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## **10. TRANSPORT AND CONSTRUCTION**

### **10.1. Planned and implemented activities of the Government of the Republic of Macedonia in the reporting period**

#### **10.1.1. Construction**

Government activities in the field of construction covered several areas in the reporting period.

##### **a) Roads**

Major program activities and measures by the Government in the area of road construction and maintenance in the reporting period have included:

- Implementation of the second stage of the Project 'Reconstruction and strengthening of bridges on the highway M-1 (E-75)<sup>1</sup> of the section Demir Kapija – Gevgelija, which has been financed by a NATO donation. The project was implemented in the planned deadline, i.e., by the end of 2008. The value of this reconstruction was estimated around 12-13 million euro. This confirmed the consistent NATO position towards the Republic of Macedonia, because the Republic of Macedonia is one of the very few countries which is not a NATO member state and still receives donations from this organization. The completion of this project has multi-complex significance for the country (economic, political, and construction).
- A new Law on public roads was adopted, as well as some of the bylaws stemming from this law.
- A consulting company had made a feasibility study on transformation of the road infrastructure in the Republic of Macedonia.
- Pursuant to the new Law on public roads, the Fund for national and regional roads became the newly established Agency for state roads.
- Adoption was made of the Annual program on construction, reconstruction, maintenance, and protection of national and regional roads in the country, which is worth 6.25 billion MKD (= 102.5 million euro). Most of this money would be spent for the construction of capital projects involving road infrastructure. Smaller portion would go for road improvement and road signalization, land expropriation, feasibility studies and design; finally, the last part will go for maintenance of national and regional roads.

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<sup>1</sup> International code.

- Adoption was made of a separate Annual program on maintenance and protection of national and regional roads in the Republic of Macedonia for 2009 worth 970 million MKD (< 16 million euro).
- Adoption was made of the Law on transformation of the PE for maintenance and protection of national and regional roads 'Macedonia Road', as well as the action plan on its transformation.
- Amendments were made to the Law on public roads.
- Adoption was made of the Law on concessions and other PPP forms. This law allows that some public roads in the country be placed under concession. The consulting company 'Louis Berger' made evaluation of the possible interest and profitability in context of placing under concession certain sections of the public roads in the country.
- The National strategy of the Republic of Macedonia on the promotion of the road traffic safety was prepared by the Republic council on road traffic safety<sup>2</sup> which the Assembly of the Republic of Macedonia adopted in November 2008.
- Upon finishing the required preparatory procedure, construction was started of the highway M-1 (E-75), as part of the international road Corridor 10, involving section Kumanovo-border with Serbia.
- Reconstruction of 11 road sections was started, being 300 km long and with estimate of 35 million euro. This is done with a WB loan.
- The Skopje bypass was opened, with 27 km length. It is expected that this detour will be used by heavy trucks and other transit vehicles just passing through Skopje; this in turn will reduce the traffic jam in downtown Skopje.

## **b) Railway**

The following more relevant construction activities were made in the field of railway.

- Implementation was started of the project on reform of the PE 'Macedonian Railways', based on 4 studies:
  - 1) Study on provisional public services (finished activities),
  - 2) Study on access to railway infrastructure (finished activities),
  - 3) Study on rationalization (finished activities),
  - 4) Study on privatization (postponed activities).

This project is implemented with a WM loan, and according to the set plan, this should be finished by the end of 2009. Pursuant to the Law on transformation of PE 'Macedonian Railways', this PE was split in two new PEs: PE 'Macedonian Railways-Infrastructure' - Skopje, and PE 'Macedonian Railways-Transport' AD-Skopje. The first 3 studies refer to the two newly created PEs coming out of the former common PE, while the fourth study refers only to PE 'Macedonian Railways-Transport' AD-Skopje.

Together with the WB, a project has been started to reorganize and modernize PE 'Macedonian Railways-Transport' AD-Skopje. Five subprojects will be implemented as part of this.

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<sup>2</sup> RCRTS - the Republic council on road traffic safety.

- Thyristor operation and modernization was performed on two six-axes locomotives (finished project),
- Modernization of four electro diesel switching locomotives (project in progress, to be finished by April 2010),
- Purchase of 36 new flat rail cars (project in progress, to be finished by August 2010),
- Social package for (re)training of workers who were dismissed as redundant (project in progress),
- Introduction of electronic paying of tickets for railway passengers (project in progress, to be finished by December 2009).

Implementation has been made of several projects related to the operation of PE 'Macedonian Railways-Infrastructure'-Skopje.

- Modernization of Corridor 10 (overhaul was made of the lower part of the railroad tracks from station Kadina Reka to station Rajko Zinzifov near Veles; overhaul was made of the upper part of the railways tracks in 3 sections of the railroad line Negotino-Dubrovo; project was finished relating to the remote control of rail traffic from Tabanovce to Gevgelija, thus traffic will be controlled from one place, i.e., station Trubarevo; project was finished on telecommunications network involving optical cable from Tabanovce to Gevgelija, providing stations with equipment for railroad signalization, safety and telecommunications; etc.),
- Preparation of several preliminary projects, feasibility studies, cost-benefit analysis, and environment impact analysis pursuant of the operative program on regional development for the 2007-2009 period (measure 2.1. aimed at improving railroad infrastructure along the main SEE regional network),
- Preparation is in progress of a preliminary project and master plan for the railroad route of Corridor 8 from Kriva Palanka to Devebar (deadline: first quarter in 2010),
- Preparation of a study and preliminary project for section of Corridor 8 from Kicevo to the borderline with Albania (deadline: second quarter in 2010),
- Integrated telecommunications networks for Skopje-Tetovo and Gjorce Petrov-Blace sections were completed.

### **c) Physical and town planning**

In order to improve business conditions in the construction industry and to protect this sector from unfavorable impact of the global economic crisis, the Government adopted the following more important measures and activities.

- The VAT rate for sale of houses and apartments was reduced from 18% to 5%. In circumstances of economic crisis, it is expected that this decision would stimulate construction of apartments and contribute to fall in prices of apartments for about 13%, which in turn would help many people solve their housing problems,
- The northern stands of the Sports Arena 'Philip II of Macedonia' in Skopje were built and opened for sport fans in Skopje; cornerstones were laid down

for construction also of the eastern and western stadium stands, thus ultimately the stadium could accommodate 40,000 spectators,

- The Law on transformation of the PE for management of housing and office space<sup>3</sup>,
- Continuation was made of the project to build state-owned apartment buildings; two such buildings with apartments for welfare cases were constructed. Apartment distribution will be conducted electronically, with electronic application, while a competent commission will enter the applications data in the corresponding software. Then announcement will be made of a public preliminary distribution of these apartments electronically. Then further control of the documentation and field check will be made with regard to the applicants, in order to make the final decision. The methodology of their distribution defines priority for those who are children without parents and parental care, and for persons who are victims of natural disasters if such applicants meet the criteria and send the required papers. The rest of the apartments will be distributed to other groups of possible tenants. The apartments have an area from 35 to 45 sq m. Future tenants will pay a rent of 20 MKD per sq m.
- It is planned to spend in 2009 about 370 million MKD for construction of water supply systems and systems of drainage ditches in 39 municipalities. Funds have been distributed for implementation of 51 projects, of which 30 are for construction of local water supply systems and 21 projects are for construction of systems of drainage ditches and canals.
- Implementation of reforms in the AREC<sup>4</sup> has continued. One of major problems in the past that had high impact on the operating efficiency of the local Departments for real estate cadastre was the high number of backlog. Since the start of reforms in 2005 when such backlog included 21,990 open files or cases, by the third quarter in 2009 that number was reduced to 2,645 files, with tendency that this will become a minimum number in the near future.
- The second important indicator of the efficiency of the Agency is the percentage of cadastre districts in which real estate cadastre has been established. By September 2009, cadastre relating to 91.31% of the real estate has been established.
- A new Law on construction has been proposed to the Macedonian Parliament for reading and approval.

### **10.1.2. Transport**

The reporting period marked the implementation of the following more important activities in the transport field.

- A Turkish company has been selected to be given a 20-year concession of the AP 'Alexander the Great' in Skopje and AP 'St. Apostle Paul' in Ohrid. The company will be obliged also to build a cargo AP in Stip. The company will

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<sup>3</sup> PEMHOS – PE for management of housing and office space.

<sup>4</sup> AREC - Agency for real estate cadastre

manage these APs for 20 years after which managements of the APs will go back to the Republic of Macedonia. The overall investment (expansion, modernization, and construction of the APs) that the foreign company would have to invest is estimated at about 200 million euro; the deadline (after initial delays) to commence these activities is 1 March 2010.

- The electronic system for distribution of the CEMP permits continued in the reporting period as well. This is a system that eliminates opportunities for influence by human factor in selection of companies applying for such permits, as well as chances for corruption.
- The Ministry of Transport and Communications has issued thus far 534 licenses for transport of passengers and goods in road traffic, of which 428 are for transport of goods and 52 are for transport of passengers. Additional 444 applications are being considered. The Ministry constantly delivers training for certification of drivers carrying passengers or goods, in accordance with the Law on transport in road traffic. 4,797 certificates have been issued to drivers for international transport and 1,973 certificates for professional competence of transport company directors. Issuing licenses for international road transport and certificate of competence for drivers and company directors has introduced standards that are compatible with those in the EU.

### **10.1.3. Telecommunications**

The following activities in the field of telecommunications were noted in the reporting period.

- The AEC<sup>5</sup> announced a public call for offers for the service of transmission of DVB-T<sup>6</sup>. In April 2009, the best offerer was selected (Telecom Slovenia). This company was given approval to have commencement of the operation by September 2009 and by 15 November 2009 to meet all foreseen conditions cited in the tender documentation.
- Improvement was made of the service called 'Portability of numbers, thus increasing the service efficiency. In first half of 2009, portability of more than 19,000 numbers was made.
- AEC started to work on the LRIC<sup>7</sup> model (for fixed telephony and mobile telephony operators) to be completed by March 2010. This will define prices of interconnection among operators.

### **10.2. What remains to be implemented (not yet implemented or not yet finished) in the analyzed period**

More important and not yet implemented or not yet finished activities in the analyzed fields during the reporting period were as follows.

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<sup>5</sup> AEC- Agency for Electronic Communications..

<sup>6</sup> DVB-T – Digital Video Broadcasting-Terrestrial.

<sup>7</sup> LRIC – Linux Infrared Remote Control.

- Certain bylaws from the Law on public roads (Rulebooks) that are important for smooth execution of activities have not been adopted (the deadline was within 6 months after the passage of the law).
- Deadlines from the action plan on transformation of the PE 'Macedonia Road'-Skopje have not been respected. Pursuant to that plan, all activities should have been finished by 1 September 2009 and to make entry of establishment of two new shareholding companies in the Central Registry of Macedonia.
- There has been delayed start of the project to introduce integrated electronic system for collection of road toll, i.e., modernization and improvement of collecting the road toll and of the collection service (this project has been implemented in cooperation with the WB; it should help modernize the system and improve the operation efficiently; according to the program of the competent Ministry, this project was supposed to be executed in 2007), which among other things will contribute to reduction of corruption.
- 555 km of roads still wait to be put under concession.
- No reconstruction has been made of the so-called points of accident in the national road network pursuant to the foreseen pace and the National strategy of the Republic of Macedonia on promotion of road transport safety.
- There has been a second delay in the start of concession management of the AP in Macedonia.
- Introduction of fourth mobile telephone operator has not been made (although there was announcement that a tender will be published to choose the fourth national mobile operator, this has yet to be done).

### **10.3. Evaluation of potential risks from (non)implementation or from (non)quality implementation of activities**

Major factors contributing to possible risks (individually or by synergic action of several of them) in the process of implementation of government-driven reforms in the field of transport and communications in the period to come can be some of the following:

- Delay of certain reforms and postponement of the implementation deadlines of scheduled activities, which could lead to certain slower pace or even postponement of planned reforms implementation.
- Inconsistency in efforts to make reforms and realization of some projects.
- Ambitious plans and short deadlines for realization of planned activities, which could lead to partial or non-quality implementation of planned activities.
- Lack of consultation or lack of insufficient public debate with Macedonian expert circles on certain issues and projects in mentioned areas.
- Resistance towards reforms in institutions where reforms are planned with possible reduction of employees.
- Manifested political disagreements, with potential political obstruction of reforms.

#### **10.4. Overall evaluation by the expert on implemented activities for the reporting period, with possible recommendations**

In the reporting period (September 2008 – September 2009), the field of transport and communications has noted continuing implementation of already commenced projects, and one can expect in the nearest future to see implementation of new projects. In this context, the Government has retained a consistent position regarding implementation of the projected program and undertaking reform activities in said areas.

It is apparent that the implementation of assumed reforms and activities in all institutions is not conducted with same pace. Reasons for this can include different starting positions, lack of qualified staff, or, even, lack of ability to follow the high intensity of activities by the Government.

Need is imposed to undertake large-scale capital investments in the public sector (construction sector – road and railroad infrastructure). Such infrastructure plays great role in provision of better and accelerated development of the Republic of Macedonia, since every potential domestic or foreign investor wants to have good roads and railway system, i.e., proper and good communication in order to be able to smoothly conduct his planned activities.

The successful level of economic development of a country depends on the level of development and modernization of existing transportation systems in that country. Hence, the Republic of Macedonia must make greatest efforts to validate its central position in the Balkans, mostly by finishing the construction of its national road network.

After finishing the third stage of the project 'Reconstruction and strengthening of bridges', in the forthcoming period the Republic of Macedonia should make efforts to continue this project by realization of its third stage (upgrading the hard surface of the road in sections of highway M-1).

In the area of roads, a new law was adopted; in addition to good points, it also has weak points, so it had to be amended. Namely, opportunity was not used at the very moment of adoption of the law to incorporate modern expert and professional solutions and provisions for certain problems. Similarly, certain constructive suggestions made by the engineering community were not taken in due consideration, which would have helped raise the performances of this law to a higher level. Major weak point is seen in the manner of financing; this has been noted in the entire period of transition, and hence there are not sufficient funds for managing, building, protection, and maintenance of roads; thus, many roads are still in poor condition.

Perhaps one can consider a positive fact that the Government appears as investor in road infrastructure (since it is clear that great public investment can stimulate the country economic development); however, what concerns is spending rather modest sum of money (less than 16 million euro) for maintenance of national and regional roads. Given the fact that roads become increasingly older and worn-out and there is increase in their length in km, such allocated funds and resource cannot meet even the minimum requirements for this purpose. If one sees back the past allocated overall sums for this purpose, then one could arrive at rather contradictory conclusion that required sums and allocated sums are in counter-proportional relationship. It is not a strong argument to say that the budget for maintenance of roads is the same as the ones in previous years on grounds of the forthcoming transformation of the road sector. In other words, there is

need to impose a radical shift in the manner of management and maintenance of roads in the country when compared to the existing one.

On basis of the principle that transport is conducted in interaction of 3 factors: **driver – vehicle – road**, the National strategy of the Republic of Macedonia on promotion of road traffic safety pays due attention to the factor called road (which has an impact of 33% in traffic safety). This document proposes several measures to mitigate or eliminate weak points or deficiencies in the road network. However, one cannot but have the impression that the application of this document has been missing in recent periods.

Although on few occasions announcement was made of the intention to build roads on basis of their concessions (555 km of roads), publication of the related tender was prolonged. A study prepared by a consulting company for this purpose is not available to the public, so that expert circles are not able to express their views on this matter. In addition to the good points (elimination of state monopolies as primary aim and hence release of budgetary funds as secondary aim), such concessions can have their own numerous inconsistencies, as already shown in many such cases in the world and in the countries neighboring the Republic of Macedonia. In making such decisions that relate to longer periods and can cause great obligations for the country, one must act with greatest consideration and highest professionalism.

The publication of tender for granting concession to collect the road toll (without any obligation to build or maintain the roads) at toll stations along the Corridor 10, lacked any clearly defined obligations. Likewise, it is not clear why the WB project on modernization of the system of collecting the road toll was abandoned. Nevertheless, one should wait and see the tender results and interest of companies concerning the tender.

One of the greatest traffic problems in the country is the very traffic in the capital city of Skopje. Hence, the intention of competent authorities to solve this (preparation of Study on the traffic system in the city of Skopje) is the right thing to do; still this preparation should be intensified.

Taking in consideration the fact that in the last 18 years the level of current and investment maintenance of the railroad system in the country did not follow the level of use and of its depreciation, i.e., there was consistent lack of any major investment for this purpose, conclusion is noted that in the forthcoming period it would be necessary to intensify investment in this area. Present indicators (the fact that the present Corridor 10 railway line is single track line, which in case of major intervention would mean stoppage of traffic and speed reduction during summer to mere 50 km per hour) point out to the conclusion that there is urgent need to make more intensive interventions in greater part of the track by making greater investment. These indicators should be reflected in plans and programs of competent institutions for the forthcoming periods.

Air transport conditions are marked by problems concerning the national air carrier (safety problems, debts), decline in number of passengers (because of the global financial crisis, the new type of flue, and even because of the constant growth and expansion of the airport in Pristina), high prices of air tickets (ticket for Pristina-Zurich flight is between 110-140 Swiss francs, while ticket for Skopje-Zurich flight is between 400-900 Swiss francs, depending on the season), as well as lack of any direct air connection with airports in London, Paris, Rome, and New York. According to announcements by the Ministry of Transport and Communications, there will be no further postponement of the agreement concluded with the said Turkish company (otherwise, the bank guarantee will be

activated), which in turn should contribute to improvement of conditions in the field of air transportation.

In the summer, several controls were conducted of beaches in the Ohrid Riviera and on several occasions, some beaches were closed for the general public due to lack of safety and security precautions and even lack of any lifeguards. The 2009 summer peak season unfortunately was marked, or rather blurred by several water related accidents. The sinking of the lake ship 'Ilinden' was the worst tragedy ever to happen, when 16 foreign (Bulgarian) tourists lost their lives by drowning in Lake Ohrid. This very accident revealed many weaknesses and mistakes in the water transport sector. Given the aforementioned, competent authorities should certainly undertake serious measures to prevent such and similar accidents.