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# **SEETO Investment Report 2017 FINAL Draft**

**December 2017**



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<sup>1</sup> \* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

## BACKGROUND

The role of SEETO Investment report 2017 is to present a comprehensive overview of all disbursed, committed and secured investments in the Indicative extension of the TEN-T Comprehensive/Core Network to the Western Balkans, since 2004. This overview should represent an instrument for identification of the main trends in sources of funding within the region as well as gaps and disproportions in the development of different modes of transport. Horizontal measures are not covered in this report.

As a base, results of the Technical assistance "Support to the Implementation of the Strategic Work program of the SEETO/Investment report" were used. The following principle is applied in the analysis provided:

- For completed projects: once a project is completed or executed, the total investment allocated will be assigned to the year of the finalization of the project. Therefore, once a project is completed, the associated total investment will be considered as "**DISBURSED**".
- For ongoing projects: in other words, it is under execution but not finalized – the allocated total investment will be assigned to the year when this commitment of total investment was made. Thus, during the time that a project is under construction, the associated total investment will be considered as "**COMMITTED**".
- For finance-secured projects: total commitments which will be disbursed from the year of the "*Investment Report*" publication onwards will be considered as "**secured**" and allocated to that year.

In comparison to the previous investment reports, the same structure was kept. The first part of the report starts with a general observation of the economic trends in the region and an evaluation of total investments realized from 2004 until today, analyzed by the mode of transport and source of funding. The second part of the report presents a detailed analysis of the general economic trend, along with an update of infrastructure investments per transport mode and sources of funding for each Regional Participant separately.

It is important to clarify that this report analyzes only infrastructure investments and that the financing of preparation of project documentation is not included in this document.

Data used for all analyses was collected through a regular yearly data collection process, where National Coordinators as representatives of relevant Ministries of Transport from all SEETO Regional Participants were in charge of collecting reliable, correct and most current data. Unfortunately, not all Regional Participants submitted data for this reporting period. Data from Kosovo was not received which hampers the overall quality and reliability of information.

## 1. EVALUATION OF INFRASTRUCTURE INVESTMENTS IN THE SEETO NETWORK SINCE THE YEAR 2004

### 1.1. General economic/investment overview

Main highlights of the Western Balkans, given in the most current World Bank Western Balkans Economic Report, states that region grew faster in 2016 than in 2015. Strengthening of growth in Serbia and Albania, and steady growth in Bosnia and Herzegovina, compensated for weaker expansion in Montenegro and the former Yugoslav Republic of Macedonia, as well as the slight slowdown in growth in Kosovo. Faster economic growth created more jobs: while unemployment levels remain high, all SEETO Regional Participants except Montenegro reduced unemployment. Job growth was high in Serbia - 7.2 percent during 2016. The external deficit narrowed in Serbia, thanks to recent private sector-friendly reforms that spurred broad-based exports. In contrast external deficits widened in Montenegro and Albania. There, large infrastructure projects supported growth, but the related expansion in capital-goods imports combined with low commodity prices exacerbated external imbalances. For the first time since the global financial crisis, the average public debt to GDP ratio in the Western Balkans stabilized. Public revenues grew in most countries. Serbia and Albania continued consolidating expenditures. In some countries, revenue gains in 2016 were partially offset by discretionary increases in wages and social benefits. The medium-term economic outlook for the Western Balkans is positive, but it is subject to downside external and domestic (including political) risks. Sustaining and supporting growth will require a continued commitment to lower fiscal and external imbalances, and bold implementation of structural reforms.

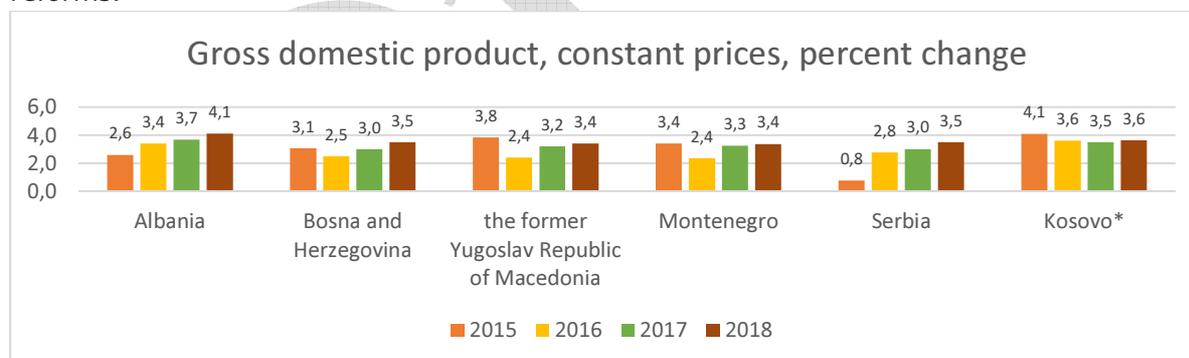


Figure 1: GDP, constant prices, percent changes

Source: International Monetary Fund, World Economic Outlook Database, July 2017

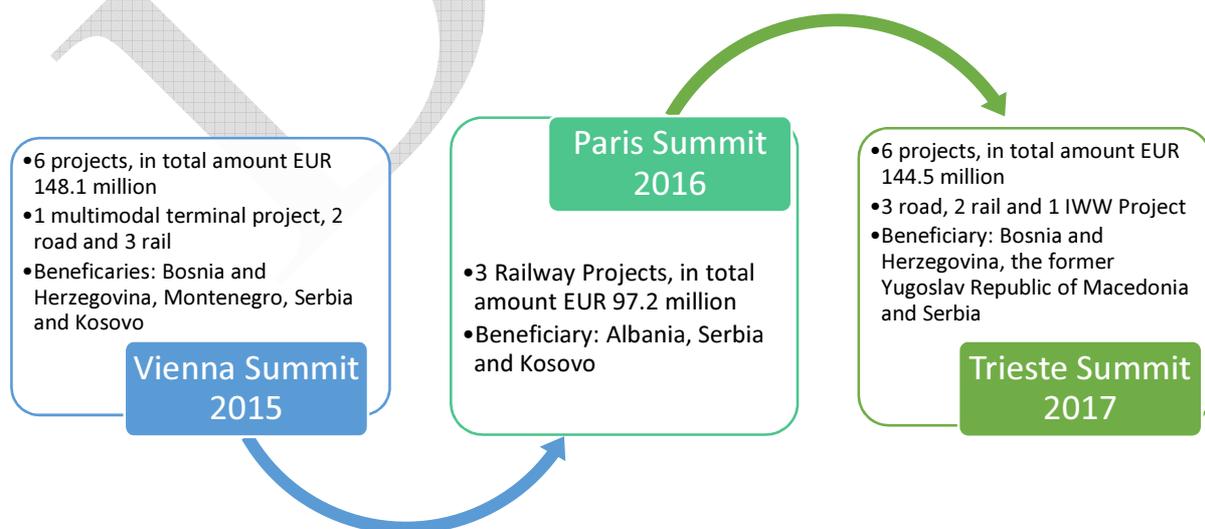
When studying the Regional Participants, it must be kept in mind that these are small economies and markets still in the development process. Level of domestic savings is insufficient for infrastructure development which highlights the necessity of all RPs to cooperate with different International Financial Institutions (IFIs). Recently, WBIF took an important role in the development of the transport sector in the region.

As part of its Enlargement Strategy, the European Commission has committed up to €1 billion to the WBIF over the 2014-2020 period for improving key transport and energy corridors within the Western Balkans and between the region and the EU. This initiative, also known as the Connectivity Agenda, is part of the “Berlin Process”; it aims to create safe and efficient transport routes across core corridors, as well as a more secure and affordable electricity supply. It should increase the region’s competitiveness and enhance the population’s welfare, by improving mobility, attracting investments, creating jobs, and generating new business and personal opportunities. Finally, by strengthening dialogue on mutual development opportunities and growth, the initiative should also contribute to good neighbourly relations in the region.

The first grants to connectivity projects were awarded in 2015 at the Vienna Summit. A total of €148.1 million was allocated to support six transport projects with an investment value of more than €342.4 million. The WBIF’s financial institutions contributed with loans in order to cover the remainder of the investment costs. The investments will support the implementation of two bridges and associated border crossings between Croatia and Bosnia and Herzegovina and of the key railway infrastructure on the Orient/East-Med Corridor in Kosovo and Montenegro.

In 2016, at the Paris Summit, three additional railway projects, with an investment value of over €208.2 million received €97.2 million in grant support. These transport projects further advance the modernization of sections of the Orient/East-Med Corridor in Kosovo and Serbia, as well as help rehabilitate and build new tracks on sections of the Mediterranean Corridor in Albania.

Finally, on July 12<sup>th</sup>, 2017, in Trieste, the European Union pledged a €144.5 million grant to the construction of key railway, road and inland waterway interconnections in the region. The EU grant is expected to leverage more than €450.3 million total investment and generate twice its value, which will return to the local economies.



Furthermore, beside additional €1 billion available for financial support for infrastructure projects implementation through co-investment grants under the Instrument for pre-accession Assistance II (IPA II) 2014-2020 to Western Balkans 6 through the WBIF mentioned above, a constantly active instrument of financing in the region is IPA II. IPA, or the Instrument for Pre-Accession Assistance, is the streamlined mechanism created by the European Union to deliver aid efficiently to the Western Balkans and Turkey. This instrument has been designed to streamline the support to reforms in these countries through a single but flexible system, which will bring direct benefit to the citizens, while the countries receive additional assistance in achieving European standards. For the period 2007-2013 IPA had a budget of some €11.5 billion; its successor, IPA II, will build on the results already achieved by dedicating €11.7 billion for the period 2014-2020.

Table 1. shows an overview of the total funds received through the IPA in the period from 2007 to 2013 and a forecast for the period of 2014-2020, as well as part of the funds that have been allocated or foreseen for investments in transport.

Regional Participant	2007-2013		2014-2020	
	Total(M€)	Transport (M€)	Total(M€)	Transport (M€)
<b>Albania</b>	517,19	100,61	649,4	56
<b>Bosnia &amp; Herzegovina</b>	626,8	57,3	165,8	-
<b>The former Yugoslav Republic of Macedonia</b>	586	72,2	664,2	112,9
<b>Montenegro</b>	214,97	24,45	270,5	32,1
<b>Serbia</b>	1203	146	1508	175
<b>Kosovo*</b>	629,11	71,97	645,5	-

Table 1: IPA funds Source: Instrument for Pre-Accession Assistance (IPA), Multi annual Indicative Planning Document (MIDI) and Indicative Strategy Papers 2014-2020

Not to be forgotten, the Connecting Europe Facility (CEF) is a key EU funding instrument developed specifically to direct investment into European transport, energy and digital infrastructures and to address identified missing links and bottlenecks. Although foreseen to be active in the region, until today only Serbia succeeded to sign a grant agreement for maximum €11.4 million. The grant agreement was signed in October 2017, as support from the CEF to the Iron Gate lock upgrade on the Danube River (Djerdap).

## 1.2. Infrastructure investments in the *Indicative extension of the TEN-T Comprehensive/Core Network to the Western Balkans since 2004*

Since 2004 until today, the total amount of **€13.5 billion** has been invested in the Indicative Extension of the TEN-T Comprehensive and Core Network to the Western Balkans. This is €1 billion more than in the last year (€13.2 is the amount without updated information from Kosovo).

- **DISBURSED – 52% or EUR 7.1 billion**
- **COMMITTED – 39% or EUR 5.2 billion**
- **SECURED – 9% or EUR 1.2 billion**

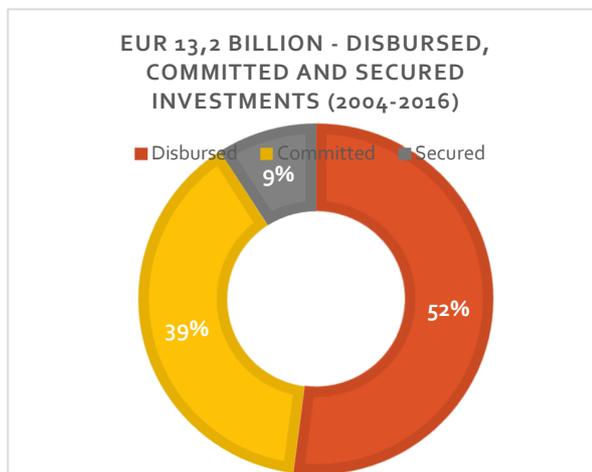
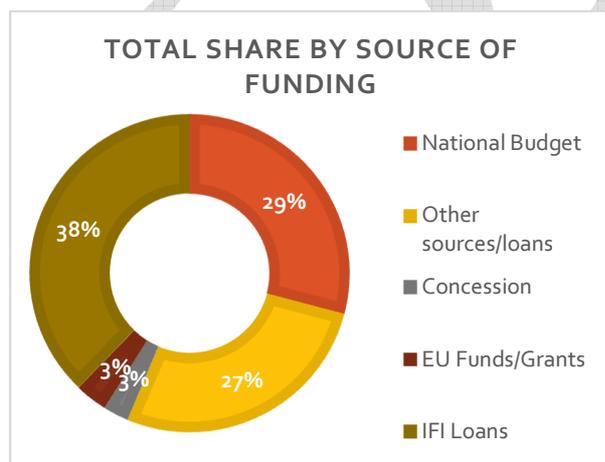


Figure 2: Share of total infrastructure

investment (2004-2016)

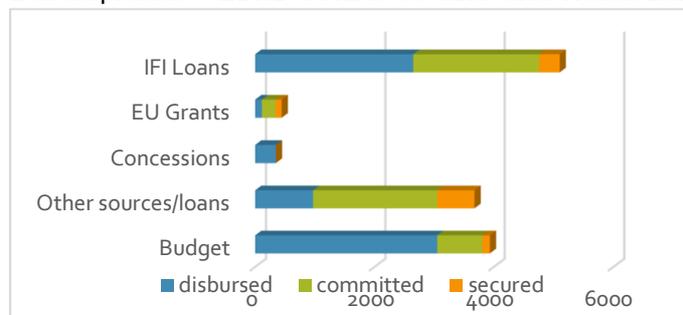
In terms of shares of sources in project financing there is no significant change comparing to the previous years. A very high 38% is financed through IFI loans, although in recent years this source of funding shows a slight decrease. In second place are National Budgets with a share of 29%. For the last decade these two sources have always delivered the highest percentage. 'Other sources' with a share of 27% mostly consisting of China's Exim Bank, Russian Loans, Azarbaijan Fund, Abu Dhabi fund, IDB, Italian Government, Kuwait Fund, OPEC, etc. show the sharpest rise in the last couple of years. Furthermore, EU funds/grants are on the level of 3%, as well as projects financed through concessions. All projects financed through concession are Airport projects.



Comparing to the share from the previous year, the level of EU grants recorded growth mostly due to the signed WBIF agreements which also affected the rise of IFI loans. Furthermore, as it was previously mentioned, this report deals just with amounts invested in infrastructure and it doesn't cover the part related to financing of preparation of project documentation which is relatively often financed by EU grants. This leads to the conclusion that the EU as a financier is much more active in the region than this percentage is presenting.

Figure 3: Total share of investments by source of funding

Shares between International Financial Institutions stay approximately the same - European Investment Bank - EIB 61.3% or €2.8 billion, European Bank for Reconstruction and Development – EBRD 33.2% or €1.5 and World Bank - WB 5.5% or €250 million.



The process of reshuffling of main financiers is clearly present in *Figure 4*. Projects that have already been completed (disbursed investments) were mainly financed by National Budgets or IFI, while the main financiers for the projects that are in this moment ongoing or finance secured are IFIs and Other sources.

Figure 4: Source of funding by status of the project

However, if we look at shares within each Regional Participant separately, we will record irregularities. In Kosovo and Albania, the dominant source of funding is the National Budget, while in Montenegro and the former Yugoslav Republic of Macedonia 'Other sources/loans' are dominant. In Bosnia and Herzegovina, as well as Serbia, in first place are International Financial Institutions (IFIs).

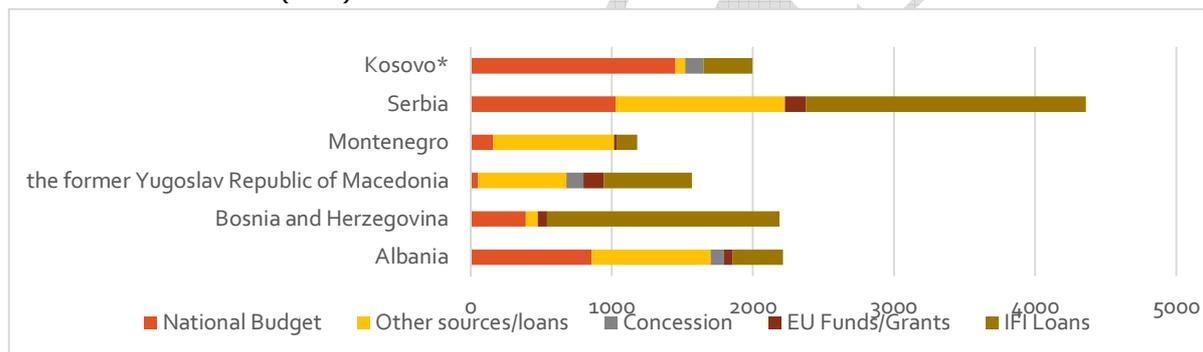


Figure 5: Total Investments by RP by source of funding

### 1.3. Overview of investments to the Indicative extension of the TEN-T Comprehensive and Core Network in Western Balkans by transport mode

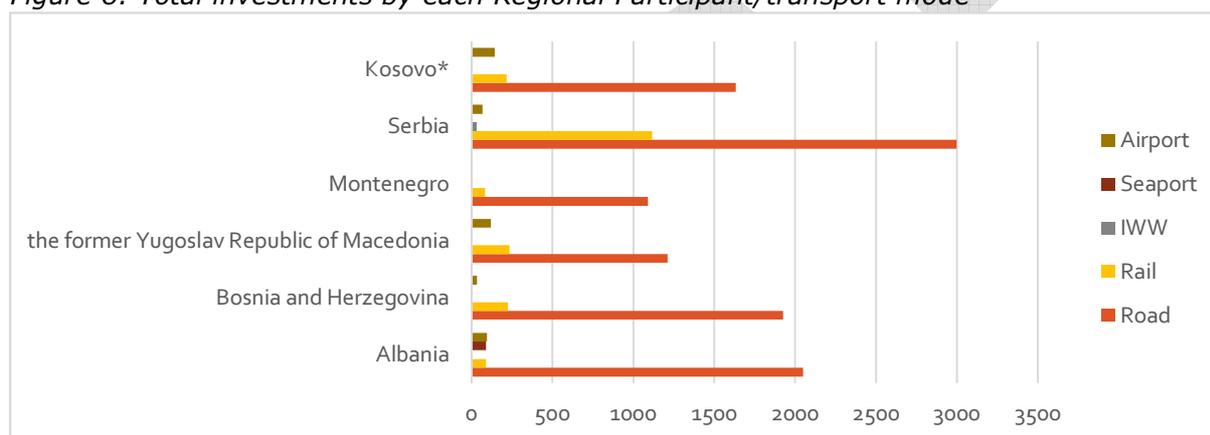
Network description	Road	Rail	River	Seaport	Airport	IWW port
Comprehensive Network	4929km	3857km	3	3	10	4
Core Network	3519km	2602km	3	2	6	4
Total amount invested in period 2004-2016	10.91 billion (81%)	1.97 billion (14.6%)	-	94 million (0.7%)	465 million (3.4%)	33 million (0.3%)

*Table 2: Description of indicative extension of the TEN-T Network to the Western Balkan Core and Comprehensive Network*

The Regional Transport Network in South East Europe was defined by the Memorandum of Understanding (MoU), signed on June 11<sup>th</sup> 2004, and from mid 2015 the official term to be used for this network is "Indicative extension of the TEN-T Comprehensive/Core Network to the Western Balkans". The Indicative extension of the TEN-T Comprehensive/Core Network to the Western Balkans is a multimodal network which includes road, rail and inland waterway links within the six SEETO Regional Participants, together with a number of designated seaport, river port and airport nodes and terminals. The newly established Core network is a subset of the Comprehensive network and it was defined in August 2015. (more about the network could be founded in the Multi Annual Plan – MAP, <http://www.seetoint.org/library/multi-annual-plans/> )

In the reporting period, within each Regional Participant, the road transport mode was the dominant accelerator regarding investments and a little behind was the railway mode, again within all RP. In further text a detailed explanation for each transport mode will be given.

*Figure 6: Total investments by each Regional Participant/transport mode*



### 1.3.1. Road Network:

With the amount of €10.9 billion which makes 81% of total investments, this mode of transport is far beyond all others. The same situation is present in all Regional Participants (see graph 7).

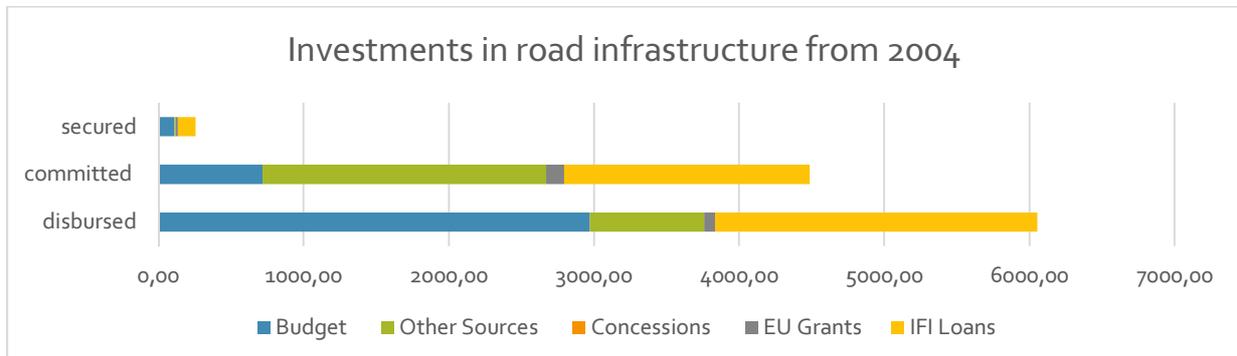


Figure 7: Investments in road infrastructure since 2004

The dominant source of funding for this mode, in the first years of analyses (2004-2009) was the National Budget. Starting with the world economic crisis this changed and the focus was on the negotiation process with International Financial Institutions, mainly the European Investment Bank and the European Bank for Reconstruction and Development. This resulted in such a high percentage of disbursed investments in road infrastructure – 56%, or in total €6.05 billion.

If we look at the share of committed investments in road infrastructure, it is evident that the level of using the National Budget decreased, as well as the level of IFIs, while “Other sources” took a leading position mostly due to the following sources: China Exim bank, Islamic Development Bank and Azerbaijan Government etc.)

The total amount dedicated to committed road investments is €4.6 billion or 41.6% of total investments in road infrastructure. Finally, €255 million is at this moment secured for financing road infrastructure and the main sources are IFI loans and National Budgets.

Having in mind these figures, the road network is one of the biggest assets for this region and the network can be considered as relatively new. Additionally, any new road section will tend to downgrade from very good to good and further down after 5 years of use without proper maintenance, while if maintenance works are carried out regularly, it will preserve good conditions throughout its entire lifespan.

### 1.3.2. Rail network:

From 2004 the total amount invested in rail infrastructure is €1.84 billion which makes 15% of total investments. What is specific for this mode is a quite equal share between disbursed (27%) committed (28%) and secured (45%) investments and relatively constant financiers. This is the only mode where secured investments are higher than those committed and disbursed. The main sources of funding are IFIs (46%) and Other sources (40%). Within ‘Other sources’ the most present are Russian loans to Serbia. Not to be forgotten are EU grants with a share of 10%.

Still, for a long period, this mode of transport was neglected and poorly maintained while the focus was on road axes which were parallel to the railway. For many years large rehabilitation and reconstruction projects were missing. Although focus is easily reshuffling from roads to railways, and the level of investments grows higher every year, much bigger investments will be needed in order to reach the standards of EU railways.

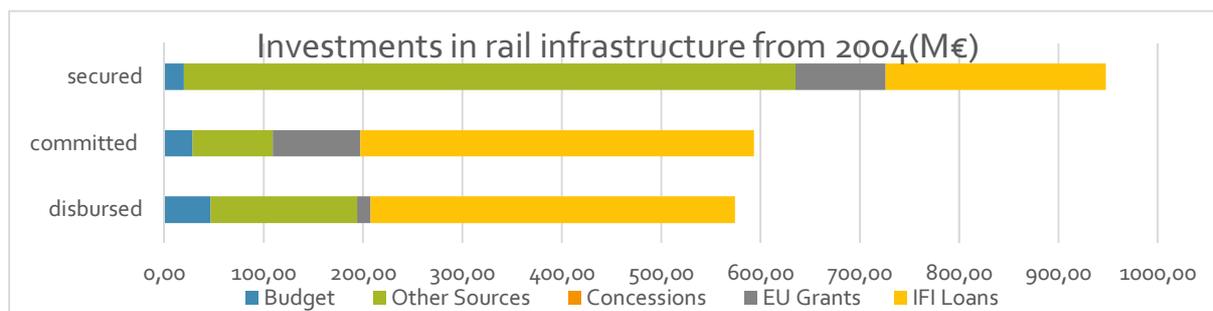


Figure 8: Investments in rail infrastructure since 2004

### 1.3.3. Airport Network:

Most of the investments in the Airport network were done in the period from 2004 to 2013 through concession agreements. Respectively, Tirana, Skopje, Ohrid and Pristina Airport were upgraded in this period. Belgrade, Sarajevo and Banja Luka Airports have recently become active and all financed the projects from its own resources with the support of IFIs in case of Sarajevo Airport. The total amount, disbursed and committed from 2004 until now is €465 million: 75% of this amount came from Concession agreements, 15% from own resources, 7% from National Budgets and 3% from IFIs.

There are no secured investments in this mode of transport.

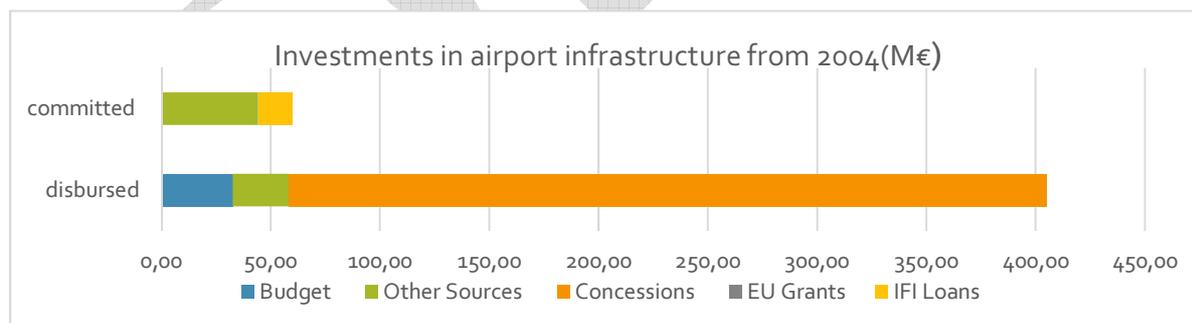
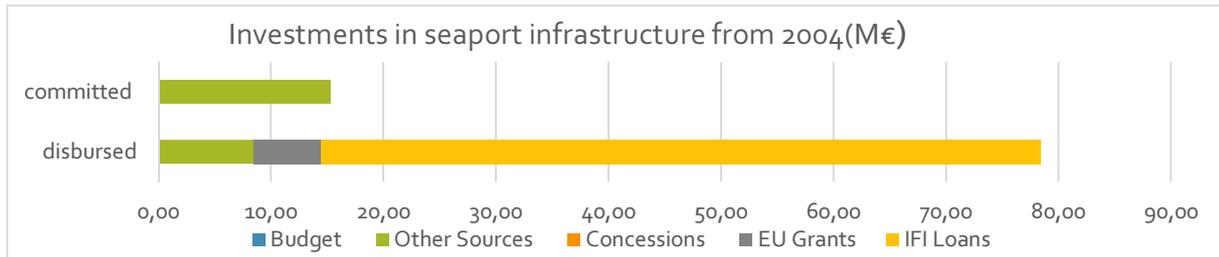


Figure 9: Investments in airport infrastructure since 2004

### 1.3.4. Seaport Network:

Total amount invested in seaports since 2004 is €93.7 million. Only one active project is in port of Vlore and it is financed by the Italian Government. Still, in the past, most active sources were IFIs in combination with EU grants and own resources of the ports.

Figure 10: Investments in seaport infrastructure since 2004



Montenegro recognized the importance of introducing Vessel Traffic Monitoring and Information Systems and the first phase of Implementation of VTMIS was finished in 2011. Montenegro plans to continue with the introduction of VTMIS and the estimated cost for introduction of VTMIS phase 2 amounts to €2.1 million. The project VTMIS phase II is of high priority and currently funds are being requested through IPA II 2014-2020.

#### 1.3.5. IWW Network:

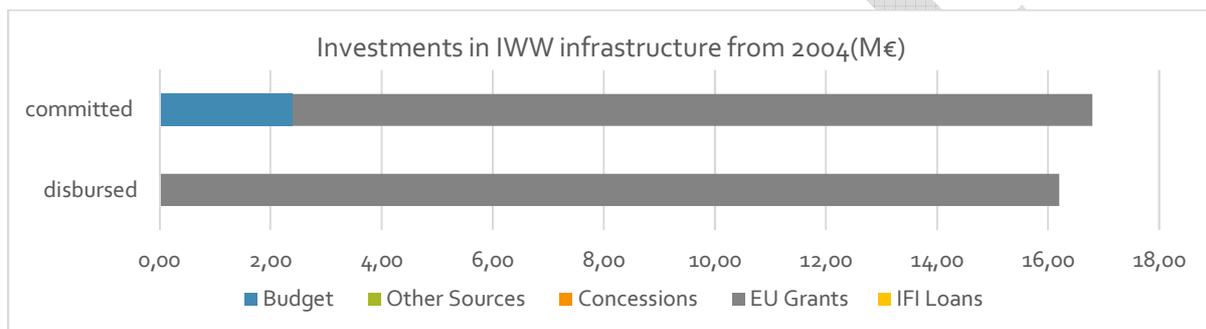


Figure 11: Investments in IWW infrastructure from 2004

The transport mode with the lowest amount of investments (€33 million) is IWW. Only three priority projects on Corridor VII in Serbia were completed and two are ongoing, and they were all financed from the EU grants with support of the National Budget.

Encouraging is the latest information from the Trieste Summit, where a grant for Bosnia and Herzegovina was approved for the project Rhine/Danube Corridor: Bosnia and Herzegovina-Serbia-Croatia Waterway Interconnection (Port of Brcko). The grant is estimated to be at the level of €3.1 million, while the following agreement will be signed with EBRD in the amount of €10.0 million.

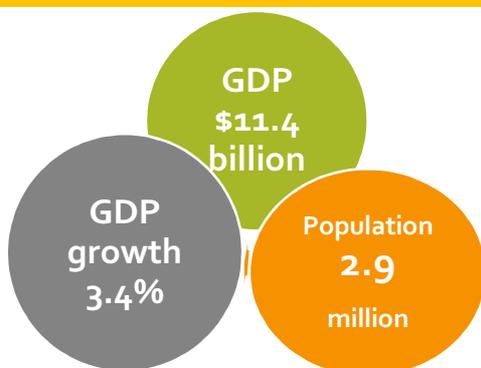
The SEETO Comprehensive Inland Waterway Network provides a distinct opportunity to connect the hinterland of ports and industrial areas in the SEE region to the European market. However, sustainable navigability of the inland waterway transport has to be provided in order to accommodate market needs.

River ports of the SEETO Comprehensive Network have substantial capacity but the equipment and infrastructure in most of the ports require reinvestments, which affects the utilization of inland waterway ports as multimodal connecting points and logistical centers.

## 2. EVALUATION OF INFRASTRUCTURE INVESTMENTS IN THE SEETO NETWORK SINCE THE YEAR 2004 BY EACH REGIONAL PARTICIPANT

### 2.1. ALBANIA

Network description	Road	Rail	River	Seaport	Airport	IWW port
<b>Comprehensive Network</b>	729km	392km	-	Durres	Tirana	-
<b>Core Network</b>	563km	156km	-	Vlore	-	-

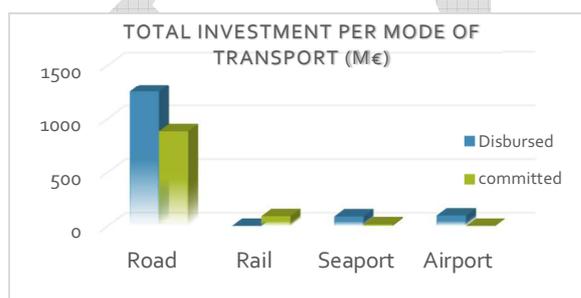


After Albania emerged from 50 years of communist rule, the transition from a centrally planned to a market-oriented economy, together with abundant international aid and other strategic assistance, helped the country make progress. Thanks to strong growth performance, Albania grew from the poorest nation in Europe in the early 1990s to middle-income status in 2008, with poverty declining by half during that period.<sup>2</sup>

Source of data World Bank site, data for year 2016

**Since the establishment of SEETO, a total amount of €2.32 billion has been in Indicative extension of the TEN-T Comprehensive Network to Albania, while 74% of this amount has been spent on the Core Network.**

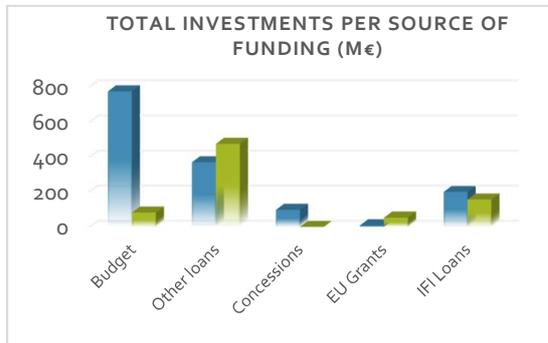
**€1.4 billion (61%) has been disbursed while €878 million (39%) goes to committed investments.**



With 88%, the road mode is the generator of the most investments. This trend is present within disbursed and committed investments. In second place, with a share of 4.3% are seaports investments, namely port of Durres with only disbursed investments and port of Vlore with committed investments. A significant amount was spent on the expansion and modernization of Airport Tirana through two projects financed by concessions (4% of

total investments). Rail mode is still lagging behind, but it is encouraging that in 2017 project on rehabilitation of railway line Durres-Public Transport Terminal Tirana (PTT) and construction of a new railway connection to Rinas Airport (TIA) was started. Still, the circumstance of no existing secured investments is notable.

<sup>2</sup> <http://www.worldbank.org/en/country/albania/overview>

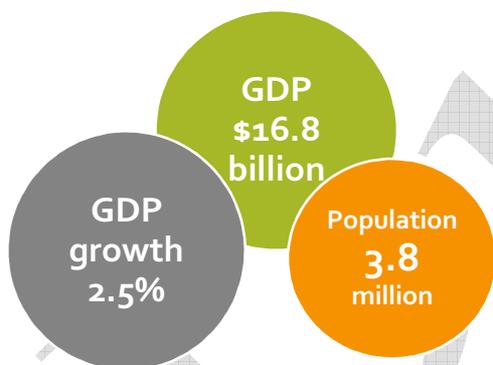


Up to 2013, the main source of funding for transport infrastructure investments in Albania was the National Budget and it is still a dominant source with a total share of 39%. Hence, in the share of committed investments, the National Budget takes up only 6%. 'Other sources' which are likely to become the main source of funding in Albania, record a constantly high trend (last year 35.5%, this year 38% of total investments). In third place are IFIs with 16% (EBRD and EIB). Approximately 3% of all investments were

financed by EU grants.

## 2.2. BOSNIA AND HERZEGOVINA

Network description	Road	Rail	River	Seaport	Airport	IWW port
<b>Comprehensive Network</b>	870km	811km	-	-	Sarajevo	Brcko, Samac
<b>Core Network</b>	635km	428km	-	-	Banja Luka	-



Bosnia and Herzegovina is an upper middle-income country which has accomplished a great deal since the mid-1990s. Today, it is a European Union potential candidate country and is now embarking on a new growth model after the global financial crisis. Economic growth is estimated to have reached 2.8% in 2016, driven primarily by consumption but also investments.<sup>3</sup>

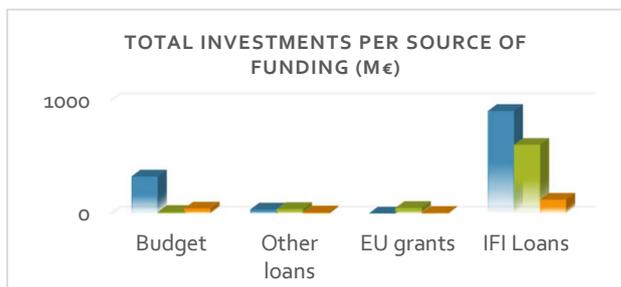
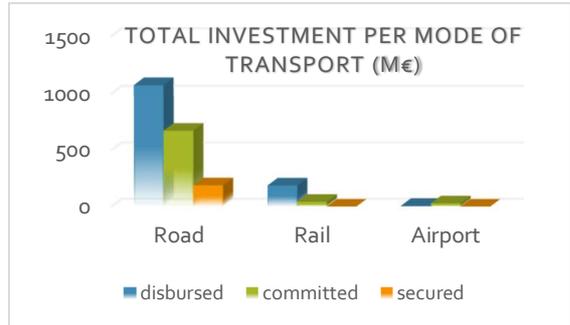
Source of data: World bank site, data for year 2016

**Since the establishment of SEETO, a total amount of €2.18 billion has been invested in Indicative extension of the TEN-T Comprehensive Network to Bosnia and Herzegovina, while 75% of this amount has been spent on the Core Network.**

**€1.35 billion (62%) has been disbursed while €643 million (30%) goes to committed investments and €189 million (8%) to secured**

<sup>3</sup> <http://www.worldbank.org/en/country/bosniaandherzegovina/overview#4>

In first place, with a share of 88% is the road mode. Significant is that all secured investments are dedicated to road infrastructure projects. If we compare shares of committed investments, we will see that results are the same - the road mode is the main generator. In second place is the railway mode (10%) with not very significant, but constant investments in the reporting period. Airport mode, with a share of less than 2% is in third place. There is no data for investments in IWW or river ports. However, recently a WBIF grant was approved for the Port of Brcko.

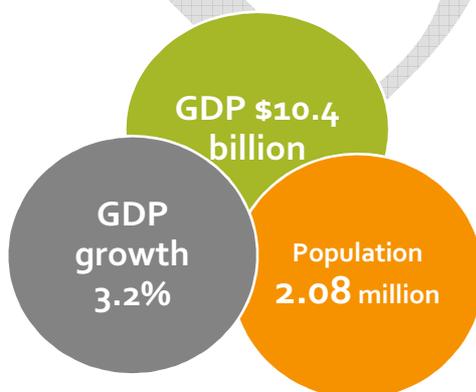


Bosnia and Herzegovina is a country in which most infrastructure projects on the Core and Comprehensive network are financed through loans from different International Financial Institutions (75%). The National Budget was most used for financing in the past period and for partially supporting projects financed through IFI loans. Its share is 18%. Other

sources/loans are present with a share of less than 4%. There are no projects financed through concessions. Significant is the rise of the level of EU grants - up to 2015 there were no projects financed by EU grant, while today this source has reached a level of 2.6%

### 2.3. THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Network description	Road	Rail	River	Seaport	Airport	IWW port
<b>Comprehensive Network</b>	708km	530km	-	-	Skopje	-
<b>Core Network</b>	513km	268km	-	-	Ohrid	-

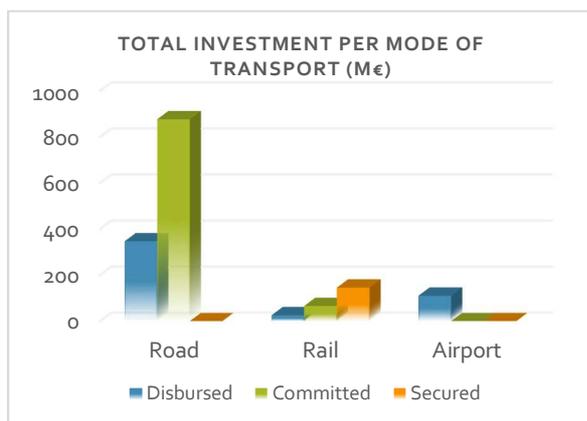


The former Yugoslav Republic of Macedonia is an upper middle-income country that has made great strides in reforming its economy over the last decade. More efforts are still needed to generate economic growth and improve the living standard for all. Growth has slowed to 2.4% in 2016 and turned downwards in the first half of 2017, as political uncertainties affected investments. The economy is expected to recover by the end of the year, supported by consumption and rising investor confidence after the new Government took office in June 2017.

Source of data: World Bank site, data for year 2016

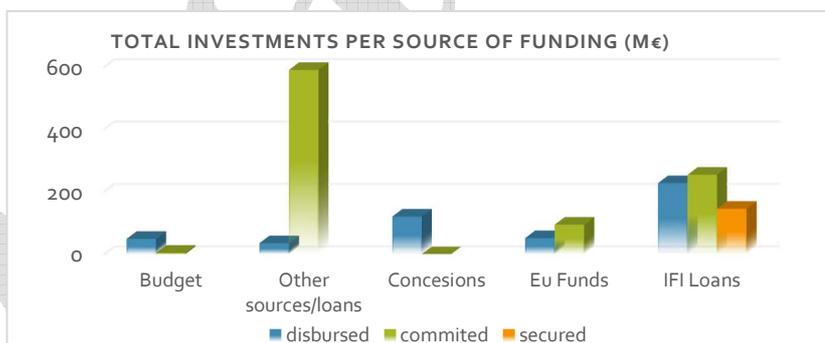
Since the establishment of SEETO, a total amount of €1.57 billion has been invested in *Indicative extension of the TEN-T Comprehensive Network to the former Yugoslav Republic of Macedonia*. An 81% of this amount has been invested in the Core Network.

€481 million (31%) has been disbursed while 941 million (60%) goes to committed investments and €145 million (9%) to secured investments.



Although there is no secured investments allocated to the road mode, it is still a dominant mode of transport with a share of 78%. There is an evident, very high level of committed investments, mostly due to two projects on Corridor VIII and Route 8, financed by China Exim Bank and two almost finalized projects on Corridor X financed partly by EU grants. Furthermore, in second place is the rail mode with a share of 15%. Rail mode is the only mode with modest but constant investments in the reporting period. Within the airports (7%), only two disbursed projects are present, both financed through concession.

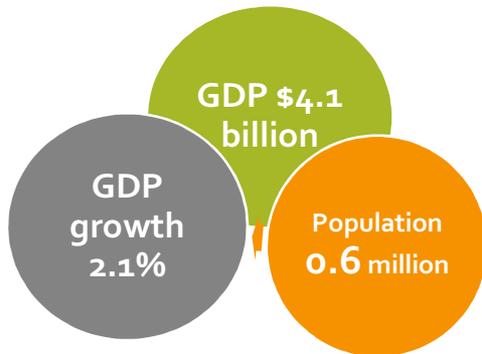
80% of the total amount invested in transport infrastructure projects in the period from 2004 until today was financed by International Financial Institutions (40%) back to back with Other sources/loans (40%). Distinguish can be made based on the status of the projects financed by those two sources. Other sources are active only within committed investments while IFIs are active in past, present, and future through secured investments.



Level of investments financed by EU grants rose compared to the previous year and reached an encouraging level of 9%. As it is the case with other Regional Participants, Concession agreements (8%) are present only in airport projects that have been completed. The National Budget is at the level of 3%.

#### 2.4. MONTENEGRO

Network description	Road	Rail	River	Seaport	Airport	IWW port
Comprehensive Network	640km	184km	-	Bar	Podgorica	-
Core Network	297km	184km	-	-	Tivat	-



Montenegro is a small, open economy aspiring to join the EU by 2020. It is also an economy particularly vulnerable to external shocks, as it relies heavily on capital inflows from abroad to stimulate its growth. Growth slowed down in 2016 to an estimated 2.1%, after a growth of 3.2% in 2015, due to delays in highway construction, a struggling industry, and only moderate levels of tourism.<sup>4</sup>

Source of data: World Bank site, data for year 2016

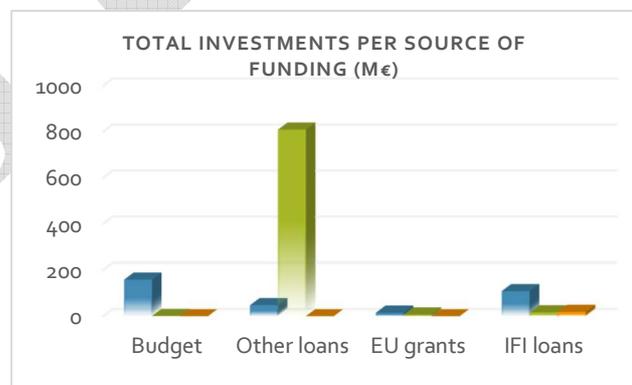
**Since the establishment of SEETO, a total amount of €1.18 billion has been invested in Indicative extension of the TEN-T Comprehensive Network to MONTENEGRO, and 95% of this amount has been invested in the Core Network.**

**€328 million (28%) has been disbursed while €833 million (71%) goes to committed investments. Only €18 million, or 1%, goes to secured investments.**

Montenegro is the only Regional Participant with such a high percentage of committed investments (71%), the reason being one highly important, huge Road project:

- Road Route 4 Priority Project - Bar-Boljare highway's priority section Smokovac-Uvač-Mateševo, financed by Chinese Exim Bank in the total amount of €809 million.

This project also influences the share within the transport modes and if we include it in the calculation, road mode generates 92% of all investments. Still, if we exclude this one project the share would be the following: road 74%, rail 24% and seaports 1%.

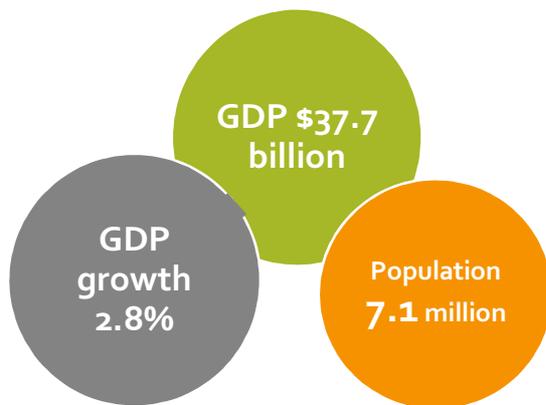


The same scenario is seen when we observe shares of total investments per source of funding. In the first place are 'Other sources' due to the above-mentioned project. Following respectively are IFI loans, the National Budget and EU funds which are mostly active in the seaport and railway mode.

<sup>4</sup> <http://www.worldbank.org/en/country/montenegro/overview#1>

## 2.5. SERBIA

Network description	Road	Rail	River	Seaport	Airport	IWW port
<b>Comprehensive Network</b>	1624km	1788km	Danube, Sava, Tisa	-	Belgrade	Belgrade, Novi Sad
<b>Core Network</b>	1332km	1414km	-	-	Nis	-

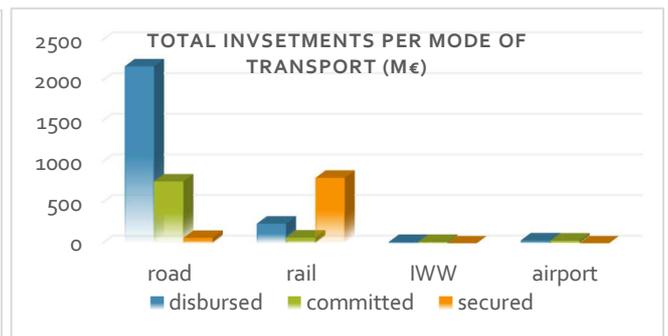
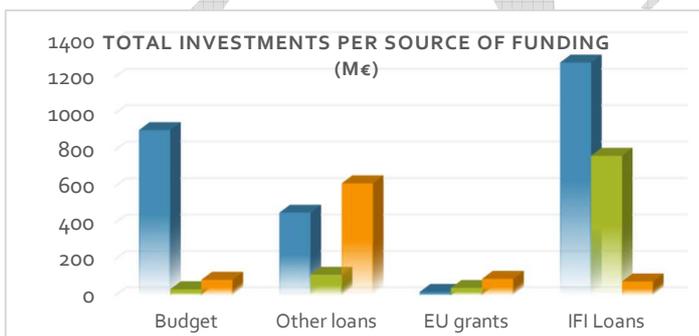


Growth is projected to accelerate from 2.8% in 2016 to about 4% over the medium term. An increase in consumption is expected to be the main driver of growth, with investments also gaining in importance. Serbia has passed through a period of dynamic changes, managing a rapidly evolving political and economic environment. Today, Serbia is a candidate country for the European Union membership, reflecting the significant progress made so far in structural and institutional reforms.<sup>5</sup>

Source of data: World Bank site, data for year 2016

Since the establishment of SEETO in 2004, the total amount of €4.2 billion has been invested in *Indicative extension of the TEN-T Comprehensive Network to Serbia* and 98% of this amount has been invested in the Core Network.

€2.46 billion (58%) has been disbursed, while €881 million (21%) goes to committed investments and €868 million (21%) to secured investments.



In Serbia, focus on developing and modernization of road infrastructure is present in the reporting period. With a total amount of €3 billion which makes 71.2% of total investments in transport infrastructure. What is interesting is that main financiers were IFIs with 60% and the National Budget with 30%, while there is just one project financed by an Azerbaijan loan

<sup>5</sup> <http://www.worldbank.org/en/country/serbia>

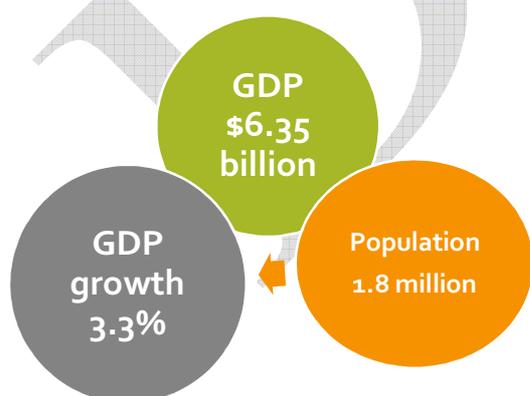
(makes 10% of total investments in the road mode). Railway infrastructure projects (26.4%) are in second place mostly due to the significant amounts allocated through secured investments and financed mostly by Russian loans. As of 2015 focus is being transferred from road to rail mode, however not by reshuffling main road financiers to rail, but by finding new financiers for upgrading and rehabilitation of the Serbian railway network. Also important is that since 2012 Serbia succeeded to negotiate allocation of EU Grants for 3 railway projects. Also, rail mode in Serbia is financed by 'Other source/loans' (67%), IFIs (19%) and EU grants (9%).

Furthermore, air (1.6%) and IWW (0.8%), recorded small but constant investments. All projects on IWW were financed through EU grants while 60% of the projects on airports were financed by own resources of the airport and 40% by the National Budget. Although responsible institutions are inclined to the development of rail and road modes, it is significant that EU is recognizing the importance of further development of IWW as the greenest way of transport.

With the share of 47.3% IFI loans are the most popular financiers for investments in transport infrastructure in Serbia. IFIs as financiers are present in road and rail modes of transport. In second place are the 'Other sources' with a share of 26.4% (Russian loans, Azerbaijan loans, Kuwait funds). The National Budget is in third place with a share of 22.9%. EU grants were used only for financing rail and IWW and this source reached a level of 3.3%. There are no concession agreements in Serbia for now.

## 2.6. KOSOVO\* - DATA FOR YEAR 2015

Network description	Road	Rail	River	Seaport	Airport	IWW port
Comprehensive Network	345km	152km	-	-	Pristina	-
Core Network	179km	152km	-	-	-	-



Kosovo is one of the rare Regional Participants which succeeded in recording a positive growth every year during the crisis, averaging 3.3% in growth. Estimated GDP growth for 2015 is 3.6% and it is predicted to remain the same in 2016. Consumption and investments are recognized as main contributors to the growth. After the recent signing of the Stability Association Agreement, Foreign Direct Investments went up by 150% in 2015.

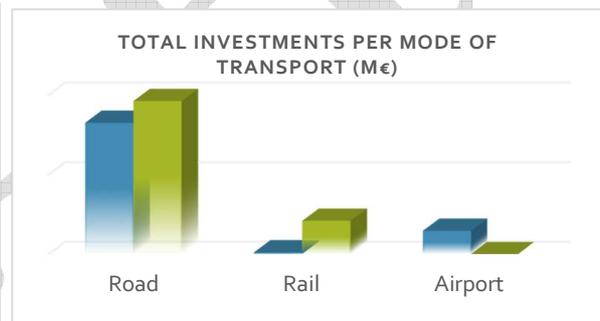
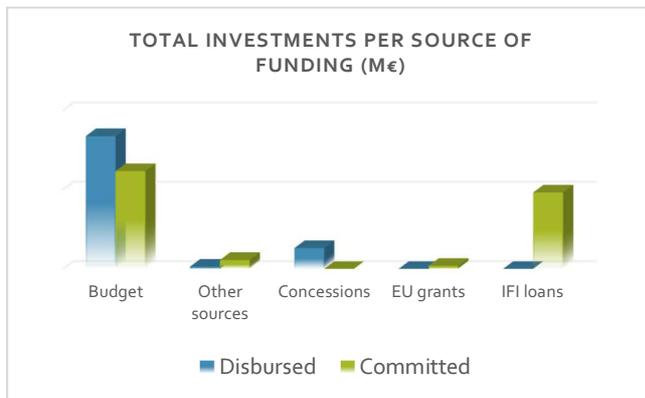
Source of data: IMM database, data for 2015

**Since the establishment of SEETO, a total amount of €1.99 billion has been invested in *Indicative extension of the TEN-T Comprehensive Network* in Kosovo and 80% of this amount has been invested in the Core Network.**

**€979 million has been disbursed, while €1.02 billion goes to committed investments.**

The generator of most investments is the road mode with a share of 83%. Under disbursed investments there is one significant project on road Route 7 financed from the National Budget in the amount of €824 million: Construction of Motorway Morine (border with Albania) - Pristina. There are also a few committed projects with significant total costs:

- Road Route 6 Priority project, Pristina – Hani I Elezit (Skopje), financed from the National Budget in the amount of €600 million.
- Road Route 6b Priority project, Pristina-Pec-Montenegro (Section Kijevo -Zahac- Pec-Border Montenegro), financed by EIB and EBRD in the amount of €140 million.
- Road Route 7 Priority project, Construction of Motorway Pristina- Merdare, financed from national budget in the amount of €150 million.



Railway mode is in second place due to the ongoing Priority project on the Corridor X, financed partly from an EU grant and partly by EIB and EBRD loans in the total amount of €208 million.

Evidential is the fact that the National Budget dominates as the source of funding. The total share that goes to the National Budget is 68%. The reason could be found in all above mentioned projects. Still, IFI loans could be found as the potential leader in the future. For now, the share that goes to IFI loans is 26%. Finally, a significant amount was spent on the airport Pristina through concessions.

### 3. CONCLUSION

Economic growth in the Western Balkans is picking up, but at current growth rates, it would take them over half a century to converge with EU living standards. With a shared vision to ensure macroeconomic stability, implement bold reforms, and enhance economic integration, the Western Balkans could accelerate growth and improve living standards. The Western Balkan region demonstrating strong political commitment to implementing reforms, but the region needs to be more competitive and attractive for investors. The Berlin Process that was kick-started in 2014 promotes a Connectivity Agenda to strengthen regional cooperation for attracting new investments, generating economic growth, and reducing unemployment. A Joint Action Plan is leading regional efforts to facilitate trade and transport, establish a Regional Economic Area, and focus on investment, mobility, and digital integration, all with the aim of assisting the Western Balkan countries on the EU accession road.<sup>6</sup>

With the Berlin Process focus was put on improving transport and energy links within the Western Balkans, as well as between the region and the EU. To date, 15 transport projects received grants in total amount €389.8 million with an investment value of up to 1 billion.

**Over the past 13 years, the transport sector in the SEETO region has received considerable investments. The total amounted to €13.5 billion.**

The trend of high investments in road infrastructure in the Western Balkans is present continuously as of 2004. With total share of 81%, investments in road projects are on the first place even though environmentally friendly transport modes are being promoted at European levels for its major benefits especially from the period of launching Connectivity Agenda/Berlin Process. Analysing separately by each Regional Participant results are same - road mode is in lead position. 15% goes to railway mode, which is an encouraging percentage when comparing to the period before 2013. This is the mode with highest share within secured investments (79%). However, years of neglecting railway infrastructure in the region resulted in very poor conditions comparing to the market needs and as a basic condition for the development of the industry and intermodal transport. Airport, Seaport and IWW projects are respectively taking share of 3%, 1%, less than 1%. A similar situation is in all SEETO Regional Participants, which leads to a conclusion that in the past decade or more, the region was investing in the development of road infrastructure, while in the recent period a tendency of investing in rail projects is present.

For the past 13 years, the highest amount invested in infrastructure projects was provided by International Financial Institutions (38%). In close second place are National Budgets with 29%. The source with the most progressive rise in the last few years is "Other sources/loans" with 27%, as the result of a tendency towards negotiations with investors outside the EU, which is present in all SEETO Regional Participants. EU funds/grants are on the level of 3%, as well as projects financed through concessions. All projects financed through concessions are airport projects.

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<sup>6</sup> <http://www.worldbank.org/en/country/albania/overview#2>