

## **TRANSPORT SECTOR DEVELOPMENT PERFORMANCE: ALBANIAN CASE**

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**Abstract:** Albanian economy, is progressing to achieve its own major improving the overall wellbeing and at the same time to fulfill the obligations for regional and European integration. There is a gap between the demands of country development and the situation in the transport sector. Being conscious for the importance than Transport sector has in the country development, a lot has been done during these years, but still there is along way to go on....This paper describes in details the progress done and it clearly report on the challenges of Albanians in this sector. At the ends some recommendation is give in context of Public- Private partnership, reconstruction and concession.

**JEL classification code: L91, L96, O11**

**Key words: transport, network, concession, privatization, regional integration,**

### **1. Introduction**

The accelerated development of the country to fulfill the major objectives of regional and European integration within a relatively short time, set on the agenda, among others, the rapid development of transport sector and its performance improvement. On the other hand, Albanian geographic position and the increasement of trade volume in the coming years between Albania and other countries like Kosovo, Croatia, Macedonia, etc will depend also on the transport sector much more than before

The *overall condition of the transport network is poor*, reflecting the limitations, despite progress, in both managerial capacity and maintenance expenditures over the previous decade.

In the frame of the economic challenges and the requirement for regional and European integration, there have been progressive changes in Albanian transport sector, but there are still critical challenges to cope with. The challenges and changes needed are discussed in these dimensions:

- *Integration into the European Legislation:* Albania has already planned a series of measures to meet its obligations as a member enjoying full rights out of the Process of Stabilization and Association

-*Investments and their sources:* state, private as well as foreign investors,  
-*Different aspects of restructuring (like railway sector)* including the setting up of new enterprises and a better management of the sub sectors of transport;

-*Privatization and concessions:* There is still discussions going on among

Albanian specialists and national and international institutions in the filed of restructuring and privatization & concessions. Albanian authorities are in the process of evaluating some expressions of interest in reaching a concession agreement by foreign companies but this has to be carefully developed. We need to find a balance between our obligations to the European Community standards and our need to accelerate investment in the railway infrastructure. It is stressed out that, without aggressive trade and transport facilitation, the reform of, and investments in, the transportation sector and the setup of logistical and distribution centers can bring only limited results. On the other hand, the improvement of overall performance of transport sector, besides restructuring, privatization and concessions, needs also, staff reduction, because state owned companies are seen as entities with much higher social responsibilities. Reform challenges not only in Albania, but throughout the region, include overstaffing, high costs and a lack of modern management

## **2. Background: the transport sector situation & demand for changes**

Despite the difficulties that Albania has faced during years, it has achieved significant progress and impressive economic growth. GDP grew in average by about 7 percent during the period 1996-2009, while GDP per capita increased from \$2,619 in 2005 to over \$ 3200 in 2008. While these accomplishments are impressive, Albania still remains one of the countries, which is coping with serious challenges. Transport sector development is one of critical challenges for several reasons, among them are:

- *First*, in a broader point of view, Albanian geographic position gives it a potentially important role in the movement of trade between Southern Europe, Greece and countries of the Balkans (SEE). Albania is traversed by both the TEN Corridor VIII, crossing from the port of Durres to the port of Varna in Bulgaria, and other key routes as part of the SEE “Core network”. The new motorway to Kosovo, opened in June 2009, will bring about step changes in the time and user costs of traffic between the Port of Durres and Kosovo, and will potentially form the shortest route between Adriatic and Corridor X.
- *Second*, while there is a large potential benefit for the country, Albania still *lags behind* in terms of trade logistic environment in the region and Europe. The World bank Report of 2007 ranks Albania 139 out of a total of 150 countries on the basis of the calculated *Logistic performance index* falling significantly below expectations compared to its PPP income level, and reflecting comparative weakness, including among others, the quality of transport and Information Technology for logistics, ease and cost of international shipments etc.
- *Third*, the accelerated development of the country with multiple objectives (to improve the standard of living and being a member of European family within a relatively short time), needs radical improvements in the transport sector.
- *Fourth*, Among the critical challenges for a sustainable development from the international institutions, it is said at EBRD report 2006: “*infrastructure improvements, including upgrades of the road system, modernization and expansion of seaports and regional airports, progress in restructuring and privatization of utilities to ensure reliable services....*”.

### 3. Transport sector development in the region of south east European countries

Albanian geographic position does explain why the analysis of transport sector development in Albania can not leave aside the key developments of this sector in our region of SEE. The policies developed from different international organizations like Word Bank, EBRD etc can not be highly effectively without filling the gap of transport sector development within the region countries. The increasement of trade volume in the *coming years* between Albania and other countries like Kosovo, Croatia, Macedonia, etc will be depend on the transport sector much more than before. The transport system has long been acknowledged to be an essential component in facilitating economic development, leading to employment opportunities, and poverty alleviation. The road transport network in the SEE countries stretches for over 240,000 kilometers, of which some 13 % are primary or arterial roads, 30% are secondary roads and 56% are tertiary or local roads. The proportion of motorways within the first category has been increasing, reflecting the exogenous classification of certain corridors and the concomitant domestic political importance.

The individual national networks represent a sizeable asset for each of the countries, possibly one of their largest and most significant, which would be comparable to many of the largest commercial enterprises in the respective countries. On a replacement costs basis, the primary road network in the region is estimated around US\$9.6 billion, predicating a unit replacement cost of US\$ 400,000 per kilometer, which is a conservative estimate.

The overall condition of the road transport network is poor, reflecting the limitations, despite progress, in both managerial capacity and maintenance expenditures over the previous decade. There is significant variation in the condition of the road networks within the different countries; Croatia's road network is, generally, in good condition while Albania's road network is in poor overall condition. Only 10 percent of the national road network in Albania was considered to be in good condition, with an additional 22 percent in fair condition, whilst the remaining 68% was in poor condition<sup>42</sup>.

The railway industry has substantial assets in this region, including nearly 25,000 km of route, over 34,000 km of track, over 3000 locomotives, over 10,000 passenger cars and units of multiple formations, and around 100,000 freight wagons (including privately-owned wagons). But only 10% of the rail network is regarded as being in good condition, despite having sufficient capacity to carry current traffic volumes, which are considerably below historic levels.

Despite investment, most of the rail lines of the region need to be modernized and maintained... In addition, the quality of much of the locomotive and rolling stock fleet is poor. The average age of stock has been increasing by over nine months for each elapsed year for a decade and a substantial proportion of the units are out of service, either awaiting repair, or due for scrapping etc.

The analysis of different international institutions, especially from the World Bank, considers railway and roads as important cases for deepening the regional integration. Railways constitute a network industry with substantial economy of scale. In small countries, seamless operation railway transport is critical to profitable

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<sup>42</sup> World Bank (2004c).

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operations. Reform challenges throughout the region include overstaffing, high costs and a lack of modern management.

Having in mind this framework, the study is additionally focused on a demand and supply analysis of the economic development versus transport situation

The foreign trade with other countries (especially with EU and region) has increased significantly. In 2007 Albania exports amount to 784.7 Mln/€, with an increase of about 24.8 %, considered the highest in the last five years, whereas in 2006 this rise consisted of 19.2 %. Likewise, there was an increase in the ratio of exports toward GDP, where in 2007 it is estimated at 9.9 % of GDP. Albania Trade Exchange Volume in 2007 was estimated at 3'833.3 mln €, increasing by 25% in comparison to 2006. The forecasted growth of exports for the period 2005-2013 is an average of over 12% a year.

**Table no. 1 Total exports of goods during the period 2005-2013**

Exports	UNIT	2005 Actual	2006 Projection	2007	2008	2009	2010	2011	2012	2013
Total exports of goods (X)	Million €	528	629	720	810	910	1020	1139	1300	1509
Percentage increase in exports	%	8.1%	19%	14%	12%	12%	12%	12%	14%	16%

*Source: Ministry of Economy, May 2008*

Meantime the traffic of passengers in the coming years is foreseen to be increased dramatically. According to the estimations, the annual volume of passengers would shift from 561 000 in 2003 to 2 276 000 passengers in 2023. Consequently, in 2023 the total passengers flow is foreseen to be 89.4 million passengers –km, which presents a 9% average annual growth between 2003 and 2023. While the trade volume and passenger traffic is increasing fast, there is raised a question: Are the conditions of the transport sector in a situation to cope with all the challenges ahead? The analysis is not limited only in a national level; the regional analysis includes also, stressing the conditions in the region, as well as the progress made...

The overall condition of the road transport network is poor, reflecting the limitations, despite progress, in both managerial capacity and maintenance expenditures over the previous decade. There is significant variation in the condition of the road networks within the different countries; Albania's road network is in overall poor condition. Only 10 percent of the national road network in Albania was considered to be in good condition, with an additional 22 percent in fair condition, whilst the remaining 68% was in poor condition.

The railway industry has substantial assets in this region, but only 10% of the rail network is regarded as being in good condition, despite having sufficient capacity to carry current traffic volumes, which are considerably below historic levels. The reform process on the railways of the region has started and is progressing, with a recent report characterizing two of the countries as 'high reformers', Bulgaria and Romania and recently Macedonia, while Albania is still behind other countries.

#### **4. Progressive developments and restructuring processes**

There have been progressive developments of the Albanian transport sector in context of economic challenges and the requirement for regional and European integration. The challenges and changes are discussed in these dimensions:

#### **4.1 Integration into the European Legislation**

Albania has already planned a series of measures to meet its obligations as a member enjoying full rights out of the Process of Stabilization and Association. Regarding the sector of road transport, integration into the EU implies conformity with the legal framework of transport legislation with the Standards and International Regulations, especially by getting the Border Safer and by facilitating border movement and improving the transport network; thus gradually eliminating the so-called non-physical barriers.

The Albanian Government has signed the Memorandum of Understanding for the Core Network (SEETO). This network which mainly aims at facilitating the integration of Southeast Europe in compliance with the intentions of the Process of Stabilization and Association includes together with the segments of the Pan-European Corridors IV, V, VII, X even the Corridor VIII (Durrës – Varna via Tirana), ports of Durrës and Vlorë and the Rinas Airport.

The reform process on the railways of the region has started and is progressing, with a recent report characterizing two of the countries as ‘high reformers’, Bulgaria and Romania. Reform process in the rail sector in Macedonia has moved ahead during the last year. In the SEETO Workshop (2007)<sup>43</sup> it was emphasized that “The public enterprise Macedonia Railways will be divided in two entities: a-public enterprise for infrastructure where state is the owner, b-shareholding company for transport, the sole shareholder is the state till the preparation of the study by World Bank according to which the privatization model will be adapted” However, further work is required in all the remaining countries of the region, with the reform process yet to leave the ‘station, in Albania.

There are still discussions going on among Albanian specialists and national and international institutions about *restructuring* and *privatization* and concessions. Remarks and discussions on these issues are of critical importance because of the situation we are coping with in the transport sector.

The investments needed for the coming years are beyond state capacities. Needs to finance the road sector are focused on increasing demands and a further development of the national road network by coordinating incomes from road users taxes and conductors of vehicles. Moreover, projects with great values are foreseen to be funded by foreign donors and by the domestic private or foreign sector.

A program of road investment of about 560 million USD for 20 years is proposed to be incorporated to the National Plan of Transport. It is worth underlining the fact that the budget approved only for 2007 predicted 27 milliard leks of investment (about 270 million USD), whilst out of this, only the internal financing is about 14 milliard leks (or about 140 million USD). Concerning a fair distribution of current expenditure and capitals to support the quotas defined, the same percentage is preserved, although it is increased in absolute value as current expenses and capitals.

In a regional viewpoint, a significant number of the former public sector companies that now operate in the sector as joint stock companies suffer from over-employment. In some cases the over employment can amount to 30% of the total work force, with significant over-manning found in the repair and maintenance departments.

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<sup>43</sup> SEETO Workshop on the public private partnership, Ohrid March 2007

In the SEE region, the majority of companies continue to undertake their own repair and maintenance, often employing a large staff of mechanics.

If we take into consideration the railway sector, according to the figures of the period 1996-2002, the productivity from 1996 to 2002 grew only 119%, meanwhile in Bosnia & Herzegovina it had a growth of more than 200%, in Macedonia more than 300%. The productivity growth in Albania is comparable only with Serbia & Montenegro. In absolute terms, the productivity in Albania is far below that of other Central East European countries, except with Bosnia & H. The staff within this period is reduced more than 200% but still it remains high, even with reductions during the last years.

Based on international experience *Public Private Partnership* is very important. The agency operating the toll roads under a concession agreement does not have to be owned by the private sector. As a relatively autonomous public entity, the public concessionaire can increase the funding available for investment by calling on private capital markets (by issuing revenue bonds). The relationship between the (public) owner of the road and the (public) concessionaire then needs to be spelled out in exactly the same way as if the concessionaire had been private. In this way, the public private partnerships, can therefore offer an effective solution.

#### **4.2 Albanian railways restructuring**

EU rules game on transport promote rail traffic, fair and free competition, international aspects, separation of infrastructure management – freight transport and passenger transport, support of infrastructure management role, framework for licensing and access charging.

Albanian railway (AR) is developing an investment program that aims to restore the railway in 8 to 10 years normal working condition.

Actually, the infrastructure is in bad conditions for several reasons. One important reason is that the last 15 years there was not sufficient money to maintain and repair tracks and structures. The result is that for safety reasons the maximum train speed is reduced to 40 or even 25 km/ hour. A second important reason for low speed is that signaling system was largely destroyed in 1997; actually the system works without signaling framework.

The low speed makes freight transport by rail slow and thus more expensive as necessary. The low speed also limits the capacity of single track network. As industry is beginning its revival and economy is growing, the demand for freight transport is growing and in a few years the speed should be improved so that more trains can be accommodated on the network. The passenger service is currently unattractive because of low speed and low quality of rolling stock. The ambition of AR is to buy better rolling stocks and design a better service patterns that is more suitable for future public transport in Albania. However this new trains pattern is useless as long as the maximum speed is as low as today.

As freight transport is growing and improvement of passenger service is urgent, the AR need to repair tracks and reinstall signals, to achieve a speed that is suitable for modern Albania. This requires investment in infrastructure, safety systems and rolling stock. Implementation of only one of these investments has no effects. New trains will only deliver a better service if the track is repaired and the safe running at 80 to 100 km/hour is possible.

AR passengers also need to improve the service with more frequent trains and shorter traveling times as today. In total AR needs is 300 million euro for modernizing in a period of 10 years. For infrastructure development of medium repair plan in three year is 40 million euro. It is possible to repair the network to 50 / 60 km hour.

- Trans-Balkan East-West Corridor plan includes a rail link from Qanë-e-Thanes to Kicevo. This will provide part of a link from the Adriatic to the Black Sea. In December 1998 talks were held to progress this plan, and the discussion is in process.
- A freight branch line from Lezhë to Shengijn port. This plan had been abandoned in the early 1990's but has now been re-instated as part of the expansion of Shengijn port. No dates for starting or completion of the work.
- A freight branch line from Sukth to Porto Romano port for oil.( north of Durres)  
This project is in its feasibility phase
- A link from Pogradec to Florina in Greece is planned.
- Electricification - not economically viable at present.

Rails is the favorite mode of international and long distance transport as regards environmental effects, rails is important for position of Durres port, domestic freight is important for mining, metal and cement industry; while the railway is dependent on this sector. Most heavy industry is privatized and therefore it is urgent the railway follow and adapts to the new open market situation, domestic rail transport of other segments is unlikely because of short distance. International long distance transport has good chances in medium distance (Ballkan); but it depends on development of Albanian Industry and road competition. In some cases, long distance to western and north Europe is a good alternative for bulk export – import.

#### **4.3 Sea Port policy of restructuring**

The port sector in general inherited a very poor infrastructure, at the beginning of period of transition. All facilities were outdated, technology was old, and the output of the port as well was far behind the other ports in the region, making the port of Durres and other ports not competitive in the region. The port was not divided in specialized terminals and the back up infrastructure was very poor as well.

Being in this situation the biggest challenge for the port sector was to improve the overall situation of the sector through:

- Improving the legal framework. Transition from centralized into market economy required legal reforms to be carried out.
- Privatization of the services -everything in the port belonged to the government and all services were public. That called for a privatization strategy in order to make the port more flexible and more competitive.
- Improve of port infrastructure
- Adoption of new technologies
- Increase of cargo handling capacities, improve safety and security in the ports
- Protect marine environment from pollutions

Port of Durres is situated in the South western part of the city 36 km east of Tirana. Durres port Authority is a joint stock Company with 100% of shares belonging to the government. The port has 11 wharfs, road and railway access, with a water area of 67

Ha, and land area of 80 ha. Length of the quays is 2,2 km, and water depth in the basin varies from 7,5 m up to 11,5 m future projects are to increase the water depth up to 12,5 m. According to the studies, a number of projects have been implemented, contributing in such a way to the better performance of the port. We can mention hereby the project of the World Bank, PHARE program, Trade development agency and European Investment bank.

Due to these investments as well as port reforms, the overall performance of the port has been improved in a significant way. Last year the overall cargo volume was over 3,4 million of tons.

Passenger traffic is experiencing a rapid growth as well. 2007 was a very successful year. Up to now the figures are very optimistic and by the end of the year we expect a 15-17% passenger traffic growth. The construction of future passenger's terminal will contribute not only to the improvement of the conditions but at further grow of the traffic.

Containers are the future of the port. The port started with containers and in the arch of 5 years the containers handling has noted a significant growth.

Port Authority is continuously working to improve the performance of the port and the main goal is to make the port a modern and competitive one in the region, with modern technology and equipments, qualified staff and efficient services in order to play its role as the Albanian gateway of Corridor no 8.

In order to achieve that goal the port should:

- Improve legal framework
- Privatize the services in order to make the port more competitive and increase the efficiency and quality of services. The privatization of services and terminals will be performed through competition according to the concession law that was recently approved by Albanian Government,
- Construct new terminals
- Deepening the access channel in order to make it possible for bigger vessels to get access of the port
- Rehabilitate railway and road connection. That will facilitate the distribution and transition of the cargo from port to destinations.

The final objective of the port, according to the study done from the World Bank titled "Port land Use", which at the same time is considered as the Master plan of the port, is to transform the port from a tool port into a Land lord port . This means that all services and equipments are going to be private and the land will be owned by the port.

Actually the following services are private:

- Stevedoring (cargo handling services)
- Tolling service
- Pilotage
- Mooring
- Ship's provisions are provided by private providers
- Different agencies like forwarding, maritime and other similar services are private.

But in the port, there are other services which are still un-privatized but are provided by port authority. Such services are:

- Mechanical sector, (or maintenance services)
- Equipment operation



- Containers handling operation
- Training center of the port and different terminals like passenger, bulk cargo etc, The port actually is undergoing a process of privatization for the majority of abovementioned items. A foreign experienced company has been contracted by the port in order to help in preparing all tender documentation for the privatization of these sectors terminals and services

Mechanical sector is the service that is under way of privatization. The objective of this privatization is to transfer to the private sector through tendering the performance of maintenance and repair work of Durres port.

Training center of the port will be privatized as well. The purpose of the privatization is to have a port Training centre operated through Private Sector Resources who will equip the Centre and provide Management staff training.

Existing operation, as well as the construction of the new one will undergo the same process. In the port, there are other services that in fact are not under port authority but still need to be privatized, such as tug boat services. A dilemma has to be worked out in this regard because the government has not defined yet what the terms of privatization are going to be.

The port has planned to do other infrastructure investments for the construction of the new passenger terminal. This terminal will be financed through a loan to the port given by EIB and EBRD. A new multimodal containers terminal has been planned to construct in the eastern part of the port. Bulk cargo terminals like grain minerals and cement terminals (due to some very serious investment in the cement industry that are approved recently by our government).

The port is thinking to precede with these future infrastructure investments through the application of concessions and public private partnership.

## **5. Conclusions**

The transport sector situation is problematic even in a regional point of view, but Albania still remains behind of most of Balkans states. The investments needed are beyond the state capacities. So, only for the program of road investment of about 560 million USD for 20 years is proposed to be incorporated to the National Plan of Transport. Also, the budget approved for 200 about 270 million USD of investment (about), whilst out of this, the internal financing is about 50% of the total amount of money. During these years of transition, especially after year 2000 a lot of progress is undergone in this sector, but it is a lot more to be done in terms of investments and restructuring of the sector. Privatization, restructuring, partnership with private sector are still in process of discussion. Railway sector is in high demand for restructuring. On the other hand, investment needed is too much. What shall be done: to privatize only a part of it (sector of services) or to go further? Are the concessions possibilities offered up to now the best solutions?

Public private partnership has shown in practice to be an effective tool. It also does not necessarily have to be owned by the private sector to be effective. The most important points are stringent accounting practices, a high public profile and technical know-how. It also needs to be genuinely autonomous.

In the analysis of the railway sector it is emphasized the discussion that Railway infrastructure should become an independent enterprise and should consider it proprietor of railway lines including all related assets.

Also, having into consideration the experience of other European countries, the Albanian Railway (AR) privatization should be treated carefully. This means that based on the above reasons, the concession in Albanian Railway Infrastructure is a difficult decision to be taken. Evaluating all the pros and cons each solution must to be considered properly. Albanian government is evaluating some expressions of interest in reaching a concession agreement by companies from the Czech Republic, Switzerland and Italy, but this has to be carefully evaluated because Brussels is not pushing too much for a full concession of the railways. We need to find a balance between our obligations to the European Community standards and our need to accelerate investment in the railway infrastructure. It still is needed the continuous improvement of the performance of the ports; If we analyses our main port (port of Durres) the port a modern and competitive one in the region, in order to make it able play its role as the Albanian gateway of Corridor no 8.

In order to achieve that goal the port should:

- Improve legal framework and privatize the services in order to make the port more competitive and increase the efficiency and quality of services. The privatization of services and terminals must be performed through competition according to the concession law that was recently approved by Albanian Government,
- Construct new terminals
- Deepening the access channel in order to make it possible for bigger vessels to get access of the port
- Rehabilitate railway and road connection. That will facilitate the distribution and transition of the cargo from port to destinations.

The improvement of overall performance of transport sector needs, also, *staff reduction*, because state owned companies are seen as entities with much higher social responsibilities. It has to bear in mind efficiency and social aspect as well, but it is necessary to be also a cost-benefit analysis.

In the frame of performance improvement there is a continuous need for management modernization. This has two dimensions: private management of the critical parts of this sector, and bringing more professionals in the sector. During the years of transitions, according to studies carried out, politics has interfered in appointments of people in high managerial positions and there also has not been stability of individuals in this hierarchy.

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