may give way to the development of other, tri-modal, centres in the future, including Danube and other inland waterways in the intermodal transport chain.[[75]](#footnote-75)

According to the information available at the website of Serbian Ministry of Construction, Transport and Infrastructure (MCTI), conceptual design, feasibility study, environmental impact assessment analysis, cost analysis and tendering documentation for works and equipment have been completed. Detail regulation plan is adopted, public interest is confirmed and location conditions were obtained. The project has been approved by the State Revision Commission on 15 March 2016, which marked the finalization of the production of technical documentation[[76]](#footnote-76).

The tender for construction works was published at the Central Finance and Contracting Unit of the Ministry of Finance’s (CFCU) website in 2017, and in May 2018 the tender for the supervision of construction works was finished.[[77]](#footnote-77) According to the IPA 2015 Action Programme, the construction is planned to be finished in 2020.

Once completed, the terminal will increase the annual freight capacities from 27,000 TEU to 107,000 TEU[[78]](#footnote-78), thus facilitating domestic and international trade, regional integration and sustainable growth, and having a positive impact on the economy of Serbia[[79]](#footnote-79).

#### Serbia-FYR Macedonia CX Rail Interconnection

Single-track Niš–Preševo railway line represents a 151 km long (166.6 if calculated from station Trupale/Niš) part of the oldest railway line in Serbia and one of the most important parts of the European Corridor X, as it is a prime railway route connecting the FYRM and Greece with the rest of Europe[[80]](#footnote-80).

Covered by this project (and IPA 2015 Action Programme) is the Niš-Brestovac section, 23.4 km in length or app. 15% of the whole line, representing the first section of the Niš-Preševo line. The project, as defined in IPA 2015 Action Document, includes reconstruction and modernization of the track for the speeds of up to 120 km/h, and modernization of all the elements of railway infrastructure.

IPA 2015 Action Document states that the technical documentation (feasibility study, preliminary design, environmental impact assessment) has been completed before the signing of the Financing Agreement between EC and Serbia, and was sent to the Republic Revision Commission (RRC) for revision or approval. Following the report which RRC will issue, the design for construction permit will be prepared within the project-Yellow FIDIC contract. Support for the development of technical documentation for the remaining part of Niš-Preševo section is planned to be provided though the coming PPF’s[[81]](#footnote-81).

There are no data on the progress of this project. At the CFCU’s website, there are no tenders published for this project yet, no reports on the project at the MCTI’s website, and no even media reports about tendering or commencement of works.

The project should bring an increase of domestic and international train travels by 57% by 2020, provide safe and secure transport of goods and passengers, shorten travel times and reduce operational costs and maintenance for railway operators. It could have a positive impact on the economy of Serbia through improved trade flows with countries in the region[[82]](#footnote-82).

#### Serbia-Bulgaria CXc Rail Interconnection

This route represents the Xc extension of the Corridor X, from Nis towards Sofia, linking the Corridor X further to Istanbul. The section in Serbia runs from Niš to Dimitrovgrad, at the border with Bulgaria, with the total length of 96 km. Two separate and complimentary projects are defined as part of the WBIF Connectivity Agenda along this railway route:

* Reconstruction of rail infrastructure and preparation for its electrification (increasing the track to TEN-T standards);
* Electrification and installation of signalling and telecommunications equipment.

According to the information provided at the Serbian Railway Infrastructure website[[83]](#footnote-83), preparation of the technical and tendering documentation for the first project is ongoing. Technical documentation for the second project (electrification of the railway) is also under development[[84]](#footnote-84).

Modernization and electrification of this railroad would bring an increase of maximum travel speed to 120 km/h (from current 30 km/h), increasing the attractiveness of rail travel and freight transport, access to modern means of travel for local population (over 340,000 people living in the region along the railway line), reduced operational and maintenance costs, thus providing direct socio-economic benefits for Serbia. In international terms, it will provide an additional, very attractive railway route for transport to all the countries in the region, linking Istanbul with Central Europe, and all the countries along the Corridor X and its extensions[[85]](#footnote-85).

#### Orient East-Med Corridor (CX) – Road Transport

#### Serbia – Kosovo\* R7 Road Interconnection, Niš (Merošina) – Pločnik (Beloljin) Section

This project is the last one that was approved for Serbia within the Connectivity Agenda, at the 2018 Sofia summit. Its importance is stressed by the *Transport Strategy* when it comes to the development of road infrastructure in the Republic of Serbia. *Transport* *Strategy* defines five main road transport axes which have a key strategic importance for transport in Serbia, one of them being the connection of road Corridor X with Kosovo\*, with the route from Niš through Prokuplje and Kuršumlija. It is around 77 km long, and will be a part of highway that starts in Durres, Albania, and runs through Priština to Niš, with 384 km length, thus connecting Southern Adriatic Sea and port of Durres with the Corridor X and further to Pan-European network of highways.

Spatial Plan of the Area of Special Interest for the Infrastructure Corridor of the E-80 Niš-Merdare was developed and adopted in first half of 2018[[86]](#footnote-86). The Strategic Impact Assessment of the Plan was also developed. This Plan sets the exact route of the road and serves as a basis for the development of full technical documentation for the construction, as well as all the necessary preparatory activities, including the land expropriation. This project is expected to substantially decrease travel times along the route, increase the annual average traffic by over 2,000 vehicles/day (to around 8,500 vehicles/day) by 2022, reduce accident rates and bring positive impact on economy of Serbia by improving trade flows with countries in the region[[87]](#footnote-87).

## Concluding remarks

The analysis of the progress of projects in Serbia shows that there is a relatively good progress of projects in the initial stages. Preparatory phase (development of technical documents, obtaining of permits, etc. up to the point of tendering and commencement of works) is done in line with timetable. However, it seems that implementation slows down and/or stops at the point where concrete construction works should start. This may imply the inability of Serbia to fulfil its financial commitments – national contribution and loan repayments, land expropriation, etc. – and/or a lack of institutional capacities to implement the projects, which could be the most relevant conclusion for the future of Connectivity Agenda.

# Connectivity Agenda 2015-2018: Mapping the common issues and opportunities to move along

Albania, Kosovo\* and Serbia are going through a fairly slow process of projects’ implementation in the frame of the Connectivity Agenda, which is resulting in continuous postponements of the works commencement on the ground. In front of the set forth ambitious agenda, the Western Balkans Six leaders are expected to deliver on the national structural reforms and materialization on the ground of the approved priority projects. However, the real benefits still need time to be directly perceived by the local populations, because of a series of challenges and deficiencies inherent to the present domestic infrastructure systems.

In practical terms, the Western Balkan Six countries are still navigating in troubled waters, as the regional development perspective is still hindered by contrasting political agendas.[[88]](#footnote-88) The undertaken commitments within the Connectivity Agenda often go beyond the single countries’ capacities – which implicitly show also the extent to which the political leaders take decisions without a satisfactory evidence-informed consultation process. In technical terms, all the countries face difficulties with the design and implementation phases of the investment projects under the Connectivity Agenda, as they are rather complex, demanding for particular technical knowledge and skilled human resources that the countries do not necessarily have. To different extents these countries face also absorption incapacity; whereas the applied WBIF procedures for the maturation, application and funding of these projects are difficult and time-demanding, which often result in fragmentation of interventions.

Looking at the progress of the Connectivity Agenda in the three countries under scrutiny, clusters of common issues emerge. Having in mind the recent past of the region and that most of the countries have complicated mutual political relations, the declared political will remains yet to be transformed into grounded ownership of the Connectivity Agenda projects. It is important at the moment to reflect upon the future perspective of the Connectivity Agenda within Albania, Kosovo\* and Serbia, as at the present the implementation of the projects is jeopardized by a series of domestic and regional obstacles of both political and technical nature. As this paper intends to examine the progress of connectivity projects pertaining to three of the Western Balkans Six peers, below are presented the main issues Albania, Kosovo\* and Serbia face in the view of region’s connectedness.

#### Political will and strategic interest in projects included in the Connectivity Agenda

Connectivity projects undoubtedly have a high strategic importance for all of the countries involved, which is confirmed by various national strategies which place each of the projects high on the priority list. However, it is obvious that almost all projects progress relatively steadily in the preparatory phase, and then slow down when technical documents, urban and spatial plans and other necessary documentation has to be turned into concrete investments on the ground. The fact that long-term importance of these projects for each of the countries involved is confirmed by strategic documents that were developed well before the Connectivity Agenda was conceived, as well as that the preparatory activities are implemented rather timely, may suggest that there is a clear political will to implement these projects. Therefore, it may be assumed that reasons other than absence of political will should be looked for to determine reasons for delays in projects implementation.

Firstly, the financial aspects are quite essential in implementation of such large infrastructural projects. It is possible that at the moment countries are facing limited fiscal space to take new loans from international financial institutions. Also, countries may suffer with provision of national contributions and financial resources necessary for land expropriation, which in some cases represent significant amounts of money, as shown in tables with projects overview. This can be concluded from the fact that the preparatory phase is mostly financed through grants provided though the IPA assistance or by the WBIF, which could be the reason why there are almost no problems in this phase of any of the analyzed projects. Most of the delays arise at the moment when the agreements with financial institutions enter into force and the countries are expected to respect their own commitments, through specific tax-exemption provisions, direct national contributions to the project implementation, fair expropriation compensation to landowners, loan repayment, etc.

Secondly, projects have to go through lengthy procedures in order to be mature for implementation. This process depends on the policy and legal frameworks, which in some aspects may significantly differ from country to country. Additionally, they are under very frequent changes and modifications (e.g. Law on Planning and Construction of Serbia undergoes frequent changes, revisions and/or completely new versions since 2009), which can cause serious delays in implementation on projects.

Thirdly, these projects are clearly divided into segments that cover the territory of a single country, so each country is solely responsible for the implementation of the project within its borders, with its own institutions, capacities, financial arrangements and timetables. On one hand this gives countries complete independence from neighbors in implementation of projects, but in some cases, can be discouraging if a neighboring country is not making a progress, and a project has no effect without being implemented in both countries (for instance the 400Kv power interconnection line between Albania and Macedonia).

#### Need to resolve the bilateral disputes

The resolution of the bilateral disputes is a fundamental step for the effective progress of the connectivity projects and achievement of a deepened regional economic cooperation in the Western Balkans. While Albania enjoys a more favorable stand with the partner countries within the Connectivity Agenda, the long-running issue between Serbia and Kosovo\* over the latter’s independent status, inherently causes delays and blockages in the path of creating a connected region. Moreover, situated in a complex trading environment, the bilateral disputes create serious barriers for reaching the full economic potential, especially for Kosovo\*, which faces stark contest on its independent status by Serbia and Bosnia and Herzegovina. The bilateral disputes need to become the forefront of the issues for the Berlin process and it must be realized before these are resolved, the connectivity agenda may not progress.

#### Absence of reliable and publicly available official data and progress monitoring

The absence of reliable and updated official data is a serious concern that does not allow to perform a credible monitoring of the progress of the connectivity projects in all three countries. On the majority of analyzed projects, there are very limited data, provided mainly by official sources at the European level, such as WBIF, Commission, EBRD, etc.; whereas, the websites of different ministries and state institutions in charge of the projects’ implementation offer few or almost no information at all. In specific cases, a lack of responsiveness from the responsible state authorities was encountered for the purposes of this policy paper. In the cases when the state institutions provide to the general public some information on these projects, these official sources very often provide different or contrasting information on the same project with respect to WBIF. To a certain extent the exact amount of the project cost varies with regards to different factors and specific stage when the calculation has been made; however, there should be a specific reference with regards to the timing of the calculation and the obligation to keep coherence and track of the cost variations – as public money is invested in.

#### Effective national administrative capacities to deal with such complex projects and EU standards

The real capacities of the public administrations in all the three countries are not at the expected level, which would allow them to prepare mature connectivity projects both technically and functionally, in line with the European standards. Despite the availability of technical and financial support from the EU and other international donors, the absorption as well as monitoring and implementing capacity in each country is still limited. In Albania, Kosovo\* and Serbia, the progress on the energy projects to date has been overwhelmingly linked to the soft aspects of connectivity, including regulatory harmonization and the facilitation of cross-border energy trade. Only through an enabled environment it can be expected a timely progress in the design and implementation of these cross-border investment projects.

# Final remarks and recommendations

The connectivity projects in Albania, Kosovo\* and Serbia are still in their initial stage and so far it is unclear how and when they will be effectively materialized, in order to provide tangible results to the life of the citizens and strengthen the backbone of economic development of the region. It is yet unclear to what extent the political leaders are able to convey a domestic- and region-wide consensus over a long-term development vision for the Western Balkans. To-date the delays in implementation of almost all of the overviewed projects strongly suggest that planning of the projects and timelines set for implementation should be more realistic, and take into consideration specific legal frameworks, institutional and financial capacities of beneficiary countries – this refers both to countries applying with projects as well as WBIF which approves them.

Overall, the Connectivity Agenda cannot be immune to the domestic political agendas and the sectors’ prioritization therein. The political leaders of the region have not reached yet the expected maturity to jointly agree on a long term development vision of the region, as the Connectivity Agenda thrives for. In return, this would then enact a better coordination between the responsible national institutions in the prioritization ranking of the projects and related funding, along with the so-much demanded and expected local ownership. In front of this multifaceted reality, the following steps are recommended to be taken on by the national, regional and European stakeholders:

* State institutions should pay particular attention to the collection, storage, publication and regular update of the statistical data, in line with the European standards. Moreover, a sound quality check of the data would positively influence the overall design and implementation timeframe of the investment projects;
* A rigorous performance-tracking system must be put in place at the regional level. It should be a data-driven and fact-based process with a regular cycle of updates. In addition, there should also be established mechanisms able to ensure problems are identified and flagged up at an early stage, and then solved in order of priority;
* To ensure efficient and robust implementation of Connectivity Agenda soft measures and the successful completion of the physical infrastructural projects, it is vital for the countries to have targets that are specific, measurable, attainable, realistic, and timely (SMART);
* Joint infrastructural projects demand for coordinated actions, definition of common goals and coordinated timelines for their implementation, which leads to the conclusion that governments and WBIF could take a step towards the development of joint, regional infrastructure development strategy, or make national strategies linked and aligned to each other, in order to improve the implementation of the projects within the Connectivity Agenda;
* WBIF procedures on the funding of the connectivity projects need to be revised and adapted to the domestic capacities and needs of the national governments. This adaptation should be done in function of the improvement of the local technical and absorption capacities, which would then lead to a faster maturation process at the national level;
* The national governments and WBIF should work on the creation of a linkage between the different steps of the maturation of the investment project and its implementation on the ground;
* The national beneficiaries should be involved in earlier phases of the connectivity projects;
* The governments should increase the efforts to advocate for the resolution of bilateral disputes among Western Balkans 6 countries, in line with the commitments taken in the frame of the Berlin process within the Connectivity Agenda;
* The governments of the region should increase the visibility of the connectivity projects, along with the publication of updated information on their implementation pace. This would ensure greater transparency and accountability as well as it would indirectly affect public opinion on the positive spillover effects of regional cooperation;



1. European Commission, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, “*A credible enlargement perspective for and enhanced EU engagement with the Western Balkans*”, COM(2018) 65 final, Strasbourg, 6.2.2018, available at: <https://goo.gl/PrrKo8> [↑](#footnote-ref-1)
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