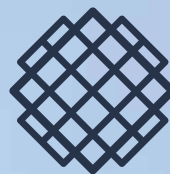




Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

## Performance Audit Report

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# EFFICIENCY IN THE IMPLEMENTATION OF THE 'REHABILITATION OF RAILWAY LINE 10: HANI I ELEZIT – LESHAK' PROJECT

Prishtina, March 2025

The Auditor General of the Republic of Kosovo is the highest institution of economic and financial control, which the Constitution and the Law<sup>1</sup> is provided with functional, financial and operational independence.

The National Audit Office is an independent institution, which assists the Auditor General in carrying out his/her duties. Our mission is to contribute effectively to public sector accountability through quality audits, by promoting public transparency and good governance, and fostering economy, effectiveness and efficiency of government programs to the benefit of all. We are thus building confidence in the spending of public funds and play an active role in securing the taxpayers' and other stakeholders' interest in increasing public accountability. The Auditor General is accountable before the Assembly for the exercise of the duties and powers set forth in the Constitution, the Law, by-laws and international public sector auditing standards.

This audit was carried out in accordance with the International Standards of Supreme Audit Institutions (ISSAI 3000<sup>2</sup>).

Performance audits undertaken by the National Audit Office are objective and reliable examinations that assess whether government actions, systems, operations, programs, activities or organizations operate in accordance with the principles of economy<sup>3</sup>, efficiency<sup>4</sup> and effectiveness<sup>5</sup> and whether there is room for improvement.

The Auditor General has decided on the content of the performance audit report "Efficiency in the implementation of the Rehabilitation of the Railway Line 10: Hani

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1 Law 05\_L\_055 on the Auditor General and the National Audit Office of the Republic of Kosovo

2 Standards and guidelines for performance auditing based on INTOSAI Auditing Standards and practical experience.

3 Economy - The principle of economy means minimizing the cost of resources. The resources used must be available at the right time, in the right quantity and quality, and at the best possible price.

4 Efficiency - The principle of efficiency means maximising the output from available resources. It is about the relationship between the resources employed and the results given in terms of quantity, quality and time.

5 Effectiveness - The principle of effectiveness implies meeting the predetermined objectives and achieving expected results.

i Elezit – Leshak’ project, in consultation with Assistant Auditor General, Myrvete Gashi Morina, who supervised the audit.

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# Abbreviations

RRA	Railway Regulatory Authority
BD	Board of Directors
DRB	Dispute Resolution Board
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
Infrakos	Kosovo Railways Infrastructure Joint Stock Company, the Promoter
MESPI	Ministry of Environment, Spatial Planning and Infrastructure (formerly Ministry of Infrastructure and Environment)
MFLT	Ministry of Finance, Labour and Transfers
NAO	National Audit Office
PAG	Project Administration Guide
PEPMU	Public Enterprise Policy and Monitoring Unit
PIU	Project Implementation Unit
SC	Steering Committee
Trainkos	Kosovo Railway Enterprise for Passengers and Freight
WBIF	Western Balkans Investment Framework



# Executive summary

The Line 10 Rehabilitation Project aims to improve the physical and technical condition of this railway line, to increase its transport capacity, speed and safety. This project includes the renovation of the railway bed, the improvement of signalling and communication systems, as well as the construction and modernization of stations and other necessary structures. The improvement of the railway infrastructure is considered an essential step for achieving the objectives of the National Development Strategy of Kosovo, contributing to the sustainable economic and social development of the country.

The National Audit Office has conducted a performance audit on the topic Efficiency in the implementation of the 'Rehabilitation of the Railway Line 10: Hani i Elezit – Leshak' project. The audit objective was to assess whether Infrakos, together with the Ministry of Environment, Spatial Planning and Infrastructure and the Ministry of Economy, were efficient in managing the project for the Rehabilitation of Railways of Line 10. This audit also assessed the contracting procedures and other costs considering that the project is not operational and includes the entire period from the funding request made in 2012, the negotiation of the financing agreement in 2015 over to the progress in project implementation process in October 2024. This project was funded through loans and grants, and over the 2015-2024 period €92,3 million have been paid, or 37% out of €250 million as set in the agreement updated and signed in December 2023.

**The overall audit conclusion** is that the lack of communication, the lack of adequate experts, insufficient commitment and decision-making by the responsible parties have led the project to being far from being efficient. According to the 2015 agreement, this project was supposed to be entirely finalised in 2019, but even at the end of 2024, the project is not even close to completion. Although there is progress in expenditures during 2022 and 2023, even five years past the deadline for project completion, the execution of works is at 60% for phase I, 32% for phase II, whilst for phase III there is still no designed project. Additional and provisional costs caused by these delays are €30 million, of which about €28 million are from changes to the basic contracts and the rest are other project-related costs.



Some of the main shortcomings identified include:

### **The project implementation accompanied by prolonged delays at every stage and costs beyond planning**

The rehabilitation of this line was not completed on time despite the numerous changes that were allowed to the contractor compared to the initial contracts. These changes have resulted in €30 million of additional and provisional costs and significant delays in implementation. The project, even after more than nine years since the signing of the agreement, is far from being finalized, which is why the parties have been forced to extend the deadline for its finalization until 2027. But with the current pace of implementation, the removal of some items from the current contracts and the non-commencement of the third phase, there is still a long way to go until finalization. The delays were also caused by the frequent changes of the Board of Directors and Chief Executive Officers, and their need for various interpretations and reports regarding the process. Furthermore, there were also postponements of meetings by the Board of Directors, the Steering Committee, as well as delays in responses from the Dispute Resolution Board until the last day allowed.

### **Major changes in contracts and the need for additional borrowing due to improper assessment of needs**

None of the processes related to this project were based on real needs, neither the design contracts, nor those for technical assistance, for the performance of works, or for supervision. Thus, there was a need for price revisions, higher costs than those contracted, expenditure of funds for unplanned works, consequently these changes have also caused the need for additional borrowing in the amount of €38 million<sup>6</sup>. Furthermore, the removal of signalling and electrification components, according to Infrakos' initial planning, is expected to result in additional costs of around another €55 million.

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6 For details, refer to Table No. 2

### **Contracting and contract management procedures were followed with major shortcomings, resulting in major changes to the project**

The method used for contracting was not the right method since for such complex projects, methods that allow flexibility in design are preferred, and the implementation of this project has proven that there was a need for changes, which was also ascertained by the technical assistance contracted by Infrakos. So far, 27 change orders have been issued with additional and provisional costs of around €28 million or 21% higher than the initial contracts, but which have also taken additional time, because the procedure used required that the design be drafted by another company and the works by another company. The evaluation processes were also followed with delays, where from the contract notice to the signing of the contract it took around two years (the procedures initiated during 2017 and 2020). There were also price changes without a fixed ceiling for change and they also did not appoint managers for individual contracts, which further reduced the possibility of identifying bottlenecks over time and made it difficult to take various measures to reduce the negative effects. Furthermore, the supervisory body had discovered that a subcontractor had cheated with the type of concrete it used, and Infrakos had requested from the main contractor to stop working with this subcontractor as regards the supply of concrete, until its final removal as a subcontractor. After the draft was sent for comments, Infrakos provided us with evidence that it has determined the methodology and selected the laboratory for testing the quality of the concrete, but that it has not yet decided how it will proceed and whether it will take any measures against the main contractor.

### **The Project Implementation Unit had failed to exert its influence on the project implementation**

The financing agreement signed in 2015 determined that this Unit has a key and decisive role in the management and implementation of this project. The Project Implementation Unit, according to this agreement, should be included in all processes and in coordination with other stakeholders will ensure efficient implementation of the project. However, this unit was not as effective as expected in its role, considering that it was never complete, there was a constant change of its members and the selection of members was not done through competitive and transparent procedures but through appointments. There was no specific procedure for their selection until 2022 when the regulation was drafted which

provides for the method of selecting members. Even today, this unit continues to be incomplete and with an acting chairperson.

### **The closure of the Fushë Kosovë-Hani i Elezit and Fushë Kosovë-Mitrovicë lines, in addition to being non-transparent, also impose additional costs**

Infrakos, with a simple notification sent to the Railway Regulatory Authority, has closed the traffic on the Fushë Kosovë-Hani i Elezit line since 2020 for passengers and since 2021 for goods, and the Fushë Kosovë-Mitrovicë line since 2022 for both goods and passengers, to provide working conditions to the contractor. Legally, the decision to close the lines or not should be made by the Ministry of Environment, Spatial Planning and Infrastructure, but Infrakos has not even notified the latter. These lines are still not functional at the end of 2024 and are not available for use by citizens or businesses.

### **Lack of monitoring by the Publicly Owned Enterprises Policy and Monitoring Unit and insufficient decision-making by the Board of Directors, Steering Committee and Infrakos**

The main bodies that could have had a direct or indirect impact on the acceleration of processes, the progress of the project implementation and increased accountability have not been sufficiently engaged in monitoring or decision-making. The Steering Committee, the Board of Directors and the Unit have discussed in various and separate meetings the implementation of the Line 10 Railway Rehabilitation project, although the responsible parties noted that the project was not making the necessary progress towards achieving the set objectives. The actions have been deficient with the exception of the dismissal of the Board of Directors in 2022 after the shortcomings were identified by Publicly Owned Enterprises Policy and Monitoring Unit. However, even after the dismissal of the board of directors, the current state of the project, with delays in implementation, project changes and additional costs, shows that no concrete actions have been taken that would improve the situation or increase the efficiency in the development and finalization of the project.

In order to ensure that the commitments of the parties involved are increased, which would consequently lead to the improvement of the process and the increase

in efficiency to complete the implementation of the railway rehabilitation project - line 10, we have given 11 recommendations. Two recommendations have been given to the Ministry of Environment, Spatial Planning and Infrastructure, two to the Ministry of Economy, namely the Unit for Policy and Monitoring of Public Enterprises and seven to Infrakos. The full list of recommendations is presented in Chapter five of this report.

### **Response of parties involved in the audit**

The Ministry of Environment and Spatial Planning, the Ministry of Economy and Infrakos have agreed with the audit findings and recommendations. The letters of confirmation can be found in Appendix III.

We encourage the institutions subject to this audit to make every effort to address the recommendations given.

INTRODUCTION

01

# 1. Introduction

The development of the central and regional railway network is one of the key needs for the economic and social development of South-Eastern Europe, which would strengthen and accelerate the movement of passengers and goods to neighbouring countries and Western Europe. The Line 10 rehabilitation project, as part of the National Development Strategy of Kosovo, aims to improve the physical and technical condition of this railway line, to increase its transport capacity, speed and safety. This project includes the renovation of the railway bed, the improvement of signalling and communication systems, as well as the construction and modernization of stations and other necessary structures. The improvement of the railway infrastructure is considered an essential step in achieving these strategic objectives, contributing to the sustainable economic and social development of the country.<sup>7</sup>

Since the Railways in Kosovo, according to the European Bank for Reconstruction and Development (hereinafter EBRD), have been struggling for a long period due to the lack of sustainable investment and adequate maintenance, the railway infrastructure in Kosovo has suffered from decades of underinvestment, thus causing a deteriorated condition that limits traffic speeds to 30-70 km/h and makes road transport dominant.<sup>8</sup>

Based on the feasibility study funded by the European Union (hereinafter EU), compiled in November 2010<sup>9</sup> the multimodal transport strategy and the action plan for its implementation were drafted. According to this study, the railway infrastructure in Kosovo today is outdated and not in a good condition to meet the needs of passengers and goods. Furthermore, it does not provide adequate connections with neighbouring countries and ports in providing freight and passenger services. It needs modernization and

<sup>7</sup> National Development Strategy 2016-2021

<sup>8</sup> [EBRD and EU back rehabilitation of Kosovo's railway network](#)

<sup>9</sup> TA KOS 02- Feasibility Study for the Rehabilitation Line Fushë Kosovë - Leshak

development to cope with the future needs of providing sustainable transport services. Below, we have presented the extension of Railway Line 10 Hani Elezit – Leshak.

Picture 1. Extension of Railway Line 10 Hani Elezit - Leshak



For the Railway Line 10 rehabilitation project, Infrakos has secured significant funding from several international and national sources. Infrakos, supported by the Government of Kosovo, has signed agreements, ratified by the Assembly of Kosovo, with the EBRD, the European Investment Bank (hereinafter EIB)<sup>10</sup> who have expressed their interest in providing soft loans<sup>11</sup> for the rehabilitation of the Railway Line 10 Hani i Elezit - Leshak. In addition, grants from the EU, EBRD, and the Western Balkans Investment Framework (hereinafter WBIF) have been signed for the said

project. Below, we present the financing plan, expenditures and disbursements so far on the implementation of the project.

<sup>10</sup> In September 2015, a financing agreement was signed by the Ministry of Finance and the EBRD, while the project implementation agreement was signed between the EBRD and INFRAKOS; In December 2015, a financing agreement was signed by the Ministry of Finance, the EIB and INFRAKOS, while the project implementation agreement was approved between the EIB and INFRAKOS; In 2016, a financial grant agreement was signed between the Ministry of Finance and the European Commission which was Decreed with No.DMN-007-2018

<sup>11</sup> Soft loan - is a loan with a below-market rate of interest. This is also known as soft financing. Sometimes soft loans provide other concessions to borrowers, such as long repayment periods or interest holidays.

*Table 1. Financing plan, expenditures and disbursements by fund (in euros).*

Source of investment	2016 Financing plan <sup>12</sup>	2023 Financing plan	Disbursements <sup>13</sup>	Expenditures until October 2024	% of expenditures compared to total plan
EBRD Loan	40,000,000	40,000,000	21,461,824	21,697,836	54
EIB Loan1	42,000,000	42,000,000	30,800,000	29,738,631	71
EIB Loan2		38,000,000			0
GBPI/EU	84,200,000	89,000,000	-	39,662,881	45
EBRD Grant	1,700,000		-	1,277,016	75
Government of KS	40,100,000	41,000,000	-	-	0
Total	208,000,000	250,000,000	52,261,824	92,376,364	37

The funds from the EIB are paid to the Treasury and become part of the Capital Investments budget of the Ministry of Environment, Spatial Planning and Infrastructure (hereinafter referred to as MESPI), which constitutes 25% of the total project budget. MESPI is the sole authority to request the Treasury to make payments to the contractor. The remaining part of the loan and grants are managed by the Ministry of Finance, Labor and Transfers (hereinafter referred to as MFLT), Infrakos and the Office for Cooperation within the Office of the Prime Minister.

The responsibility for the implementation of the project lies with Infrakos, namely the Project Implementation Unit (hereinafter referred to as the PIU). The PIU was established in November 2015 by Infrakos, in cooperation with the Ministry of Railways and Infrastructure Affairs and the Ministry of Economy in charge to monitor public enterprises. To implement the project, detailed rehabilitation plans have been drafted, the necessary funds have been secured through international grants and loans, and the initial phases of work have begun.

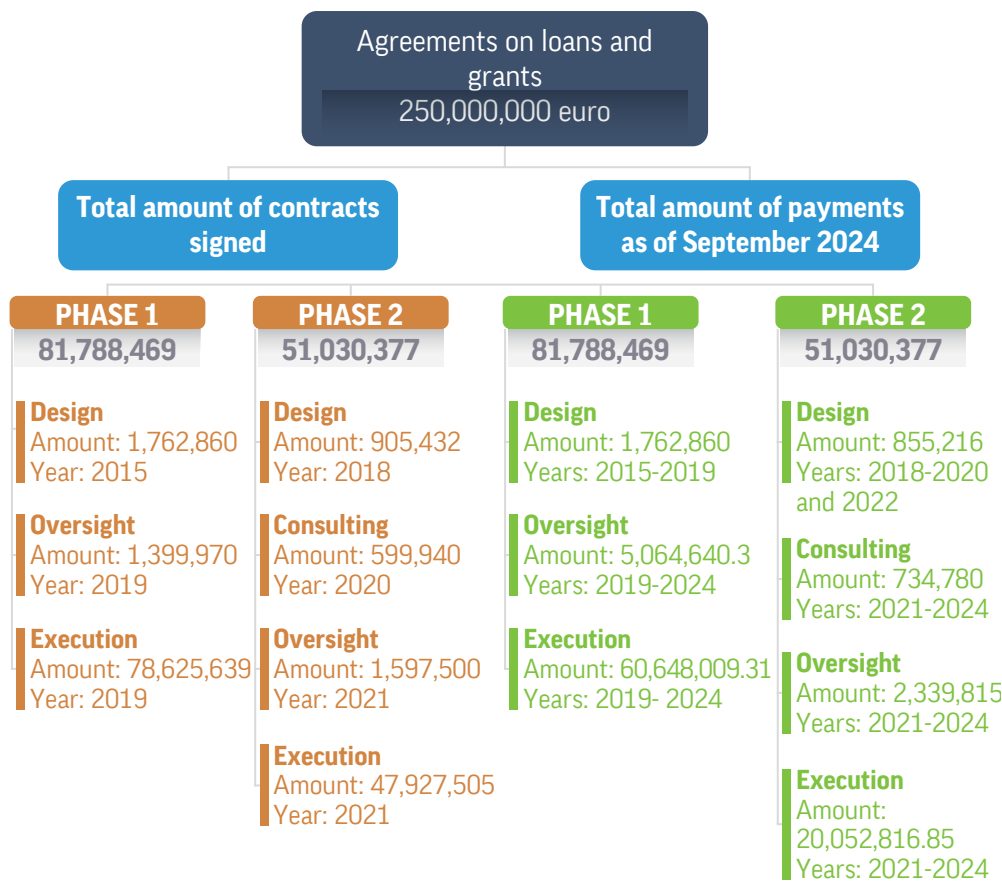
12 According to the Project Management Manual, the agreement with the EIB ratified by the parliament in 2016 and the report on the Modernization of Railway Line 10 in 2020.

13 According to the report by the Debt Management Division, within the MFLT, the loans made through the MFLT



According to the agreements signed in 2015, the project in question is divided into three phases. Each phase has its own direction and the expected duration for the completion of the works. As a result of the delays in the completion of the works, changes have been made to the contracts for the performance of the works and the contracts for supervision through the signed annexes. For the implementation of the project, the preliminary agreement of 208 million has been updated in 2023 and the total value of financing with an additional amount of €38 million from loans and four million from other funds, which increase the total value of the project to €250 million. As can be seen in the table above, only 37% of the allowed budget has been spent on the project.

Chart 1. Contracts and expenditures incurred until October 2024





# AUDIT OBJECTIVE

# 02

## 2. Audit objective and questions

The audit objective is to assess whether Infrakos, together with the Ministry of Environment, Spatial Planning and Infrastructure and the Ministry of Economy, were efficient in managing the project for the Rehabilitation of Railways of Line 10. This audit also assessed the contracting procedures and other costs, considering that the project is not operational.

### Audit questions

To answer the audit objective, we have posed the following audit questions:

1. How efficient were Infrakos, MESPI and ME in managing the Line 10 Railway Rehabilitation project?
2. How was the overall process for project implementation managed?

Infrakos as the project implementer, MESPI as the Ministry responsible in

this case for railway matters, and the Ministry of Economy which, through the POEs Policy and Monitoring Unit (hereinafter referred to as the PMU), also monitors Publicly Owned Enterprises (hereinafter referred to as the POEs) are subject to audit. Also, since 2022, these institutions have been included in the Steering Committee, where the steps that need to be taken for the implementation of the project were discussed.

This audit included the loan and grant agreements signed in 2015 and updated in 2023. It also included the contracts with the consulting companies and the design company for the supervision and execution of the works. In addition, we have analysed the request for loan financing for this project developed in 2012.

It should be noted that some of the documents of the procurement files of the supervisory body and the design were provided to us after the execution phase. The final response from the Dispute Resolution Board was

submitted to Infrakos at the end of October 2024, and we have also received the same from Infrakos.

The detailed audit methodology, sub-questions, criteria, scope and detailed description of the system and responsibilities of relevant parties are presented in *Annex II* of this report.



# ADDITIONS

# 03

### 3. Audit findings

*During the years 2015-2024* €92.3 million or 37% of the €250 million were paid for the project 'Rehabilitation of Railway Line 10 Hani i Elezit - Leshak', which was a value set by the updated agreement signed in December 2023. As can be seen from the graph below, the execution of payments for this project from 2008 to 2020 has been very low. Better progress begins in 2021, while in the years 2022-2023, there was an increase in investment payments of about 45% compared to the previous period<sup>14</sup>, contributing to the overall costs of the project and the implementation of the works. However, the project is still far from achieving the objectives set for it.

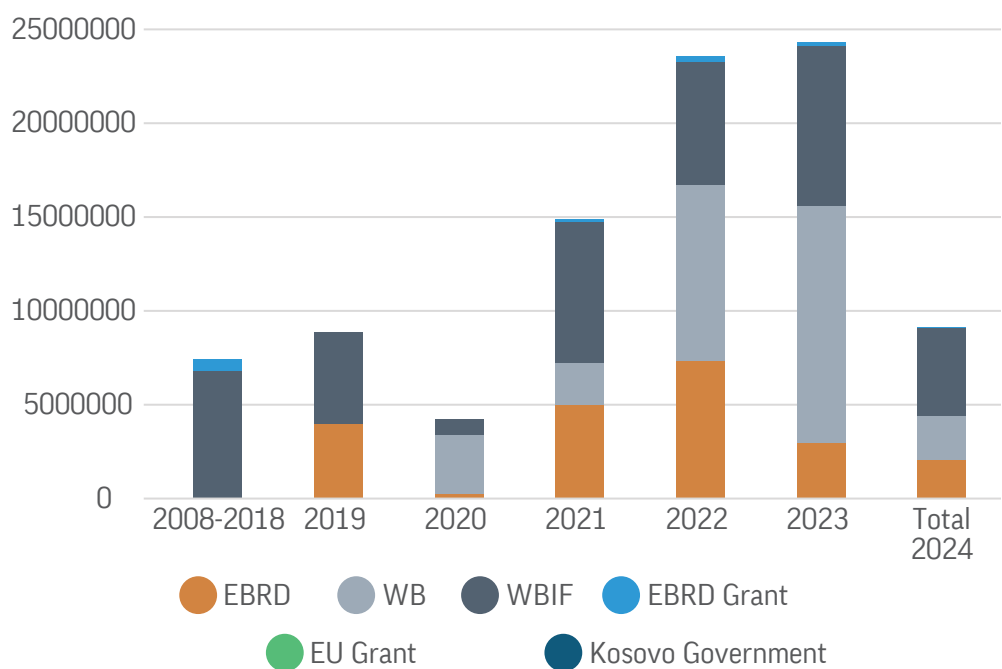
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14 The calculation of expenses was made from the period 2008-2020 compared to 2021-2024.



The following is the financing plan and project expenditures by funds during the years 2015 - 2024 (October).

Chart 2. Expenditure data by fund for the years 2015 - 2024.



This chapter includes the entire implementation process, starting from signing loan agreements, allocated funds, and project implementation up to the effects of costs.

### 3.1. Efficiency of Infrakos, MESPI and ME in the rehabilitation of the railway – Line 10

This section contains information regarding the financing agreement process, terms of the agreements, analysis of project phases and issues identified regarding the project implementation unit. The relevant stakeholders for the implementation of this project have not been continuously involved throughout the process. MESPI was not involved in the negotiations for the financing agreements, the PMU

was not included in monitoring the implementation of the project and Infrakos, although it was involved and responsible for the implementation of the project it had not taken sufficient action to complete the project as contacted, neither in terms of time nor in terms of the executive project.

Their inefficiency has affected the non-functioning of the relevant units, resulting in delays in decision-making, shortcomings in procurement and contract management processes, and a low pace of work. These problems have also affected the duration of the project implementation.

### **The process of financing agreements and the involvement of responsible actors**

*According to the Law on Railways - the Ministry of Environment, Spatial Planning and Infrastructure, in addition to other duties, also represents Kosovo in international agreements on railways. According to international agreements ratified by the Assembly in 2016 with No. 05/L-111 and in 2023 with No. 08/L-251, which have precedence over the laws of the Republic of Kosovo according to Article 19 on the Implementation of International Law from the Constitution of the Republic of Kosovo, responsibilities are clearly defined for all parties and in particular for the Minister of Economic Development, now ME according to Article 6.05.*

Section 2.03 of the EBRD agreement states that the Project Entity shall set the standards and conditions relating to the project and its execution. According to the Law on Public Enterprises, Article 5 - The Public Enterprises Monitoring Unit shall exercise continuous and rigorous supervision of the activities of the Board of Directors. It is also required that every 30 April - 'Report from the RRA on all applications, refusals and approvals for railway operating licenses' be sent to the borrower.

In the negotiation meeting held in July 2015, for the loan agreement with the EBRD in the amount of € 39.9 million, the participants were the EBRD from the lending side as the leader appointed by the foreign banks, while MFLT, the Ministry

of Economy (hereinafter ME), and Infrakos represented Kosovo<sup>15</sup>, but MESPI did not attend this meeting since they were not even invited to participate. Although we have not received any documents, we have been informed by MFLT that the same members continued the negotiation until the signing of the agreements for both loans. MESPI is the ministry responsible for all types of transport in Kosovo, therefore for such projects of essential importance for the country it should have been involved in the process. The agreements were negotiated by MFLT, ME and Infrakos, where the latter as the initiator of the project had not invited MESPI to participate.

Although the agreement was ratified in 2016, the first work contract was not signed until 2019. These delays have occurred as a result of the failure to meet the preconditions and requirements set out in the financing agreement. This agreement requires that the Environmental Impact Assessment<sup>16</sup>, the tender dossier for supervision services<sup>17</sup>, the creation of the Project Management Manual<sup>18</sup> and the completion of the Project Implementation Unit<sup>19</sup> be carried out before the signing of the agreement. However, all these documents were submitted to us with dates later than the date on which the agreement was signed.

According to the previous head of the PIU, this happened because in order to benefit from the loan, the borrower must provide half of the investment budget with its own budget or grants. Therefore, in order to meet the deadlines for receiving grants and in coordination with the Bank, some unfinished versions of the above-mentioned documents were agreed upon, which could be finalized in the meantime and as needed.

Another important but unfulfilled prerequisite was the preparation and approval of the Project Administration Manual (hereinafter referred to as the PAM), which describes the essential administrative and management requirements of the Project for the Rehabilitation of Railway Line 10, so that the project is implemented

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15 Appointed at the meeting held on 21-22 July 2015 in Prishtina on the negotiation of the loan in the amount of 39.9

16 Summary Report of environmental and social requirements issued in February 2017

17 File prepared on 15 June 2017

18 Manual prepared on 03.12.2015

19 Decision on the establishment of the Unit is 26.11.2015

on time, within budget and in accordance with the policies and procedures of the Government of Kosovo and the EIB. The arrangements regarding the implementation of the project are subject to agreement and approval between the Government and the EIB, and the same are included in the PAM, where the latter also becomes the basis for the implementation of the project. We have not been provided with the approval<sup>20</sup> made by the Bank (EBRD), even though the PAM as a compiled document exists<sup>21</sup>, but the date of compilation for this document was late, or six months after the financing agreement.

In addition to the fact that this document was not approved, it has not been implemented according to the objectives, obligations and plan foreseen in it. According to Infrakos, they face financial problems and cannot implement the requirements of the PAM. But even in cases where there were sufficient funds, still as a result of the lack of coordination of responsible actors and insufficient commitment, the PAM has not been implemented in full.

Meanwhile, according to the former head of the PIU, they were notified of the existence of the PAM upon their appointment and the approval from the Banks should have been on the hands of Infrakos Management of that period. Moreover, according to him, these concerns have been raised from time to time by the EBRD and the EIB, with emphasis on the obligations that Infrakos has undertaken, but we have not been provided with evidence that anything has been undertaken.

According to the legislation MESPI in coordination with the RRA are responsible for representing Kosovo in international agreements as well as for the safety and operating standards of the railways, but according to the evidence none of them was part of the negotiations. MESPI<sup>22</sup> confirms that it was part of some discussions in 2010 when the feasibility report for the project in question was prepared, but that it was not part of the negotiations.

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20 Approval document from lending banks approving any process or change that occurs during the implementation of the project;

21 PAM;

22 Head of the land department;

Although the RRA, as it has responded, is not required by law to be part of the negotiations, we have not found any evidence that MESPI coordinated with it. The RRA stated that it was part of some discussions but that it was not asked by Infrakos to participate in the negotiation of the agreements.

The ME was not ensured that the PMU fulfilled all its obligations on the project implementation process nor on the responsibility given to it by the financing agreement, until the Steering Committee (hereinafter referred to as the SC)<sup>23</sup> was established. This SC was established in 2022 and their engagement has started since then.

The ME respectively the PMU has not participated or discussed with Infrakos any of the environmental assessment reports, the contracting processes for the implementation of the project, the discussions on the compilation of the guidelines, the establishment of the Project Implementation Unit, the engagement of the unit's experts (such as: experts for tracks, signalling, telecommunications and energy, for construction works, procurement, etc.) and other requirements as required by the financing agreement signed in 2015. The ME has not provided us with evidence regarding their participation in the first negotiations, but the same has been provided to us by the MFLT<sup>24</sup>. Despite our continuous requests, the ME has not responded to us regarding them.

Furthermore, the PMU, after a request from the MFLT for input on the updated agreement in 2022, proposed to change some of the responsibilities provided for in the 2015 agreement. The MFLT did not take the unit's suggestions into account, so the updated agreement ratified by the Assembly of Kosovo in 2023 included the same responsibilities for the ME as the 2015 agreement.

This occurred as a result of a lack of coordination and communication between the parties involved regarding the obligations arising from the agreement. Furthermore, there was no monitoring by either party on the fulfilment of the conditions set out in the agreement.

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<sup>23</sup> Government Decision on the establishment of the Steering Committee;

<sup>24</sup> Minutes of the negotiation meeting of 21-22 July 2015, evidence on disbursements and unprepared analysis on loans

It should be noted that although the negotiating parties were part of the agreements and had their own roles and responsibilities, the MFLT is the only entity that has provided us with documents and evidence on the negotiation of the agreements for the project in question, evidence on disbursements, terms and conditions of the loan and the history of the project, even though all participating parties should have had evidence of their involvement in these activities.

### **Processes before and during the development of procurement procedures**

The EBRD and EIB require that works and services be contracted through procurement procedures in accordance with their guidelines. These procedures include several stages such as: planning, needs assessment, request for services and works, development of procurement procedures - contract notice, evaluation of offers, contract signing and contract management.

### **The contracting method for the Rehabilitation of Railway Line 10 not analysed**

*According to international good practices and the FIDIC (International Federation of Consulting Engineers - Fidic) guidelines for the management of infrastructure projects, a preliminary analysis should be carried out on which FIDIC method is most suitable for contracting large and complex infrastructure projects. This analysis includes identifying the risks, responsibilities and benefits of each method (Red Book, Yellow Book, Grey Book) to ensure that the project is carried out efficiently and within the deadlines.*

Infrakos had not conducted a preliminary analysis to determine the most appropriate contracting method for the Rehabilitation of Railway Line 10. Before signing the design contract (for phase I) and contracting the construction company for phase I in 2019 and II in 2021, Infrakos had not analysed whether the contract for the execution of the works should include only construction (Red Book) or combine design and construction (Yellow Book) or a “turnkey” solution (Grey Book). The design for these phases was carried out by the grant, so in a way the use of this procedure at this stage was necessary. However, if a proper analysis of the needs was carried out in time, it would be seen that the need for changes in such projects does exist.

At the request of Infrakos, the technical assistance contracted in 2020 prepared one SWOT analysis for phase I in March 2023 and one for phase II in March 2024, which analysed the shortcomings and advantages in the event of a termination of the contract for phase II, but not the analysis of which procedure and method would be the most appropriate for contracting the works.

The lack of a preliminary analysis was a result of the lack of internal capacities and the lack of timely technical assistance to conduct a detailed analysis of the advantages and disadvantages of different contracting methods. Fidic procedures are different from local ones, therefore Infrakos did not have internal capacities for these analyses. The technical assistance that should have helped in these processes was not contracted until 2020 even though it should have been contracted in 2016.

The method used for outsourcing did not allow the contractor to make the necessary changes to the design, which resulted in delays in the completion of works and overall cost overruns.

### **Method for contracting out the work not appropriate**

Based on discussions with Infrakos engineers and the Supervisory Body on the appropriate contracting method, it is estimated that for a project such as this, the choice of contracting method depends on several factors, including the complexity of the project, the distribution of responsibilities and the degree of risk accepted by each party. If the project requires detailed design by the owner and intensive supervision during construction, the Red Book (construction only) would be the most appropriate.

This method was chosen because the funding for the design of the project was a grant provided by WBIF before the signing of the agreement and the division of the project into phases where the activities were not known in detail.

However, the Technical Assistance contracted by Infrakos has confirmed that since the *Yellow Book* refers to the contract conditions for the plant and design-construction and is used for the signalling and communication works on the railways designed by the Contractor, this method would be more appropriate. Infrakos has

*used the Red Book method for phase I for the execution of the works as it had the design compiled and mainly had civil and engineering works*

However, given the way the process has been developed over the years, the large needs for changes in design, bridges, signalling, quantities, etc., the Yellow Book method of works would be more appropriate. This method allows the contractor to take responsibility for design and construction, offering flexibility and efficiency in the execution of the project.

This project is complex and required detailed design and intensive supervision, therefore Infrakos chose the contracting method that offers control and clarity in the responsibilities of the parties involved. The Red Book as a contracting method provides a clear framework for managing the process, and allows for the handling of every detail in a structured manner; however, the project implementation was not fully in accordance with the design, consequently it was not necessary for everything to be so structured in advance.

However, the numerous changes that occur during implementation due to new requirements and unexpected challenges, such as: design changes, changes in quantities and positions, changes in tunnel design and bridge design and type, highlight the need for flexibility in contract management. The use of the Yellow Book from the start of the process, which would allow the contractor to take responsibility for design in addition to construction, allows the contractor to execute more efficiently and adapt to changing needs, since any changes that had to be made from the initial design took their time.

**Poor needs assessment for project implementation** - *Proper needs assessment is essential to ensure that contracted works and services closely align with organizational objectives and meet stakeholder needs effectively.*

Infrakos had not made an accurate needs assessment and this was evident throughout the project. Due to the lack of accurate and detailed analyses, the contracts underwent numerous changes, with change orders and continuous annexes to the contracts. There was poor needs assessment for the contracts, for the design of the project, for all rehabilitation sections, contracts for technical assistance, contracts for supervision and execution of the works.



The changes were mainly made upon request/remarks from the contractor and were allowed by the supervisory body and Infrakos. Although the changes are allowed by procedures, these have resulted in additional costs. The supervisory body had made remarks on the budget since the tendering phase, and moreover the limited budget had resulted in the removal of the signalling and electrification activity and the need for additional loans.

Table 2. Changes from the basic contracts for each project activity

Project Activity	Project Phases	Change Order Period	No. of Change Orders	No. of Annexes	Accepted Contract Value (Euro)	Additional and Provisional Costs (Euro)	additional % from changes
Project design	Phase I	2015-2019	-	4	1,762,860	-	-
	Phase II	2018-2022	-	2	905,342	-	-
Technical assistance	Phase I and II	2020-2024	-	11	599,940	150,000	25%
Supervisory body	Phase I	2019-2024	-	6	1,399,970	3,664,670	262%
	Phase II	2021-2024	-	7	1,597,500	742,315	46%
Implementation of works	Phase I	2019-2024	26	4	78,625,639	8,199,648	10%
	Phase II	2021-2024	1	1	47,927,505	15,177,353	32%
TOTAL			27	35	132,818,756	27,933,986	21%

As can be seen in the table, there are up to 27 change orders which, in addition to changing the initial project design<sup>25</sup>, result in additional and provisional costs ranging from 10% to 262% of the original contract value. As a result, the supervision contract for phase I experienced a significant increase in costs from €1,399,970 to €5,064,640 or 262%, while the contract for phase II increased from €1,597,500 to €2,339,815 or 46%<sup>26</sup>.

In the meantime, in the implementation of Phase I works, the planned value for unforeseen works was spent over 3.3 million out of about €4.8 million or about 70% of these change orders, and in Phase II the value for price adjustment is over €15 million or about 32% additional cost from the accepted contract value<sup>27</sup>.

This situation indicates inaccurate planning by Infrakos, where neither the expenses nor the necessary resources for financing the supervision of the project and the delays in the implementation of the works had been foreseen.

The failure to properly assess the needs for the budget, services and works has created the need for additional borrowing<sup>28</sup>, numerous change orders and an increase in the initial amount of the contract to cover the expenses. These changes, in addition to increasing the cost, have also contributed to delays and stagnation since the contractor and the supervisory body, in most cases, have used the maximum deadline of 28 days to respond to the requests.

The late contracting of assistance for project issues has also contributed to the shortcomings in this and other situations, even though their contracting within six months was a requirement of the agreement. Their contracting was done about four years late from the deadline set by the agreement. The purpose was for various experts to provide Infrakos with advice on the preparation of the detailed design of the project, the preparation of tender documents, the execution of the works, the supervision and implementation of the project and various strategies

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25 Letter for additional budget for signalling and electrification sent to the Ministry of Finance by Infrakos

26 The cost calculations of these two experts are found in the document titled "Annexes and payments of the supervision contract for phases 1 and 2"

27 The accepted contract value means the value of the bid together with the value of the provisional amount

28 New agreement for 38 million additional borrowing

and analyses according to the situations. This contract was signed significantly later than the contracts for the drafting of the project design for Phase I29 and Phase II30 and later than the contract for the implementation of the project works for Phase I31, therefore, its signing did not bring the expected benefits.

### **Delays in the implementation of the procurement plan and the Bid Evaluation process for the Rehabilitation of Railway Line 10**

The overall procurement plan should be finalized and approved by the Bank before the start of procurement processes, and necessary adjustments will continue throughout the project duration. In the process of evaluating bids for infrastructure projects, it should be ensured that the tendering and evaluation phases are completed within the established deadlines to avoid losing the most favourable financial and operational opportunities<sup>32</sup>.

The procurement plan was prepared and approved by the Bank in December 2018<sup>33</sup> or three years after the signing of the financing agreement. This plan has not been updated for the last two years as required by the EBRD Guidelines, although there were changes in its implementation, and the plan was not completed by the end of the execution phase of this audit (October 2024).

Of the eight planned procurement processes from the capital component worth €221,079,000, only four have been completed. While four other processes worth €107,079,000 have not even started yet. As for the goods and services component, two out of nine procurement processes worth €1,700,000 have not yet started.

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29 Design contract for Phase I signed on 15.07.2015

30 Design contract for Phase II signed on 30.04.2018.

31 Contract for the performance of works for Phase I signed on 06.02.2019

32 In line with the European Investment Bank (EIB) guidelines on public procurement, it is stressed that it is essential that tendering and evaluation procedures are completed within the set deadlines to ensure economy, efficiency and transparency. This is particularly important to avoid the loss of financial and operational opportunities (page 9). Fast and efficient procedures are necessary to prevent cost increases and thus the loss of opportunities for better financial offers from tendering companies. [https://www.eib.org/attachments/lucalli/20240132\\_guide\\_to\\_procurement\\_for\\_projects\\_financed\\_by\\_the\\_eib\\_en.pdf](https://www.eib.org/attachments/lucalli/20240132_guide_to_procurement_for_projects_financed_by_the_eib_en.pdf)

33 We have not been provided with the procurement plan from 2015 when the plan was signed.

Below, we have presented delays in the evaluation process for three signed contracts.

Tendering process	Status	Cause	Effect
Technical assistance	The procurement process for signing the consultancy contract took about two years from the date of the contract notice.	The causes of delays in the tendering process are numerous and include the complexity of the offers and the control of the documentation, the requests for clarifications and the submission of additional documents, as well as the time it took to obtain the approvals that were supposed to be obtained from the banks. Also, Infrakos's continuous requests to the EBRD for support and various updates, due to the lack of sufficient experience for such assessments. Other commitments of the commission members, as well as the pandemic, have also affected these delays. An additional cause of delays during Phase II has been the frequent change in the organizational structure of Infrakos, including the arrival of the new Chief Executive Officer and the resignations of certain commissions.	The late contracting of technical assistance has affected all steps of the project: drafting the project design, preparing the tender dossier, supervising and implementing the project, as well as significant delays in the completion of the works.
Phase I	In the tendering process of phase I, the procedure used had changed from the one with pre-qualification. Without notice, they had switched to the procedure with two envelopes, and this has caused delays in the tendering process. Furthermore, the winning company had not met the conditions in the procedure used initially, which also included signalling and electrification, but with the change of procedure without cancellation and without notice, this company was chosen as the winner.		As a result of long delays in the tendering process of Phase I of the rehabilitation project, Infrakos has lost the opportunity to have three responsive bids that also met the criteria for the signalling and electrification activity.

Phase II	<p>The tender publication date on ECEPP (EBRD procurement portal) is 20 February 2019 and continued until the establishment of the technical and financial bid evaluation committee on 5 June 2020, even though the commencement of the contract implementation was scheduled to be on 16 September 2019 and last 12 months. This means that the evaluation committee was established only three months before the contract was due to end. Its implementation in 2024 has not yet been completed.</p>	<p>As a result of long delays in the tendering process for Phase II of the rehabilitation project, Infrakos lost the opportunity to contract the cheapest bidder, who withdrew from the process due to these delays. After the withdrawal of this bidder, Infrakos contracted another operator, which turned out to be €1.7 million more expensive. This increase in costs is a consequence of several factors that influenced the bid evaluation process for Phase II of the railway rehabilitation.</p>
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The delayed drafting of procurement planning has affected the postponement of the implementation of each procurement process. Meanwhile, the unrealized procurement processes are the result of the initial planning, which was based on the activities of the agreement<sup>34</sup>.

Meanwhile, delays in the bid evaluation process for the rehabilitation of the railway on Line 10 for all three procurement procedures have had a significant impact on the progress of the project and its completion within the established deadlines. This process has encountered various obstacles, which have delayed the opening

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34 Planned Activity for Signalling and Electrification and Phase III Section Mitrovica - Leshak

and evaluation of bids and caused a loss of opportunities to carry out the works according to the original plans.

It is important to mention that these delays have led to increased costs and loss of opportunities to benefit from more favourable financial and operational opportunities.

### **Shortcomings in contracting the company for the project design**

For the implementation of the project, two contracts have been concluded for the design of two sections of the project, which include the conceptual and implementation design, technical specifications for the works contracts and other advice on the project. These two design contracts are closely linked to the implementation of the project as a whole.

**The terms of reference were based on a feasibility study which referred to a report from 1984.** The Feasibility Study for the project to rehabilitate the Kaçanik-Hani i Elezit segment of the line differs in cost and in safety and interoperability<sup>35</sup> issues compared to the detailed design for phase I of this project. According to the report drafted by the head of the PIU, there are differences because the feasibility study did not take into account critical safety issues, such as slope maintenance and flood protection in the Kaçanik-Hani i Elezit segment, which are serious threats to the operation of the line. Then, there are differences with the Terms of Reference of the platform structures at stations including inadequate stops, as well as underestimation of costs in the feasibility study for signalling/security and telecommunications of the line, adapted for safe operation, but which were improved in the detailed design for phase I of the project.

According to the assessment, the feasibility study did not include critical issues that have a direct impact on the safety and performance of the Kaçanik-Hani i Elezit segment line, while the detailed design, on the other hand, had addressed and

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<sup>35</sup> It means the ability of trains and railway infrastructure to operate without technical, operational or regulatory obstacles on different railway networks.

resolved these issues but the cost had been higher to ensure safe and sustainable operation for a long period.

Despite this, the Terms of Reference drafted for the detailed design for phase I had this feasibility study as a reference point. Furthermore, even though underestimations in the cost of signalling were identified, this point was added to the terms of reference and became part of the contract for the detailed design of the first phase, only to be removed later due to higher costs.

This happened because the feasibility study<sup>36</sup> on which the detailed design was based had as a reference point a document drafted by the research and design centre (Transport Institute - CIP from Belgrade, dating back to 1984), which did not take into account safety issues, such as slope maintenance and flood protection. In addition, the lack of a more detailed analysis of when signalling and telecommunications should be included (should it include all three phases) has influenced this point to be contracted for phase I and then removed during the contracting for phase II. In addition, the Terms of Reference were drafted with a time difference of more than four years, which has caused the detailed design to reflect these differences.

The lack of a timely feasibility study and update of the project reference documents is associated with delays in implementation, resulting in additional costs due to additional analyses and possible design changes.

**Lack of detailed design according to the terms of the contract** - *All phases for the completion and operationalization of the project in question (including but not limited to planning, contracting, management and monitoring of contracts) must be completed within the optimal time and following the planning. The design of the signalling and telecommunications project must be a detailed design according to the terms of the contract.*

The design contract signed in July 2015 foresees that the consultant will prepare detailed designs for civil works and signalling and telecommunications. The scope

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<sup>36</sup> Study prepared by the European Union under the IPA 2008 Programme for the Western Balkans countries.



of work under the contract foresees that the consultant will prepare detailed designs for all components included in the contract. This should be prepared in accordance with the European Technical Specifications for Interoperability.

Upon receiving the reports (initial report), the expert within the PIU engaged in signalling and telecommunications had presented the observations and raised the issue that this part of the design was not a detailed design but a preliminary one. However, his observations were not taken into account, and this issue was accepted as such until this component was removed from the tender dossier for Phase II. The signalling and telecommunications part prepared by the consultant was left for future use.

Despite our requests to the PIU on this issue, we have not been able to receive a confirmation as to why this happened, except for the fact that this was made by the Chief Executive Officer<sup>37</sup>.

The failure to prepare a detailed design for the signalling and telecommunications works as required by the contract has resulted in the lack of a clear plan for the closure of the project. This situation has caused delays in the tendering process for Phase II of the project, leaving a significant component of the project unfinished and jeopardizing the functionality of the railway line. Furthermore, this may result in additional costs in the future, as the technical specifications of the signalling and telecommunications will require review and possible need for demolition of the works already executed.

**The methodology criterion in the design bid for Phase I was not complied with**

*– The design methodology should describe the approach that will be used in the implementation of the project, providing a precise and systematic framework for how the activities will be executed. The selection of the methodology should be appropriate for the project goals and justified on the basis of best practices or previous experience.*

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37 Approval of the detailed design of the project by the EC on 07.07.2017

In the bid evaluation process for the design contract - Phase I in 2014, the winning company was awarded 100 points for the proposed methodology, which included, among other things, the use of laser scanning. During the implementation of the project, it was found that the company did not use laser scanning as proposed in its methodology. The high evaluation for the methodology significantly influenced the decision to award the contract to this company, putting it at an advantage over other bidders.

Infrakos officials, in the absence of proper monitoring, did not ensure that the selected company had implemented the methodology offered and did not even include the same methodology in the Terms of Reference. According to Infrakos officials, the company conducted the field examinations exclusively based on the Terms of Reference and that laser scanning was not foreseen in the Terms of Reference.

The maximum assessment for methodology gave the winning company an unfair advantage in relation to other bidders, who scored less with the methodology offered. However, we were not given the other bids to compare, so we were unable to assess whether this also had a financial effect.

### **Shortcomings in contracting the supervisory body for Phases I and II**

Two contracts have been concluded for the supervision of the works for the implementation of the project, where the quality of the works will be supervised in addition to the approved project design and the approval of any changes to the project during the implementation of the works. This body was the only possible professional and advisory<sup>38</sup> source for Infrakos and all other stakeholders involved, regarding the steps to be taken for the implementation of the works in the project. Below are the issues identified during the contracting of these services.

**Changes in the number of experts after contracting** - *the number and positions of experts should be determined at the initial stage of the contract based on a detailed*

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<sup>38</sup> Since the contracting of technical assistance was contracted later, but even after contracting, the technical assistance experts have not appeared in the field.

*and comprehensive analysis of the project needs during all its phases. This analysis should take into account possible variations and foresee different scenarios, to avoid subsequent changes in the number and type of experts needed.*<sup>39</sup>

Below we present the changes in the types and number of experts of the supervisory body.

Supervision	State	Cause	Effect
Fushë Kosovë - Hani i Elezit	The positions of concrete, geology and geotechnical engineers that were included in the initial contract to ensure quality in technical railway works were reduced from 11 to eight by amendment.	According to the PIU, positions classified as 'Non-Key Expert' and 'To be nominated' would be filled only as needed, and consequently were filled only when these positions could not be filled by existing staff.	The positions included in the initial contract and removed by amendments influenced the determination of the price and were an integral part of the selection criteria. Consequently, the best offer may not have won.
	Since the contracting of technical assistance was contracted later, but even after contracting, the technical assistance experts have not appeared in the field.	According to the supervisory body, the addition of new experts was a result of unforeseen technical and geological challenges, and to ensure in-depth supervision of the works, since the project was complex.	The inclusion of new positions caused additional costs of €972,800.

<sup>39</sup> This includes clearly defining the scope, objectives and budget, including any possible follow-on services or project extensions, as defined in **Article 5.2 (a)** of the EBRD's Procurement Policies and Rules.

Fushë Kosovë - Mitrovicë	The initial contract did not foresee positions such as a document management expert or a contractual requirements expert. These needs arose after the start of project implementation and resulted in the need to sign amendments.	To respond to the increase in correspondence between the parties, the position of "Document Controller" was created in the 3rd amendment of the contract. Meanwhile, the position of "Contractual Claims Expert" was created in the 6th amendment, with the aim of managing claims and guiding Infrakos to avoid possible errors by the contractor	The involvement of these key experts has increased the financial costs of the project by an amount of €154,050.
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### **Shortcomings in contracting the company carrying out the work for the Fushë Kosovë – Hani i Elezit and Fushë Kosovë – Mitrovica sections**

Significant difference between the project cost estimate and the tenderers' offers – Infrakos and the contracted design company must make a preliminary cost estimate based on market prices for the period.

The prices estimated by the employer and the tenderers' offers have large differences for the works contracts for the two rehabilitation sections Fushë Kosovë - Hani i Elezit and Fushë-Kosovë - Mitrovica, one completed in 2019 and the other in 2021. The estimated prices were much lower than the offers.

*Table 3. Estimated value and winning bid for Phase I and II of the works (in million euros).*

Section	Estimated contract value	Bid value from the winning company	Bid value from the second cheapest bid
Fushë Kosovë - Hani i Elezit	63.3	73.8	74.1
Fushë Kosovë - Mitrovicë	42.5	47.7	51.8

The table above shows that the price estimates for the implementation of the project for the two phases are significantly lower than the bids of the two winning companies of €10.5 million for phase I and €5.2 million for phase II.

These differences indicate that a proper cost analysis was not carried out during the planning, due to their very early assessment, early feasibility study and outdated information.

These differences have resulted in contracts signed at prices higher than the estimate, increased construction costs<sup>40</sup>, the need for additional loans and delays in the implementation of the works.

### **Shortcomings in contracting the company for carrying out the works in Fushë Kosovë – Mitrovica**

**Ambiguity in tender documents for price adjustment over 18-month period -** *Tender documents should be clear and consistent on price regulation. If any sub-clause creates confusion, it should be removed or amended to ensure that all parties involved clearly understand the terms of the contract<sup>41</sup>. The EBRD Guidelines<sup>42</sup>,*

<sup>40</sup> Price adjustment for the two signed contracts for the performance of works for phases I and II (we cannot provide a financial value since the price adjustment for phase II was made with prices according to the index reported to KAs and depends on the market)

<sup>41</sup> EBRD Procurement Policies and Rules - 2022, Article 3.63 emphasizes the importance of clarity in the terms of the contract, stipulating that they should clearly define the rights and obligations of the parties.

<sup>42</sup> Procurement considerations and guidelines for clients and participants 1 in procurement exercises subject to banks' procurement policies and rules during the covid 19 crisis

*as one of the main procurement risks, foresee the raising of abnormally low bids/proposals and instruct banks and parties involved to be wary of participants claiming an opportunity to claim additional costs/time in the future, through contractual claims.*

According to the contract documents and official correspondence, there was uncertainty regarding the 18-month period mentioned in the FIDIC Red Book for the application of price adjustment. According to the engineer, but also in the tender clarifications<sup>43</sup>, it was confirmed that projects with a duration of up to 18 months would not have price adjustment, unless otherwise provided.

Clause 13.8, which sets out the procedures for price adjustment for projects with a duration longer than 18 months, was not excluded from the tender documents for Phase II, although the estimated duration of the project was only 15 months<sup>44</sup>.

In this case, the supervisory body had stated that the absence of a “price adjustment data table” in the tender annex meant that clause 13.8 should not apply to this contract, however, this was not clearly stated in the tender documents.

As a result, the contractor had used this situation as the basis for its requests for price changes in the negotiation phase between them and Infrakos, and in the meeting held in October 2022 the parties had agreed to adjust the prices based on the Construction Cost Index of the Kosovo Agency of Statistics which cost Infrakos €15,177,353 or 32% more than the signed contract. The adjustment of prices in Appendix 1 was also discussed by the Steering Committee EIB<sup>45</sup> and the Board of Directors, and was approved by the EIB.

The financial agreement ratified by the Kosovo Assembly in 2023 includes a supplementary loan of €38 million for the project. Therefore, it is a supplementary

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43 The contracting authority had confirmed that prices would be fixed and that price adjustment would not be applied

44 In accordance with the FIDIC Red Book, projects shorter than 18 months do not benefit from price adjustment, unless such provision is made in the tender documents.

45 Government Decision on Project Management signed, dated 13.04.2022

financing, which is necessary to continue the project after the increase in market prices and can be used for all three phases of the project<sup>46</sup>.

Even technical assistance experts<sup>47</sup> had given the opinion that the process does not violate procurement procedures and applies the original prices for units presented in the tender and does not substantially change the nature of the work contract, except for the application of the construction cost index.

**Intervention in the bid price for phase II after the evaluation process and before the contract signing** – 3.7.12. *The Tender Evaluation shall carefully examine the bids for compliance and responsiveness and correct all arithmetic errors. It shall request any clarification from the bidders if necessary for the evaluation of the bids, but no changes to the substance of the bid or to the price shall be accepted after the bid opening<sup>48</sup>.*

In contracting the execution of works for the Fushë Kosovë – Mitrovica section, after the evaluation of the bids and before the signing of the contract, there was an intervention in the price of the positions in the bid of the winning company, which was called a correction or arithmetic error. The price correction in the amount of €222,571 was added to the basic contract value of €45,422,672. Also, from the calculation of the difference with additional provisions, €11,129 were added, increasing this amount to €233,699, so the total value of the contract had reached €45,645,243 (without calculating the amount of the provision).

The EBRD Procurement Guide<sup>49</sup> advises banks and stakeholders to be wary of the risk of price increases following the submission of abnormally low bids/proposals by tenderers, who may use this as an opportunity to claim additional costs/time in the future.

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46 Letter with clarification from the Ministry of Finance in November 2022 addressed to MI, ME, Presidency and Infrakos

47 Opinion dated 24.10.2022 with no. 061/22

48 Procurement Guide for EIB-financed projects, September 2018

49 Procurement considerations and guidelines for clients and participants 1 in procurement exercises subject to banks' procurement policies and rules during the Covid 19 crisis

Table 4. Positions with bid values for phase II (rounded values).

Main group	Description	Bid value (in euros)	Value of the contract accepted and signed (in euros)
MG-00	Suitable Works (General Works)	680,000	683,332
MG-01	Railway Substructure & Fence	5,809,094	5,837,550
MG-02	Permanent Road (Railway Superstructure)	22,849,513	22,961,476
MG-03	Road	1,709,980	1,718,359
MG-04	Discharge	2,564,152	2,576,717
MG-05	Retaining Walls	975,296	980,075
MG-06	Stations and Stops - Electromechanical Works	2,975,516	2,990,096
MG-07	Bridges	2,160,205	2,170,790
MG-08	Stations and Stops - Structural Works	2,914,680	2,928,962
MG-09	Stations - Architectural Works	2,784,236	2,797,879
	Total	45,422,672	45,645,243
	Total increase from price intervention	-	222,571
	Provisional amount for risk - 5% (five percent) of the Total Amount	2,271,134	2,282,262
	Difference from price intervention from provision	-	11,129
	Total amount	47,693,806	47,927,505
	Total increase in price		233,699

According to Infrakos and the chairman of the bid evaluation committee, the price interventions occurred because the bid evaluation had numerous delays, as a result of which the prices of the positions had increased (as a result of inflation from the Covid-19 pandemic).

The contract was signed with changes in prices after receiving approval from the bank. After about a year from the signing of the contract, during its management, the prices were adjusted again during 2022, but this time the increase was over



€15 million. During the second adjustment, Infrakos had deducted the increase allowed before signing the contract.

According to Infrakos, each step was monitored by the evaluation committee and they acted only after receiving approval from the EBRD. Technical assistance had also instructed the committee how to act in each step.

Price intervention after the evaluation phase and before the contract is signed is a delicate issue and must be handled with care, by complying with the law and procedures established for public procurement, to ensure transparency and equality for all bidders.

**Lack of analysis on price adjustment and failure to set a price ceiling – Infrakos should conduct a preliminary analysis of price changes and their impact on the project before signing the annex. The annex should also include a ceiling for maximum price increases to minimize the risks of unforeseen additional costs.**

Infrakos, after the increase in market prices, amended the contract for the performance of works of phase II (annex 1) to adjust the prices, without making any detailed analysis of the real impact of these changes and without setting a price ceiling.

Furthermore, Infrakos neither analysed the price changes of important materials and services during the contract period nor identified the reasons for these increases. Infrakos and the other parties had only agreed to use the construction cost index published by the Kosovo Agency of Statistics. The changes were made without an argumentative basis and without establishing any mechanism that would ensure a maximum limit to the potential price increase.

Furthermore, the annex did not specify the added value from the price adjustment of €15,177,353, but only the price calculation formula.

The lack of analysis and failure to determine the price ceiling resulted in an increase in the contract value from €47,644,934 to €62,882,287, or 32% higher than the value before the price adjustment. The decision to make these changes to the basic

contract was linearly made in 2022, without a ceiling and an accurate overview of how these changes would affect the total value of the contract.

**The suspension of the operation of the Fushë Kosovë - Hani i Elezit and Fushë Kosovë-Mitrovicë lines without notifying all responsible parties has violated transparency and harmed businesses and citizens**

*According to the tender requirements and the general conditions of the contract referred to - Normal working hours according to sub-clause 6.5 states that since the rehabilitation of the line will be implemented with the railway line under operation, access to the site is regulated as follows, based on a regulation in force in Kosovo: The line will be accessible to the contractor for 10 consecutive hours, from 7:30 to 17:30 every working day of the week. Also, clause 13.3 of the contract states that any modification to the commercial conditions of the contract will be intervened through an annex/amendment to the contract, which is to be signed by the parties.*

The project for the Fushë Kosovë – Hani i Elezit section was contractually determined to be implemented with the line under operation. However, as of February 2020, this request had not been complied with, and there was no annex formalizing this change. The suspension of operation had occurred by Infrakos, which had only notified the RRA of the suspension of the Railway Line with certain deadlines. The same notification had been sent to the RRA by the acting head of the PIU in January 2024, but this time, the notification for the continuation of the suspension was made until the completion of the project and the defect period, which is scheduled to be one year after the end of the contract.

According to the notice made by Infrakos to the RRA, this happened due to the fact that it is their contractual obligation to offer the contractor special use (traffic disruption) of the line to complete the necessary works. In violation of the contract, the line was closed to freight and passenger traffic for 24 hours a day and was done without a decision from MESPI. Furthermore, during this period, there was also the collapse of tunnels 6 and 7, which for a period of seven months also made circulation impossible.

It is worth noting that in the tender clarifications requested by the bidders on the issue of the operating hours of the Line, Infrakos responded that the *normal*

*working hours are stated in the Tender Annex referred to GCC 6.5. according to which - the bidders will propose in their methodology and preliminary work program any deviation from the normal working hours for works that are technically impossible to be completed within the aforementioned working hours. Any modification of the working hours will be approved by the Engineer and Infrakos.*

The contractor followed the procedure according to the tender clarifications and requested the supervisory body to close the operation of the line. The supervisory body reacted to this request in December 2019, reminding the contractor<sup>50</sup> that this issue is in violation of the contract and that the main reason why the same had won the contract was that it would perform work while the line was under operation. However, the supervisory body submitted the request for approval to Infrakos, and the line was closed to passengers since 2020, and since 2021, traffic was completely closed. From the site examination but also discussions with the supervisory body and Infrakos experts, the rehabilitation of the line was impossible to be done with the line under operation, since only the equipment for opening and rehabilitating the tunnels requires space during the works. So, it was practically not possible for the line to operate during the time of work. Apart from this change not being made with an annex by the parties involved, Infrakos had not even requested approval from the Bank, given that this was a substantial requirement of the tender specifications.

The Fushë Kosovë-Mitrovicë line was also closed from June 2022. Unlike the Fushë Kosovë-Hani i Elezit line, this was known in advance because it was included in the tender dossier, but Infrakos had not received permission from MESPI for this disruption either.

Failure to comply with the tender requirements and contract conditions harms transparency and free competition and does not provide equal opportunities.

Given the fact that the project design had requirements and job positions that could not be implemented with the line under operation, this may have influenced many companies not to bid at all, given that they did not have the information that

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50 Letter with Ref. No. S0222 on the review of the basic program

there could be interruptions if necessary. Furthermore, these total suspensions of the Line have also brought additional costs, with Trainkos reporting losses of over eight million euros<sup>51</sup>.

Moreover, the main tool that ensures the fulfilment of the contract, which is the project execution security, for the contract for the Fushë Kosovë-Hani i Elezit section, was in a lower value than required. The performance security in the form of a guarantee should have been 15% of the accepted contract value, but the value accepted as a guarantee was €719,812 lower than required. Moreover, this value was never adjusted despite the Bank's request for this. According to Infrakos and the supervisory body, this happened after they jointly agreed that the adjustment of the amount would be made after the expiration of the current policy term. The term of this policy was until October 2025. Until the end of the execution phase, we did not receive evidence on the adjustment of the document

According to Article 17 of the Law on Railways, after the proposal by the RRA and interested parties, MESPI issued a final decision on the closure of passenger services, tracks and stations of general economic interest. Infrakos had informed the RRA that the need to close the operation of the Fushë Kosovë-Hani i Elezit line had arisen during the works as a contractual obligation to provide the contractor with the necessary space to complete the works. It had done the same for the Fushë Kosovë-Mitrovicë line, i.e. it had only notified the RRA that the line had been closed. Despite this information, neither Infrakos nor the RRA had provided decisions on this interruption by MESPI as responsible for the railways.

So even though the lines in question have not been operating since February 2020, respectively from June 2022, we have not been provided with the MESPI decisions. According to the RRA, it is the Government that issues decisions and proposes closures.

The lack of decisions by MESPI to close the lines for both sections, in addition to not being in accordance with the law, results in MESPI not being informed about these actions, which are its responsibility. As a result of this closure, the citizens

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51 Report on losses to Infrakos and ME - PMU

and businesses of Kosovo are not benefiting from this project since it is not yet in use.

**Shortcomings in the management of contracts for design and execution of works**

The activities for the implementation of the ‘Line 10 Rehabilitation: Fushë Kosovë – Leshak’ project are very slow both in terms of the design contracts and the execution of the works for both phases of the project. Some of the factors that have contributed to this delay are poor communication between the parties, the lack of key experts in the field, numerous remarks by the contractor, incomplete and late decisions and unplanned changes to the implementation of the project. This situation has resulted in delays, increased costs and the failure to implement key positions for the functioning of the railway.

The following table presents the delays, the reasons and the effects of these delays.

State	Cause	Effect
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Design Contract Phase I	<p>The Design Contract – Phase I worth €1,762,860 was signed on 15 July 2015 and was scheduled to end on 31 June 2016. However, this deadline was not respected, and the tasks were not finalized according to the deadlines set in the contract. Delays for specific tasks range from three months (for the inception report) to 33 months (for the notification of the award of the contract for the execution of works for phase I).</p> <p>As a result, two amendments were signed to extend the contract period. The first amendment was signed on 3 April 2017, through which the deadline was extended until 31 August 2017, while the second amendment was signed on 1 March 2018 and extended the deadline until 31 August 2018.</p>	<p>The delays were initially the result of numerous comments on each task submitted, and then there were also numerous discussions about changing the project as a result of the request of the Municipality of Ferizaj to review the project for the section of the railway that passes through this city.</p>	<p>The delay in completing the design for the first phase has caused delays in contracting the contractor for Phase I since part of the design contract tasks also included drafting the tender documentation (specifications) for the execution of the works. This has caused the start of work for phase I to be postponed for at least 33 months.</p>
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Design Contract Phase II	<p>The design contract – Phase II worth €905,342 was signed on 17 April 2018 (works were to start on 30 April 2018 and were scheduled to end on 30 January 2018). As in the first phase, the deadline was not respected in this phase either. The company did not submit the tasks according to the deadlines set in the contract. The delay ranges from the first task (inception report) for three months to a delay of 42 months for the task (Final Tender Documents &amp; Contract Documents - civil Works). The draft contract for civil works was submitted 37 months late.</p> <p>As a result, three amendments were signed to extend the deadline. The final deadline for the submission of tasks by the contractor with the last amendment was 5 October 2023.</p> <p>The signalling part was removed from this contract, which resulted in a reduction of the value by €58,000 from what was contracted.</p>	<p>As in the first phase, the delays here are the result of numerous comments on each submitted task. The delays were also influenced by the numerous discussions about removing the signalling as an initial requirement.</p>	<p>Same as in Phase I, the delay in completing the design for Phase II has caused delays in contracting the contractor for almost two years since part of the tasks under the design contract included the drafting of tender documentation (specifications) for the performance of the works.</p>
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**Delay in commencement and completion of works for the two phases of the project**  
*- to ensure the timely commencement of works for the rehabilitation project, it must be ensured that the disbursement of funds (specifically the advance payment) and*

*the issuance of the order for commencement of works are completed within the deadlines specified in the contract<sup>52</sup>.*

One of the key factors for the successful completion of the project would be the timely start of works, ensuring that the deadlines are met and the quality of the works is at the required levels.

For both sections, Fushë Kosovë-Hani i Elezit and Fushë Kosovë-Mitrovice, the order to start work was delayed. As for the commencement of works on the Fushë Kosovë-Hani i Elezit section, the order to start works was given six months late, while for the Fushë Kosovë-Mitrovice section, this order was delayed by three months.

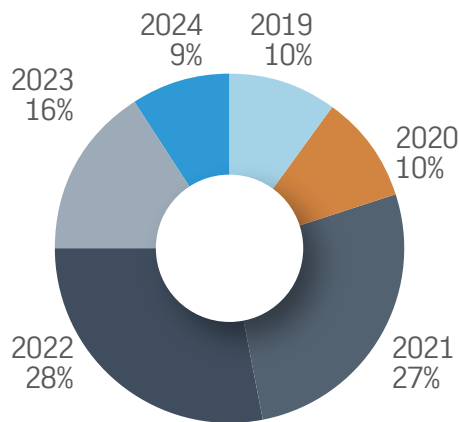
**Unsatisfactory dynamics of the implementation of works for Phases I and II –** *The two contracts signed with specific positions were to be completed in 2024, namely phase I in September 2024 and phase II in January 2024. According to the work performed and certified payments for the period February 2019 - October 2024, the work for the implementation of the project has only been completed 64% for phase I and 32% for phase II. Below, we have presented the progress of payments over the years for both phases of the project.*

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52 Under GCC 8.1 *Commencement of Works*, the Commencement Date for the works is subject to the fulfilment of certain specific conditions, including receipt of the advance payment by the contractor under Sub-Clause 14.2. Therefore, if the advance payment has not been received, the Commencement Date is not formally determined, and the contractor is not obliged to issue a notice of commencement of works or to commence the works.



Chart 2. Progress of payments over the years



The diagram shows that the works and payments had greater progress during the years 2021-2023, while after this year there is a delay in payments due to the low dynamics of the works on the tunnels and bridges in phase I and the delay in the decision to continue or terminate the contract in phase II.

It should be noted that in phase I, the tunnels have not yet been completed, while the bridges have been completely removed, while in phase II, the bridges and walls have remained suspended as it is not yet known whether there will be work done or not according to the terms of the contract.

Table 5. Works completed until October 2024 Phase I and Phase II

Description	Phase I contract	Expenditure (in euros)	%	Phase II contract	Expenditure (in euros)	%
General Works	883,200	1,244,381 <sup>53</sup>	<b>141</b>	680,000	442,524	<b>65</b>
Railway Substructure	8,079,596	4,759,872	<b>59</b>	5,809,094	3,648,363	<b>63</b>
Railway Superstructure	46,495,966	35,919,521	<b>77</b>	22,849,513	9,042,027	<b>40</b>
Road	522,387	1,682	-	1,709,980	0	<b>0</b>
Drainage	6,472,850	1,773,782	<b>27</b>	2,564,152	215,361	<b>8</b>
Walls	3,214,109	2,213,334	<b>69</b>	975,296	72,399	<b>7</b>
Tunnels Phase I / Electromechanical Works - Phase II	3,570,450	-	-	2,975,516	424,854	<b>14</b>
Bridges	2,508,980	279,436	<b>11</b>	2,160,204	84,436	<b>4</b>
Stations and Stops - Structural Works	1,948,027	1,196,032	<b>61</b>	2,914,680	89,093	<b>3</b>
Stations - Architectural Works	131,325	-	-	2,784,236	536,593	<b>19</b>
Contract value without provision	73,826,891			45,422,672	14,555,651	
Provisional amount	4,798,748			2,271,133		
Expenses for DRB <sup>54</sup>					30,860	
Contract value with provision	78,625,639	47,388,039	<b>60</b>	45,429,758	14,593,597	<b>32%</b>
Expenses for DRB	8,199,648	6,916,149		7,086	7,086	

53 The order changes have resulted in the removal of quantities for certain items and the increase of other items.

54 Dispute Resolution Board

Although some positions have relatively good progress, other parts of the project seem to require further efforts to complete. The removal of the bridge position indicates that the project will not be in accordance with the signed contracts. The contractor has assessed that the contacted bridge design is not suitable, consequently, the contractor has proposed bridges with a different design and has brought two as samples, but Infrakos has not accepted them, with the justification that they have additional costs. Consequently, these bridges have been removed from the current contract, have not been paid for and remain to be completed through other procurement procedures.

### **Failure to fulfil obligations from the basic contracts or annexes to Phase I**

*The contract for the performance of works in the Fushë Kosovë – Hani i Elezit section had foreseen the rehabilitation of seven tunnels and 14 metal bridges<sup>55</sup>. The other four annexes, mainly annexes three and four, also provide the deadlines for their completion. It is emphasized that the approval of the design of tunnels and bridges must be approved in principle by the supervisory body and accepted by Infrakos. Point 11 of Annex four emphasizes that the experts who must be on site at all times are the construction manager, the tunnel manager and the metal bridges manager.*

**None of the seven contracted tunnels have been completed** - among the main positions of this project were the seven tunnels connecting Line 10 Fushë Kosovë-Hani i Elezit. Since 2019, when the contract was signed, only tunnels 6 and 7 are close to completion.

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<sup>55</sup> Tunnels no. 1 to no. 7 and bridges no. 13 to no. 24, bridges 28 and 29.

Picture 2. Views from the physical examination of the rehabilitation of Tunnels 6 and 7



As for the other tunnels, the first mobilization works have begun, and the contractor has stated that these will be completed as agreed in the annexes. However, by September 2024, when we completed the audit execution period, none of the seven tunnels had been finally completed.

Below is a detailed table for the tunnels, divided according to contracting and according to change orders. According to the reports of the supervisory body and the payments made, five other tunnels remain, for which a more intensified dynamic of the works is required.

Table 6. Level of completion of the rehabilitation of the tunnels (values rounded to euros).

No.		According to the contract	According to the change order	Payment	Financial progress in percentage (%)
1	Tunnel 1 - Stagovë	428,871	673,450	42,505	6
2	Tunnel 2 - Runjeve	591,681	1,349,816	319,960	24
3	Tunnel 3 - Guri i shpuar	598,947	947,080	42,615	4
4	Tunnel 4 - Garje	34,259	34,259	-	-
5	Tunnel 5 - Galeria	465,114	621,681	45,990	7
6	Tunnel 6 - Valan	908,782	1,254,215	1,004,628	80
7	Tunnel 7 - I shtati	542,797	1,057,605	756,140	71
	Total	2,598,782	5,938,106	2,211,838	37
	Investigations and pre-study of tunnels and portals	-	196,915	196,915	100
	Detailed redesign of tunnels	-	477,720	-	-
	Technical assistance during construction	-	122,880	-	-
	Total	2,598,782	6,735,621	2,408,753	36

Picture 3. View from the physical examination of tunnels no. 2, 3 and 5



According to Infrakos and the supervisory body, this was due to the contractor's lack of organization of the works and poor planning, lack of resources to work on many fronts, engagement of a subcontractor with inadequate experience (who was not properly organized for this type of work) and lack of specialized equipment, experts and qualified staff. However, if the PIU and the Supervisory Body had been more proactive in carrying out

their duties, they could have probably influenced the acceleration of the works.

The failure to complete the tunnels in the foreseen time or in the additional time granted through annexes has resulted in an almost threefold increase in costs, as well as other implications from the suspension of the line.

**The contractor carrying out the rehabilitation of the tunnels without obtaining approval from Infrakos** - the contractor had complained about the improper design of the positions and tunnels since the beginning of the project, and Infrakos had enabled the contractor to redesign the tunnels in order to continue with the completion of the works. Furthermore, additional estimated costs for the redesign,

research and construction of the tunnels by the contractor had also been accepted. However, although the contractor was given responsibility for the redesign of the tunnels, the same has not yet submitted the new designs to Infrakos, so they have not been approved despite the fact that in November 2023 the supervisory body had sent a letter to the contractor informing it that they are waiting for the new design, the tunnels are being rehabilitated without an approved design and Infrakos has not taken any action to stop the work on the tunnels until the final design is approved. It should be noted here that after completing the field audit work in December 2024, Infrakos had submitted evidence to the National Audit Office that the design of tunnel number 6 was fully approved in November 2024.

Since the design has not yet been approved, the amount of €663,433 has been retained by Infrakos and has not been paid to the contractor for the certified works so far.

**Collapse of tunnels T6 and T7 even after redesign by the contractor** - although the contractor was allowed to redesign the tunnels, two collapses occurred in Tunnel 6 during the first works, and the reasons for this have not yet been given by the contractor. Despite the opportunity that Infrakos had given the contractor to redesign the tunnels, Infrakos found deviations from its requirements to meet Eurocode standards<sup>56</sup>.

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56 Eurocode 7 – rules for geotechnical design



Picture 4. Tunnel 6 collapses – Picture from the supervisory body



Three collapses occurred in **Tunnel 7** during the expansion and support work in the tunnel. The methodology presented by the contractor to improve the situation was rejected by the supervisory body, but despite this, the contractor continued the rehabilitation and reopened the tunnel for traffic in July 2022, which operated without problems for two months. In September 2022, when the final construction began, another collapse occurred a few days later. The supervisory body had asked for the design team and had rejected the design proposed by the contractor because changes had been made from what had been approved by the employer; consequently, Tunnel 7 had remained blocked for 400 days and had only reopened for traffic in November 2023. The reasons for the collapse were not submitted to Infrakos during 2024, and as mentioned above, work is being carried out without an approved design.



*Picture 5. Tunnel 7 collapses - Picture from the supervisory body*



According to the supervisory body, the tunnels' collapses occurred after the contractor relied on its geophysical investigations used in the redesign, which turned out to be deficient. However, since there is no analysis of the collapse, the exact causes that caused it cannot be known. However, according to Eurocode 7, a possible collapse during the excavation or expansion of the tunnel can be minimized by a carefully prepared design based on soil/weight parameters, verified by the results of laboratory tests in accordance with the relevant Eurocodes and Standards.

Tunnel collapses, in addition to endangering tunnel users and causing significant delays in their return to function, have also resulted in additional costs for repairing the damage and financial losses because passenger and freight traffic has been interrupted. Also, the contractor's failure to meet international design standards jeopardizes the railway's licensing for interoperability.

**Removal of 14 metal bridges from the contractor's obligations** - the contractor had requested to redesign the bridges, but they were not accepted by Infrakos and the construction of the bridges was removed from the contractual obligations, which the parties had agreed on in February 2019. Therefore, 14 metal bridges will not be completed under the current contract, and other procurement procedures with different prices and specifications will have to be developed for them.

Infrakos has stated that this happened since the submitted redesigns were not approved because they were assessed as not in accordance with the employer's technical requirements and Eurocodes<sup>57</sup>. Furthermore, they did not include the cost and quantities necessary for rehabilitation.

The removal of the 14 metal bridges from the basic contract risks causing delays, as new procurement procedures will be required and may make project management more difficult as it will be a separate contract.

**Metal bridges no. 13 and no. 15 were delivered to the site but were not approved by Infrakos** - as they were not in accordance with the requirements of the agreement. These two bridges have been standing unassembled for some time now near the existing ones.

According to the supervisory body and Infrakos, the contractor dismantled the existing bridges in 2022, but since they had not agreed on the price and type, they had mounted them again. Then, in 2023, the contractor tried to remove the bridges again in order to put pressure on the employer to approve its redesign. To this end, the supervisory body issued three correction notices<sup>58</sup>, instructing the contractor to stop dismantling (even damaging) and stop any other work around them without any prior agreement and without a new approval of the bridge design.

The attempt to install the unapproved bridges according to the supervisory body (also observed by the audit team) had damaged the existing bridges and had caused delays in the coordination for the design of other bridges. This has affected the delay of the works and is one of the main reasons that has resulted in the removal of 14 bridges from the contract.

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<sup>57</sup> Eurocodes are international standards for the design of engineering structures. They are designed to provide consistent and harmonised rules for the design of buildings and infrastructure in different European countries.

<sup>58</sup> Notice of correction SC 15.1, S2015, (Dec. 1), SC 15.1 to correct [NtC] with letter S2518 (Dec. 4), SC 15.1 to correct [NtC] with letter S2518 (Dec. 4).

Picture 6. Metal bridges delivered unassembled



**Multiple non-conformity reports and correction notices<sup>59</sup>** – *if the Contractor fails to carry out any obligation under the Contract, the supervisory body may require the Contractor by notice to make good or remedy the failure within a reasonable time limit<sup>60</sup>.*

The supervisory body has issued a significant number of non-conformity reports and correction notices to officially notify Infrakos that the contractor's work does not meet the project's specifications, standards or contractual obligations. Issuing these remarks is important as it creates a clear record of defects, identifies possible process improvements, sets deadlines for their improvement and increases the quality of the project.

The following are the remarks that the supervisory body had regarding non-conformities with the contractual conditions, where it is seen that their number was extremely large, and the part of them which remains unresolved is concerning.

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<sup>59</sup> These notices serve to alert the contractor about specific deficiencies that need to be addressed to meet the contract requirements and provide the contractor with a chance to correct the identified problems before further action is taken. Both of these reports are important tools for ensuring that engineering projects meet the requirements and standards, contributing to continuous improvement in quality and efficiency.

<sup>60</sup> Red Book Construction Conditions – Section 15.1 Correction Notice

Table 7. Number of non-conformity remarks (NCR) issued

Section	Issued	Corrected	Unaddressed	% of open remarks
Fushë Kosovë - Hani i Elezit	643	181	462	72%
Fushë Kosovë - Mitrovicë	91	16	75	82%

Such a high number of unaddressed remarks indicates that no necessary measures have been taken. These corrections are permitted by the contract, but the time for action must be reasonable, and some of these remarks have been unaddressed for years.

In addition to the above-mentioned remarks, the Supervisory Body had also issued 36 official notices for correction (32 for the Fushë Kosovë -Hani i Elezit section and 4 for the Fushë Kosovë -Mitrovica section). These notices have been sent to Infrakos and the Contractor to take measures to correct errors and omissions.

**Dynamic plan not updated by the executing company** - *The Contractor shall submit to the Engineer a detailed time schedule within 28 days of receipt of the notice under Sub-Clause 8.1 [Commencement of Works]. The Contractor shall also submit a revised schedule whenever the previous schedule is not in accordance with the current progress or the Contractor's obligations<sup>61</sup>.*

The basic dynamic work plan for the Fushë Kosovë – Hani i Elezit section was submitted by the contractor in September 2019, after the commencement of the works. This plan was approved only after the third review in March 2020. Whereas the second dynamic plan was approved with comments in January 2022, and the third version of the dynamic plan was not submitted even after Annex 4. In May 2023, the contractor considered the plan to comply with the conditions of the Red Book, but the supervisory body and Infrakos did not accept it, issuing a notice for correction. This issue is still open due to the positive response of the contractor.

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61 Red Book - Conditions of the construction contract section 8.3 p.26

Updating the dynamic plan is necessary to ensure compliance with the changed conditions. It allows for more accurate monitoring of the works and informs the parties about the project.

Failure to update the dynamic plan according to the requirements has left the supervisory body and Infrakos uninformed about the steps the contractor has planned to take and the timelines for these actions.

**Irregular recording of daily activities by the contractor** - *The Red Book requires that the reporting of working days and daily activities on the construction<sup>62</sup> be recorded and is also a referenced contract document to be kept on site at all times*

For the Fushë Kosovë – Hani i Elezit section, we received evidence of work site diaries only until January 2021. After this period, the contractor did not submit work site diaries reflecting the progress of daily activities at the site.

For this reason, the supervisory body in July 2024 repeated the request for these logbooks, even though the importance and obligation to regularly maintain construction site diaries had been made known to them several times during 2021, 2022, 2023 and in February 2024. However, the contractor has systematically not submitted the files with the appropriate signatures to the supervisory body.

Construction work site diaries ensure that the project is being carried out according to plan, in detail and organized according to the daily activities in a construction project. Their failure to submit them indicates that the works have not been officially approved by the responsible persons. This increases the risk that the works will not be carried out according to the contract.

**Non-application of penalties** - *According to the terms of the contract, articles 8.7 and 14.15 (b) also provide for compensation for delays in the works, which is 0.10% of the contract price per day.*

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62 Red Book - Conditions of Construction Contract Section Progress Reporting 4.21 p.19

In the contract for the construction of the Fushë Kosovë – Hani i Elezit section, penalties began to be applied only after the 4th annex in October 2024. Although the dynamic plan for the completion of the works was 730 days, by day 1,858, there were still key positions not completed, and no penalties had been imposed. Failure to meet deadlines from the beginning of the project resulted in four annexes for extension of deadlines, but the company failed to meet even the extended deadlines. Although the main reason for the extension of deadlines was the contractor's remarks, they were removed after negotiation, and the project had not yet been implemented. Furthermore, the extension of time due to complaints was 155% longer than the original time planned for the project.

*Diagram 2. Days added versus days planned*



The non-application of penalties occurred after the contractor and the supervisor, together with Infracos, negotiated the problems presented on the ground and justified them by increasing the deadlines. In addition, no action was taken that would oblige the contractor to increase the dynamics of the work in one way or another.

## **Shortcomings in the implementation of the work contract in Phase II**

### **Failure to take sufficient and timely measures for used concrete**

*According to Article 15.2 of the FIDIC Red Book General Conditions, Infracos, in its capacity as employer, has the right to terminate the contract with the main contractor if any fraudulent activity by a subcontractor is discovered.*

In the Fushë Kosovë - Mitrovica section, a subcontractor was engaged to carry out the earthworks. According to the supervisory body, this subcontractor had submitted consignment notes that were not in accordance with the terms of the contract, claiming to have received a certain amount of concrete from a concrete

supplier over a long period. However, during inspections and communication with the concrete supplier, the supervisory body discovered that the subcontractor had only been supplied by them for a limited period and not for the entire period as claimed by the supplier. The subcontractor had reported that it had been supplied with concrete for 101 days more than it had actually been supplied.

Infrakos had requested the dismissal of the subcontractor from the concrete works until its final dismissal. According to the general conditions of the Red Book contract, Infrakos has the full right to terminate the contract with the main contractor in case of proven fraud. After sending the draft report from the NAO, Infrakos provided evidence that it had determined the methodology and selected the laboratory to conduct quality tests of the concrete used, but that it has not yet taken any further action on this issue. Consequently, without a final decision on fraud, Infrakos could not terminate the contract because it would risk losing funding. Although the EC had requested a meeting with the SC on this issue, they did not organize any meeting.

In March 2024, after the notice about the concrete not being delivered according to the terms of the contract, Infrakos had allowed the subcontractor to continue with other works except the concrete until its final dismissal<sup>63</sup>. Later in March 2024, the supervisory body, with the notice made due to the involvement of the subcontractor in what the supervisory body described as “material used not according to the terms of the contract”<sup>64</sup>, reported that this subcontractor’s permission to work on the project had been permanently revoked.

In addition, the supervisory body also mentioned other incidents with unapproved materials that it had found on site during previous inspections and, therefore, requested that actions be taken as deemed necessary. In March 2024, the main contractor informed them that it had immediately terminated the contract with the subcontractor, taking into account the seriousness of the supervisory body’s allegations<sup>65</sup>.

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63 Letter from Infrakos dated 13.03.2024

64 Letter from the supervisory body dated 18.03.2024 No. 05.02/ENG/0785

65 Letter dated 22.03.2024 made by the contractor to Infrakos on the dismissal of the subcontractor

This situation, in addition to not providing assurance about the quality of the work performed with the concrete used, has also caused a slowdown in work for Phase II. Although the company has been using 'time at large'<sup>66</sup> we still have a small movement of work from February 2024 to the end of September.

This contract was intended to expire on January 8, 2024. Despite this deadline, neither Infrakos nor the contractor have agreed to extend the contract in terms of time nor to terminate it, however, the works have continued at a slower pace even after this time.

Infrakos had requested from the technical assistance to compile a SWOT<sup>67</sup> analysis to assess which of the options is more appropriate, the extension or termination of the contract.

The Steering Committee<sup>68</sup> and the Board of Directors, although having discussed this issue several times and had the SWOT analysis available, did not reach a conclusion on how to proceed; whether to extend or terminate this contract.

This time with an expired contract is a consequence of the failure of SC, BD and Infrakos to make a final decision on whether or not to extend the contract, as well as the waiting for the decision of the Dispute Resolution Board (also known as the DRB).

Since this deadline was not met and the works not yet completed, Infrakos, with the opinion of the Supervisory Body<sup>69</sup> which had assessed that the contractor is not entitled to request an extension, had decided not to grant the contractor an extension, consequently to impose a penalty for three invoices in the amount

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66 'Time at Large' means a contract in which the 'Construction Time Period' expires. In detail, the contractual time period for the completion of a project is covered without the completion of its works, and the Contractor continues to work without any extension of time granted by the Employer. This is a situation which does not meet the standards of the legislation because it hides many disadvantages for the Employer and many benefits for the Contractor.

67 Analysis of strengths, weaknesses, opportunities and threats

68 Composed of MESPI, MFLT, ME, Infrakos and the two Banks as observers

69 Letter of determination – where the obligations performed and those that continue are determined



of €8,527,918<sup>70</sup>. Based on this, the contractor filed a request with the DRB to request a final judgment for the delays caused during the implementation and the extension of the contract term (EOT).

According to the decision of the DRB, the extension of the contract term for 288 days is allowed, with the contract termination date being October 22, 2024. Furthermore, according to the DRB, the calculated amount for compensation for delays is in favour of the contractor for the value calculated until May 31, 2024, thus €6,899,477 is returned to the contractor, whilst €1,628,441 remains with Infrakos as compensation.

However, it should be noted that in the Infrakos' request made to DRB (which consists of: an independent expert, a representative from the supervisory body, a representative from Infrakos and a representative from the contractor), where clarifications were requested for the extension of the term and the calculation of penalties, the case of the concrete used by the subcontractor was not taken into consideration.

### *Ineffective Project Implementation Unit*

The PIU appointed within Infrakos was assigned a key and decisive role in the management and implementation of the project according to the agreement signed in 2015. The PIU's main task, with the help of technical assistance<sup>71</sup>, is procurement of contracts for the implementation of the project, including the contract for consultancy, design, supervision and work of the project in accordance with the agreed procurement plan. The unit should also coordinate with other stakeholders involved to ensure a harmonized and efficient implementation of the project. Furthermore, it has been engaged in the design of applications for the negotiation of loans and grants, disbursement of loans after the completion of the works and submitted project progress reports<sup>72</sup> in the required periods to inform the stakeholder on the progress of works.

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70 The value of IPC 10 is €3,996,921.72, the value of IPC 11 is €2,902,556.08, and the value of IPC 12 is €1,628,440.29

71 Which was not contracted for consultancy until 2020

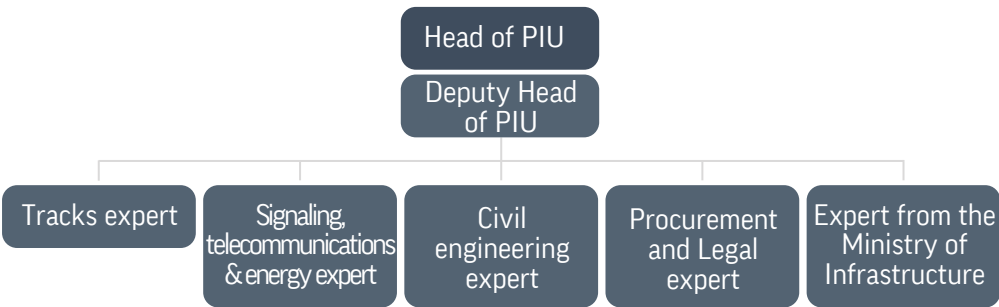
72 Progress reports were produced according to the requests of banks in annual terms

However, since its establishment in November 2015, the PIU had turnout and resignations in its structure. Currently, the PIU does not have a leader and it has been operating with an Acting Head since January 2023, after the current Chief Executive Officer dismissed the previous head of his duties due to delays in completing the project.

Despite Infrakos attempting to recruit a head according to the updated regulation in June 2023, this position was not selected even in September 2024. This unit is operating as incomplete, since in addition to the absence of the head, the PIU is also missing other key positions such as legal and procurement experts, as one of the engineers appointed in July 2023 and the member appointed by MESPI, have resigned and have not been replaced yet.

According to the UAP, there is a certain structure of the PIU, which in addition to the Head of the Unit, is required to have a Deputy Head and an expert from MESPI, but the November 2015 decision for the appointment of the PIU did not define these members. In December 2018, these two members were appointed, but in 2021, the expert from MESPI resigned and three years later he remains unreplaced, despite Infrakos' requests for his appointment. Likewise, the procurement expert has not been replaced since 2019 when he resigned.

Diagram 3. Organogram of the Project Implementation Unit



2018 Decision on establishment of PIU requires detailed job descriptions for every appointed field to be defined in annex documents. But these tasks were not specified for the PIU experts for engineering, electrical and signalling, rail traffic and legal issues as well as procurement or at least were not submitted to the audit team.

This may cause ambiguity in the roles and responsibilities of the experts, thus affecting the planning, management and monitoring of the project.

*Appointments of experts should be made through competition, transparently and based on merit.* The 2015 appointments, the 2018 update and two 2023 decisions for the Heads and members of the PIU were made without a competition and evaluation process. The appointments were made by decisions approved by the chief executives of the respective periods, without following any clear competitive process and without a defined regulation. In 2024, two processes for the recruitment of the Head of the PIU were initiated based on regulations but were not successful.

According to Infrakos, these appointments were made by decisions of the Chief Executive Officer of the period, who had submitted the CVs of the proposed members for approval to the Banks.

This practice has led to a lack of transparency and competition in the appointment process, increasing the possibilities for favoritism and making it difficult to ensure a unit with the appropriate competencies and effectiveness in fulfilling its duties.

The organizational structure of the UAP, the agreements with the Banks and the regulation drafted in June 2022 stipulate that daily decisions regarding the project are made by the Head of the PIU within his powers and in close coordination with the Chief Executive Officer or the Finance Department of Infrakos. However, the Board of Directors has given these responsibilities and authorizations to the Chief Executive Officer of the respective period by decisions since 2015, but an additional payment has been approved for this role to the EC since February 2024.

This delegation of responsibilities led to the Chief Executive Officer approval a detailed design project for the first phase in 2015<sup>73</sup> without considering the perspectives of all PIU experts. Consequently, this design affected the project implementation as well because there were delays and reviews became necessary.

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73 Approval Decision of Detail Design from KE dated 17.07.2017

Although these duties are not provided for the Chief Executive Officer at UAP, according to the current Chief Executive Officer, the management and development of all Infrakos projects is the responsibility of the Chief Executive Officer, which is why this responsibility has been delegated to him.

One of the tasks of the PIU is also the **management and monitoring of individual contracts** – *this process is very important to ensure that the work is completed according to the conditions and within the time limits specified in the contract*<sup>74</sup>.

Infrakos, more specifically the Project Implementation Unit, did not implement a formal monitoring and management process for five individual contracts<sup>75</sup> related to the rehabilitation process of Railway Line 10. The PIU did not appoint a contract manager<sup>76</sup> and did not provide for a formal performance monitoring. Consequently, none of the authorities that could have responded or reported on gaps that accompanied the contract implementation were determined.

### 3.2. The results according to the signed agreement for the implementation of the project have not been achieved

*Part of the 2015 financing agreement, in addition to civil works, contingencies, design and tender documents, supervision of works, also included signalling and electrical works, and support for implementation and institutional strengthening.*

The terms of the signed loan agreements were based on the feasibility report, ministerial negotiations and meetings with the Bank and the MFLT. These agreements also agreed on the activities that are expected to be carried out under the project. However, during the implementation of the project, not all activities

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<sup>74</sup> <https://www.pmi.org/standards/pmbok>

<sup>75</sup> Two design contracts and technical assistance contracts and two Monitoring contracts

<sup>76</sup> For works contracts (with GCF) the supervisory body plays the role of contract manager, so there is no reason to have a contract manager.

planned under the financing agreement were contracted, while some, although contracted, have not been implemented yet.

The following is a presentation of the activities that have not been fully contracted or have not been contracted yet and their impact.

Agreement activities	Implementation	Difference of implementation from the agreement	Impact on the project and loaning
Repair and improvement of 14 tunnels	In Phase I, seven tunnels were planned and contracted, but they were not completed even with the extended deadline (September 2024)	Seven other tunnels were planned for phase III, but no procedures for contracting the works have yet been initiated.	The line is not operational because it has not been completed.
Repair of 56 steel bridges and 21 concrete bridges and rehabilitation of drainage and track bed	The rehabilitation of 17 steel bridges and 33 concrete bridges has been contracted. However, after contracting, 14 steel bridges have been removed from the contract to be contracted through other procedures.	This results in 53 steel bridges remaining to be contracted in phase III, while concrete bridges have been exceeded compared to those foreseen.	Since the construction of the bridges has been removed from the contract, delays in completing the project will cause additional interest costs and loss of potential profits from the operation of the line, while the number of concrete bridges has been exceeded.

Installation of electronic internal locking at major intersections and completion of telecommunications equipment	Neither the project designer nor the contractor have been contracted. While the signage was removed in 2019	It has been removed from the planned project and Infrakos has requested additional funds, but they have not yet been provided.	In addition to the delays that will result from the adaptation of electronic installations in the rehabilitated project, it is estimated that an additional budget of around €55 million is needed.
Supply of Goods for Signalling and Telecommunications Improvements.			
Rehabilitation of 19 protected level crossings and improvement of a number of other currently unprotected crossings	Crossings are in process whereas installations have not started		Five years of delay so far and it is expected that the delay will be even longer until finalization.
Services for planning, design, supervision and management of projects and audit of works, as well as technical assistance to support sector reform, including operators.	Contracts for planning, design, supervision and technical assistance services have been signed and are being implemented.	No audit has been conducted for this part.	Supervision and technical assistance were foreseen to be paid from the Grant in the amount of about two million euros, but additional costs for them had to be covered by borrowing. The additional cost over that planned for these activities was over €3.5 million or over 150% of the planned value.

Both phases of the project that started their implementation have not been completed yet.

Below we have presented each phase of the project and the sections that are scheduled to be completed at different times, but even after nine years from the agreement and five years from the contracting of the works, neither phase has been completed. The following table presents the implementation of the works compared to the planning.

*Table 8. Project plan by phases and sections*

	Period	Phase I	Phase II	Phase III
Session	-	Fushë Kosova - Hani i Elezit	Fushë Kosova - Mitrovicë	Mitrovica - Leshak
Duration	-	64.1 km	34.4 km	50 km
Implementation of works	August 2015 - September 2024	Only 60 %	Only 32 %	Procurement procedures for signing contracts for the implementation of works have not been developed yet.
Start of implementation of works	-	2019	2021	Not started
Agreement signed with EIB in 2015	Start	2015	2017	2017
	End	2017	2019	2019
Agreement signed with EIB in 2023	Start	2019	2022	2025
	End	2023	2024	2027

As can be seen from the table above, Phase I for the Fushë Kosova - Hani i Elezit section was planned to begin construction in 2015 and be completed after two years, but the works were not contracted until February 2019 and for the Fushë Kosova - Mitrovica section they were contracted three years after the planning agreement.

Attention should be paid to the Mitrovica - Leshak section, since even after seven years from the first planning there is no concrete step towards implementation, except for a few meetings, negotiations and field visits for the preparation of the

feasibility report. There is still no designed project for the implementation of the works for phase III.

**Infrakos in debt to MFLT for the loan sub-borrowed with EBRD** - *for the repayment of the loan, Infrakos transfers to the borrower all amounts necessary and payable under this agreement to MFLT at least fifteen business days before the date set for the payment of the instalment.*

Infrakos has not returned the debts to MFLT in the amount of €8,923,764 for the 12 instalments paid by the latter. For each instalment that was due, Infrakos has requested MFLT to pay, asking for understanding as Infrakos is in a difficult situation due to the decline in rail transport of passengers and goods, the non-subsidization of the difference between the cost of infrastructure maintenance and payments for access to the tracks, as well as uncovered operating expenses, which according to the Law on Kosovo Railways should be taken care of by MESPI and the Ministry of Economy.

As a result, Infrakos is unable to pay its debt to the EBRD, where failure to make the payment could have serious consequences for the borrower and could create additional interest expenses. In Annex II you will find in detail the payment instalments, dates and value of the debt.

**Additional costs incurred by not completing the project on time** - *the project should be completed according to the time and value foreseen in the contract terms in order to avoid delays which may result in additional costs.*

The implementation of the project for the Rehabilitation of Railway Line 10 (Hani i Elezit - Leshak) has resulted in additional costs as a result of delays in the evaluation of bids, delays in the completion of works, and problems during the implementation process<sup>77</sup>, delays caused in import and Customs decision,<sup>78</sup> and

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77 Property problems with the municipality of Ferizaj and suspension of works by the contractor due to verification of mined areas in the Fushë Kosovë – Hani i Elezit section

78 Ruling No. 28.09.2023 issued by the Customs Procedures and Authorizations Sector



letters sent to the Prosecutor's Office<sup>79</sup>, delays in the disbursement of funds as well as Trainkos' claims for losses incurred due to the closure of the line.

*Table 9. Additional costs caused by delays in project implementation*

No..	Description	Value (in EUR)
1	Additional and provisional costs with change orders	27,933,986
2	Additional costs for Tranche B contract due to withdrawal of the lowest bid	1,700,000
3	Commitment costs from borrowing with EBRD	810,000
4	Fee for delays in disbursement of funds	4,939
5	Payment for the Dispute Resolution Board	30,860
6	Total	30,479,785

In addition to the costs caused by delays in the implementation of the project, losses reported to the PMU by Trainkos amounted to €8,015,253 as a result of the closure of the Line and the transport of passengers and goods.

As a result of these additional costs so far, in 2023 Infrakos was forced to update the basic loan agreement, which from €208 million has been increased by €38 million in loans and four million euros in other funds.

### 3.3. Lack of monitoring during project implementation and late measures that did not prevent deficiencies or minimize costs

The monitoring and management of the railway rehabilitation project has been accompanied by insufficient supervision and delayed measures by the responsible institutions, such as the PMU and the SC of Infrakos. The delay in implementing

<sup>79</sup> Letter sent by the EC on 30.03.2023 to the Basic Prosecutor's Office in Pristina

corrective measures has led to delays and increased costs, highlighting the urgent need for more effective supervision and more rigorous contract management.

**Insufficient monitoring by PMU and late measures for non-implementation of works** – According to Article 37 of the Law on Public Enterprises, PMUs must make analyses and recommendations on POEs, prepare reports on monitoring of POE projects and reports on POE performance assessments. The Ministry of Economy has the responsibility to Supervise and evaluate the Boards of Directors of POEs. The shareholder(s) of a POE shall exercise continuous and rigorous supervision of the activities of the Board of Directors and Audit Committees of the POE in question, and shall keep a distance from interfering in micromanagement in the enterprise.

The Public Enterprises Policy and Monitoring Unit at the Ministry of Economy, which fulfils the legal obligation to exercise shareholder rights in the POE, did not have a proactive role in relation to the project. Although the PMU held meetings with the Infrakos Board of Directors and reviewed important topics related to the functioning of the enterprise, in most of the meetings the process or progress for the implementation of the Railway Line 10 Rehabilitation Project was not discussed. After receiving the draft audit report, the PMU provided us with all the minutes of the Infrakos Board of Directors meetings for the period 2015-2024, including those from 2015 - 2019, which we did not have during the execution phase.

The interpretation of table no. 10 below indicates that over the years there has been a significant change in the way the Infrakos Board of Directors has handled the issue of the railway rehabilitation project.

- 2015-2017: During this period, the project was never part of the agenda of the Board meetings, and information about it was very limited. In 2016 and 2017, there were some instances of information, but they remained at a minimal level (33% and 30% of meetings).
- 2018-2020: The project started to be more involved in Board discussions. In 2018 the project is included as an agenda item in 20% of meetings, but information remains at the same level. In 2019 and 2020, there is a gradual increase in both the formal inclusion of the project on the agenda (8%-27%), and in the general information about it (42%-33%).

- 2021-2024: During this period, a clear improvement in reporting and discussion about the project is observed. In 2021, it is included as an agenda item in 54% of meetings, reflecting a significant change from previous years. The percentage of information remains at the same level. In subsequent years, although inclusion as an agenda item fluctuates between 33%-44%, information about the project reaches its peak in 2024 with 69% of meetings containing information about it.

Overall, the data shows an improved approach of the Board and the unit towards the project from 2021 onwards. However, even in cases where the project was included as an agenda item, the information was often superficial and there were no concrete proposals regarding it.

*Table 10. Inclusion of the project in the meetings of the Infrakos Board of Directors according to the minutes submitted from 2015-2024*

Year/No	BD Meetings per year	Agenda items	Information about the process	% of meetings as agendas	% of meetings as information
2015	10	0	0	0%	0%
2016	12	0	4	0%	33%
2017	10	0	3	0%	30%
2018	10	2	2	20%	20%
2019	12	1	5	8%	42%
2020	15	4	5	27%	33%
2021	13	7	7	54%	54%
2022	18	6	7	33%	39%
2023	16	6	8	38%	50%
2024	16	7	11	44%	69%

Thus, although the progress of the project was discussed in these meetings and the Project Implementation Unit was held accountable for its progress, we did

not see any proposals for progress or the setbacks caused until 2022, when the Government dismissed the Board of Directors<sup>80</sup>.

According to the PMU, during the supervision of Infrakos, shortcomings were identified regarding the implementation of responsibilities by the Board of Directors. Among them, non-fulfilment of fiduciary duties exercised by the Board in relation to the Shareholder was also found. Consequently, the Government dismissed the Board of NP Infrakos J.S.C., one of the reasons being related to the implementation of this project: *“The Board of Directors has neglected and contributed to the creation of delays in the development of the plan and the dynamics of the projects. In this regard, the Board has failed to exercise its responsibilities in implementing the basic principles of corporate governance”*.

There were no measures taken by Infrakos until 2023, while the measures taken after 2023 were:

- changes in the PIU leadership<sup>81</sup>;
- compilation of SWOT analyses by technical assistance on the progress of Phase I work as well as contract termination alternatives for Phase II<sup>82</sup>;
- requests submitted to the Prime Minister of Kosovo on the steps that need to be taken<sup>83</sup>;
- changes in the supervisory body’s team<sup>84</sup> (Banks did not allow terminating contracts with them); and
- the request for the contractor to increase capacities in both machinery and personnel to intensify the work;

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80 Decision No. 10.08.2022 on Dismissal of Infrakos BD by the Government

81 Letter of 23.01.2023 amending and supplementing PIU

82 SWOT analyses compiled by technical assistance on continuation alternatives of 03.03.2023 and 01.03.2024

83 Infrakos’ letter to the Prime Minister of 08.08.2024

84 The EC has stated that many of these delays are due to the supervisory body, when the VP in Greece and the Managing Director for Kosovo were replaced as well as some of the key and none key experts in the project – letter 06.09.2023

91 For an accurate overview of project implementation, the public investment program should be the first recording and monitoring mechanism.

- increase penalties from 10% to 11% from October 2024;
- the obligation of the employee to report on a monthly basis to the CEO level.

According to the PMU leader, the Government has the exclusive right to exercise shareholder rights. The lack of intervention from the beginning of the project, as well as the lack of reporting and evaluation by the PMU, has also occurred as a result of the lack of a public investment program in the PEs as well as limited resources in the units, have made it impossible to fully supervise. The initiative to draft an Investments Programme in Public Enterprises was re-initiated in the last year as the need for a capital investment overview where POEs would systematically report was included as an objective in the Development Plan of the Ministry of Economy. However, since this Programme is also linked to the Law on the Sovereign Fund, it is currently awaiting the approval of this Law to proceed further.

Furthermore, the Ministry of Economy has stated that taking measures for the project or interfering in the decisions of the Board of Directors would be like intervening in micromanagement.

### **Steering Committee oversight had no impact on achieving project objectives**

- Government decision dated 13.04.2022, designates MESPI as the chair of the Steering Committee, the Committee which is responsible for high-level management and oversight of the project, which will ensure that progress is made towards achieving the project's goals and objectives according to the terms, conditions and procedures of the Financial Contract signed between the EIB, EBRD and Kosovo.

Establishing a SC for the implementation of a state project means forming a high-level oversight body responsible for leading, decision-making, monitoring and ensuring the successful execution of the project. The committee is usually composed of key stakeholders, including government officials, technical experts and representatives from relevant ministries or institutions<sup>85</sup>.

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85 [The Essential Guide to Steering Committees: Functions, Duties, and Best Practices - EXEC Capital Recruitment](#)

The SC for project management, by decision of the Government headed by MESPI, together with members from MFLT, ME, Infrakos, PIU and representatives from EIB and EBRD (in the capacity of observers) were appointed in April 2022. The establishment of this SC was made seven years after the start of the project, with the aim of overseeing the process as a whole and accelerating the works and activities.

We have not seen that any process was decided in these meetings from the minutes of the meetings of this group. Although during this period there were extensions of the deadlines for the completion of the works for both phases, redesign of tunnels and bridges, removal of key contracted positions, and many other processes, we have not noticed that this SC had taken any decision regarding the improvement of the situation. Even the operation of the line, which had been stopped since 2020, the SC had not taken anything to change the situation even after 2022.

We have not received reports on these issues either from the Chairperson of the SC (only a few graphs about the progress of the project), or from the ME respectively PMU, which is tasked with the continuous supervision of the activity of the Board of Directors of the POEs.

We have noticed that there were no systematic meetings, while there were also cases where meetings were proposed by the members of the SC and not by the Chairperson who is also responsible.

Many important processes that have occurred regarding the project did not receive due attention even from the Ministry of Economy, which is mainly represented by PMU officials. Regarding reporting on the implementation of the project, the PMU's reasoning was that this is the duty of the Head of the SC, while their duty as a monitor of the POEs is to have reports on operational and financial aspects, but not on the progress of the project in particular.

Unlike the aforementioned parties, Infrakos was mainly represented in the SC by the Chairperson of the Board or the CEO and the PIU, who have on occasion requested these meetings and have made letters and proposals on the problems caused.

Poor monitoring and late measures by the PMU, late appointment of the SC and failure to rigorously undertake supervision have caused stagnation and delays in processes that have affected the implementation of the project, increasing costs<sup>86</sup> and decisions that were not in favour of the project.

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86 Indirect costs – technical assistance, supervisory body and time factor





CONCLUSIONS

04

## 4. Conclusions

Despite the strategic importance of the Railway Rehabilitation Project - Line 10, its management by Infrakos, the Ministry of Environment, Spatial Planning and Infrastructure and the Ministry of Economy have failed to ensure efficiency in the implementation of the project. Poor communication between the parties, lack of expertise and sufficient commitment, as well as delayed decision-making have contributed to the project suffering significant delays and exceeding the planned budget. Furthermore, the lack of regular and effective supervision has worsened the situation, failing to achieve the objectives within the set deadlines.

With the first agreement, the project was supposed to be fully implemented by 2019 (the first two phases by 2017, while the third phase by 2019), but even at the end of 2024, neither phase has been fully completed. Thus, nine years after the signing of the agreements, and five years from the scheduled completion date, the project is not even close to being finalized. The execution of payments for this project from 2008 to 2020 has been very low. Better progress begins in 2021, while

in 2022-2023, there was an increase in investment payments of about 45% compared to the previous period, contributing to the overall costs of the project and the implementation of the works. However, the project is still far from achieving the objectives set for this project.

So far, only 60% of the work for the first phase has been completed, adding to that the fact that the construction of 14 metal bridges has been completely removed from the contract, for the second phase it is 32%, while the third phase has not even started. Consequently, the parties have been forced to update the agreement to extend the deadline until 2027, but given the pace of work so far, it is unlikely that the project will be finalized in 2027. It should also be added that the lack of a final decision on whether or not to extend the contract for the second phase will further affect the delays. Meanwhile, increased attention should be paid to the Mitrovica-Leshak section, since even seven years after the initial planning there is still no designed project, let alone any works started.

Despite the delays in the completion of the works and the extension of the deadline with annexes to the contracts (which were also not respected), Infrakos did not apply penalties to the company performing the work for the first phase. The application of penalties only began in October 2024 and has increased from 10% to 11%. So, this was one of the few measures it had at its disposal to influence even slightly the increase in efficiency, but Infrakos did not use this either.

Although the Ministry of Economy participated in the negotiations, it did not ensure that the Public Enterprise Policy and Monitoring Unit (within the Ministry of Economy) fulfilled all the obligations and responsibilities assigned to it by these agreements, except for the measure on the dismissal of the Board of Directors in 2022. This Unit was absent from many processes in which the financing agreements required it to be involved and did not take measures to avoid delays or obstacles to the timely implementation of the project and in accordance with the financing agreements.

The Steering Committee for the management of this project, established by the Government of Kosovo in 2022 and composed of all relevant parties, did not take any decisions to increase the efficiency or progress of the project's implementation by the end of 2024.

The project implementation process has been characterized by a lack of clarity and proper planning. The choice of inappropriate contracting methods, delays in the engagement of technical assistance and continuous changes in the structure of the Project Implementation Unit have resulted in delays and significant cost increases. Ad hoc interventions and failure to meet responsibilities by the Units responsible for overseeing the process have created a situation where the project, nine years after its inception, is far from being completed and achieving its main goals.

The establishment of the Project Implementation Unit, which was the main link in ensuring the smooth implementation of the project and a requirement of the financing agreement, was involved in all steps of the process, but was not amply effective in fulfilling its obligations. The constant movements of its members, the appointment of members without competitive procedures, the lack of clear job descriptions and the lack of monitoring of the work of the Unit also played a role in this inefficiency.

The method selected for contracting for phase I (FIDIC-Red Book), i.e. construction only, turns out to have been inappropriate, since for such a complex project where the need for changes may constantly arise and which actually had changes during implementation, the most appropriate method would be the Yellow Book (design and construction), a method that provides greater flexibility and efficiency. The delay in contracting technical assistance has resulted in all other phases being delayed, while the improper assessment of needs for all contracts such as those for design, technical assistance, execution of works and supervision have resulted in the need for numerous changes in contracts and consequently additional costs. As a result, the additional cost for supervision of works for phase I increased by €3,664,670 or 262% from the basic contract, and €742,315 or 46% for supervision of works for phase II. For the implementation of Phase I works, €3.3 million were spent from the value of unforeseen works, while for the implementation of Phase II works, price adjustments have resulted in over €15 million of additional costs. That is, due to improper planning and price revision, approximately €23 million of additional costs have been incurred so far. Furthermore, these expenses have also created the need for additional borrowing in the amount of €38 million.

Additional costs were also caused by the change in the number and types of experts after contracting. The changes in experts estimated by the Project Implementation Unit had additional costs in the amount of over €1.1 million. That is, only by the end of 2024 (where the project is far from being finalized), additional costs are over €22 million.

The winning company for the design of the first phase offered to do laser scanning, a methodology that had put it at an advantage compared to other companies. It won the bid thanks to this methodology, which had put it at an advantage compared to other companies, however it has never done laser scanning. Such a process is not transparent and not equal for other bidders, whereas from a financial point of view, it was not possible for us to find an effect as Infracos did not provide access to the other offers.

The suspension of the operation of the lines was also non-transparent and harmful. Even though the contract stipulated that the rehabilitation of the Fushë Kosovë – Hani i Elezit line would be carried out under operation, with the exception of works that are technically impossible to complete while the line is under operation (schedule approved by Infracos). Nonetheless, the contractor requested the

complete closure of the line and Infrakos closed the line from 2020 for passenger traffic, and from 2021 for freight traffic as well. The Fushë Kosovë-Mitrovicë line has also been closed since June 2022, but the closure of this line was included in the tender dossier. For these closures, a decision was not requested from the Ministry of Environment, Spatial Planning and Infrastructure, as it should have been, and for the Fushë Kosovë-Hani i Elezit line, approval was not requested from the Bank either, but only the Railway Regulatory Authority was informed. These lines continue to remain closed for traffic until the end of 2024, and Trainkos alone has reported over eight million euros in losses from the closure of the Fushë Kosovë-Hani i Elezit line. Moreover, this means that neither the citizens nor the businesses of Kosovo will benefit from this project in time, since it is not yet operational.

The expected results from the financing agreements have not been achieved yet. Not all activities planned to be implemented have been implemented by the end of 2024. Of the 14 planned tunnels, seven are in progress and seven of phase III have not been contracted yet, out of 77 bridges (56 steel and 21 concrete), 53 steel bridges remain to be contracted in phase III. The number of contracted concrete bridges is higher than planned but has not been completed yet, electronic installations and telecommunications equipment that have not been contracted yet are expected to require an additional budget of around €55 million. Therefore, the expected results have not been achieved either within the time frame or within the planned budget.



# 05

## 5. Recommendations

In order to improve the process for the implementation of the remaining part of the project as well as to improve processes for other projects in the future, we recommend:

### **The Ministry of Environment, Spatial Planning and Infrastructure to ensure:**

- more active involvement in every phase of loan negotiations and, if necessary, during project execution, with an emphasis on activating its role as Chair of the Project Steering Committee; and
- that the closure of the line is done only with its approval, consequently setting a deadline for when the line can be closed.

### **Ministry of Economy to ensure:**

- that it contributes to increasing efficiency during the implementation of the project, with an emphasis on pushing forward the process of completing the Project Implementation Unit and playing a more active role as part of the Steering Committee; and

- continuous monitoring of the performance of the Infrakos Board of Directors.

### **Infrakos to ensure:**

- that urgent measures have been taken to complete the Project Implementation Unit;
- that controls have been strengthened and monitoring engagement has been increased towards the Project Implementation Unit and all the bodies involved, which are key to ensuring the progress and efficiency of the project implementation;
- proper assessment of needs, whether for design, execution of works or supervision of works, to have contracts that are closer to needs and without the need for many changes, which prevent delays and avoid additional costs;
- that contracting methods have been analysed, and decide on the most appropriate method that brings the greatest benefits;



- that the tender dossiers (which then become contracts) set out clear requirements and criteria for each item and clarify the possibilities for any changes that are allowed to be made after contracting, including limits for price changes; and
- that managers are assigned to each individual contract, thus increasing accountability for the progress of the project implementation;
- transparency for all parties in the event of line closures, and seek prior approval from the Ministry of Environment, Spatial Planning and Infrastructure and the Banks.





# Annex I Different tables with detailed information within the report

Table 11. Performance objectives according to UAP

Project Summary	Performance Objectives and Indicators with Baseline Values	By October 2024
Improved domestic and sub-regional trade flows	By 2025 - The volume of exports and imports using the railway system increased to 1,432,408.00 tons from 964,476.00 tons in 2013.	The volume of exports and imports using the railway system has not increased. The flow of domestic and sub-regional trade has not improved. Line 10 is not functional at all; the transport of goods and passengers has been stopped from 2020 for passengers and 2021 for transport as well.
Kosovo's railway transport system improved	By 2022 - Number of daily trains increased by 160% (2011 baseline: 27 trains per day and direction)	TRAINKOS has reported over €8 million losses from freight and passenger transport.
Improved railway infrastructure	By 2021 - 149 km of railway lines modernized according to EU standards. 16 stations reconstructed	Only 40 km completed in phase I and 12 km in phase II, while the third phase has not started any implementation process yet.
Improved capacity of INFRAKOS in project management and implementation	20 staff from INFRAKOS trained in procurement, contract management, and project management	Staff has not been trained in the planned total and the required areas at the time when it was necessary and before the signing of contracts for the implementation of the project.

*Table 12. Status of delays in contracts for the implementation of works Phases I and II*

	Project Design Phase I	Project Design Phase II	Implementation of works Phase I	Implementation of works Phase II
Status of the project	by 30.06.2016	by 30.09.2024	by 30.09.2024	by 30.09.2024
Days passed	990	1,110 days	1,858 days	721 days
Delays in months	33	37	62	24
Starting date	15.07.2015	17.04. 2018	30/08/2019	10.10.2024
Original time	350	30.01.2019	730 days	455 days
Original contract end date	31.06.2016	30.01.2019	29.08.2021	08.01.2024
Additional time - days	270	1,110	1,128	Not set yet
Revised Completion Date	-	-	30.09.2024	NA
Total time	990	1100	1,858 days	721 days
End of defect notification period	-	-	30.09.2025	07.01.2025
Accepted Contract Amount	-	-	€78,625,639.40	€47,927,505.32
UN (including) Temporary Amounts	-	-	€4,798,747.94	€2,271,133.60

Table 13. Infrakos' Debt to MF Sub-lending loan with EBRD

Instalment	Payment date	Value (in EUR)
First	31.03.2019	344,990.92
Second	30.09.2019	263,100.82
Third	31.03.2020	277,597.61
Fourth	30.09.2020	285,213.03
Fifth	31.03.2021	331,416.49
Sixth	30.09.2021	430,351.54
Seventh	31.03.2022	596,792.76
Eighth	30.09.2022	731,955.37
Ninth	31.03.2023	1,160,271.19
Tenth	30.09.2023	1,371,613.58
Eleventh	31.03.2024	1,519,474.14
Twelfth	30.09.2024	1,610,986.48
Total		8,923,763.93

Table 14. Detailed costs of disbursement and undisbursed funds

	Front end - 1% of the disbursed amount	Principal	Interest expenses	Engagement expenses	Total
Loan with EIB	-	nga 12.2026	1,540,000	-	1,540,000
Loan with EBRD	278,000	6,560,000	1,550,000	810,000	9,198,000
Total	278,000	6,560,000	3,090,000	810,000	10,738,000

# Annex II Audit Criteria, Scope and Methodology

## Audit Motivation

Financial and compliance audits conducted by the National Audit Office (hereinafter referred to as the NAO) for the years 2021 to 2023 have identified issues for the Line 10 Railway Rehabilitation Project. The issues identified by the NAO audits and presented in recent years' reports include: lack of complete grant data, deficiencies in the feasibility study and non-presentation of expenditures for the project in question.

The implementation of the project for the Rehabilitation of Line 10 Hani i Elezit - Leshak with a length of 149 km was delayed in completion, with the first phase planned to begin in 2015 and be completed in 2017, while the second and third phases are planned to begin in 2017 and be completed in 2019<sup>87</sup>. Deficiencies in investment planning, delays in selecting project implementation consultants and design companies, delays in project execution, deficiencies in reporting and process on project progress by the PIU are some of the issues that require attention.

The high planned budget (international loans and grants) for the completion of this project, the burden on Infrakos to return the funds along with credit interest, the high costs incurred so far and the purpose of this project with public, economic and social interest are some of the factors that make this railway line very important. The importance of this project, the high budgetary implications required to put the project into operation (grants and loans), the excessive delays in completing and putting this railway line into operation, are the main reasons why the audit was requested. Another issue addressed in the Audit Report on the Annual Financial Statements of "Kosovo Railways-Infrakos" JSC for 2023, was the lack of evidence

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87 Agreement ratified in the Assembly in 2016 between the Government of Kosovo and EIB

supporting the expenses from grants obtained for railway line 10 in the amount of €4,750,000. This issue was also addressed in the basis for a qualified opinion. Although Infrakos had requested from the investors to provide invoices, they did not provide evidence and claimed that these are contracts between the bank and the consultant, which they consider confidential.

In addition to the above-mentioned issues, a request for an audit of this line was also made by Infrakos in 2023 for phases I and II, while the audit also covered the agreement negotiation phase and phase III of the project. However, in accordance with the powers set out in legislation and international auditing standards, the Auditor General has decided on the subject and scope of the audit, considering this subject to be of public interest.

## **System Description and Relevant Actors**

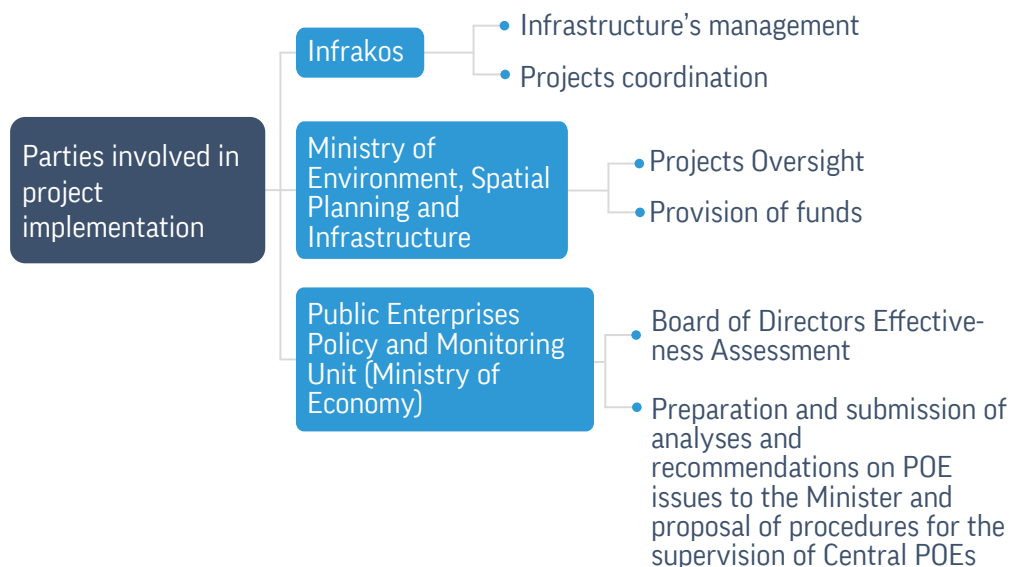
Kosovo Railways Infrastructure JSC (Infrakos), as the main railway infrastructure operator in Kosovo, is responsible for the management, maintenance and development of the country's railway network. The railway network in Kosovo consists of several main lines, with Line 10 being one of the most important, connecting important economic and industrial centres of the country.

However, for the implementation of the Line 10 Railway Rehabilitation Project, other national and international actors were also involved, each with the responsibility and role designated by the legislation. Below we have presented the main actors involved and the responsibilities of each, while the diagram shows the main tasks that have been addressed to each for the implementation of the project in question, according to the Project Administration Manual.<sup>88</sup>

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<sup>88</sup> Project Administration Manual developed by EIB





In addition to these, other national and international actors are also included in the diagram for the implementation of the Line 10 Railway Rehabilitation project, each with the responsibility and role provided by the legislation and special manuals.

## Audit Questions

**In order to answer the audit objective, the following audit questions and sub-questions were asked:**

1. How efficient were Infrakos, MESPI and ME in managing the Line 10 Railway Rehabilitation project?
  - Was the railway rehabilitation project implemented according to the required procedures and signed agreements?
  - Was the contracting process carried out properly?
  - Did they ensure transparency and accountability for the expenditure of funds allocated for the project?
2. How was the entire project implementation process managed?
  - What are the loan terms for financing the project?

- What are the costs incurred by not completing the project on time?
- Was there proper monitoring throughout the project?
- What measures have been taken to minimize interest costs and ensure efficient financial management?

## Audit Criteria

The purpose of the audit is to assess whether the responsible actors involved in this process have ensured that planning, coordination, reporting and monitoring regarding signed agreements and contracts have been properly managed, transparent, efficient and properly monitored.

The audit criteria in this audit are derived from national legislation, the international manual for procurement procedures (Guide to Procurement for projects financed by the EIB), international agreements and regulations in force.

To verify this, we set the following criteria according to the role of each actor involved in the implementation of the project:

- All phases for the completion and operationalization of the project in question (including but not limited to planning, contracting, management and monitoring of contracts), should be completed within the optimal time and in accordance with the planning<sup>89</sup>;
- The current state-owned infrastructure in Kosovo is managed by the Kosovo Railways Infrastructure JSC (Infrakos), but strategic decisions regarding the sustainability of the state-owned railway infrastructure in Kosovo, with the closure of lines, modernizations and developments, should be discussed at the government level before any decision is made<sup>90</sup>. Therefore, any activity that Infrakos undertakes should be in line with Law No. 04/L-063 on Kosovo Railways;

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89 Rephrased by the auditor based on professional judgement and in accordance with the processes

90 Article 9 [Date: 02 \(rks-gov.net\)](https://rks-gov.net)

The Policy and Monitoring Unit<sup>91</sup> under the Ministry of Economy should:

- make analyses and recommendations regarding the issues of the Central POE, prepare and submit to the Minister proposed procedures for the supervision of the Central POEs and monitoring their compliance with this law and other relevant laws;
- review the minutes or data reported from the Board of Directors meetings (in the specific case of Infrakos) that show concerns regarding their performance, the management of the POE or the POE itself, will notify the relevant Shareholder(s) of these concerns;
- Government debt consists of international agreements that are subject to local or foreign legislation and the Ministry of Finance, Labor and Transfers has the sole authority to negotiate and obtain state debt on behalf of the Republic of Kosovo;
- Budgetary organizations that seek to finance projects by borrowing through financial or international agreements, shall first submit a documented request to the MFLT<sup>92</sup>;
- The change of the loan amortization schedule and the waiting period of the ratified international agreement does not constitute a substantial change in the international agreement as long as this change does not result in an extension of the loan maturity. In such cases, the Minister is authorized to approve such a change;
- The methodology for assessing credit risk and the application of guarantee fees is regulated by a sub-legal act issued by the Government of Kosovo, based on the provisions of this law;
- In the event of sub-lending under paragraph 2 of this article, the sub-lending shall be made on similar terms to the financing received from the Government, but not more favourable than the terms of the original loan<sup>93</sup>

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91 Article 37 Law on Public Enterprises [ActDetail.aspx \(rks-gov.net\)](#)

92 Article 18 Law on Public Debt and State Guarantees [ActDetail.aspx \(rks-gov.net\)](#)

93 Article 38 Law on Public Debts and State Guarantees [ActDetail.aspx \(rks-gov.net\)](#)

- Procurement processes should adhere to the principles of transparency, including the publication of procurement notices, access to information and the evaluation process<sup>94</sup>;
- We will assess the effectiveness of mechanisms in place to ensure accountability for procurement actions, such as record-keeping practices and reporting procedures;
- The appropriateness of the types of procurement procedures should be based on the project requirements, timelines and complexity of the project;
- Eligibility requirements should be defined for suppliers, contractors and consultants participating in procurement processes by specific area;
- The pre-qualification process for suppliers and contractors should include the criteria used for evaluation, documentation requirements and procedures followed<sup>95</sup>;
- Tender documents developed for projects financed by the EIB<sup>96</sup>, should include the invitation to tender, instructions to tenderers, specifications and contract conditions. We will assess the clarity, completeness and consistency of the information provided to bidders;
- The criteria used for the evaluation<sup>97</sup> should include technical, financial and commercial considerations as well as transparency and objectivity of the evaluation process;
- Contract award procedures should include contract award notification, contract signature and contract implementation. Timelines and transparency of contract award decisions, as well as compliance with applicable regulations and guidelines;
- Contract management should include performance monitoring, position changes, claims and dispute resolution mechanisms. The execution of works should be carried out in accordance with the contract requirements and addressing issues that may arise during project implementation;

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94 Article 3.7.2. from [Guide to Procurement for projects financed by the EIB](#)

95 Article 3.7.3 from [Guide to Procurement for projects financed by the EIB](#)

96 Article 3.7.4 from [Guide to Procurement for projects financed by the EIB](#)

97 Article 3.7.10 from [Guide to Procurement for projects financed by the EIB](#)

- Procurement processes should comply with environmental and social requirements, including environmental and social safeguards, health and safety standards and working practices;
- Contract management for its implementation should also be carried out in accordance with the Project Administration Manual where;
- Infrakos should put in place adequate staff, resources and systems to ensure the timely and effective implementation of the monitoring framework. Infrakos should provide the EIB (European Investment Bank) with semi-annual progress reports and other necessary reports, in a format and schedule specified in Schedule A2 of the Finance Contract<sup>98</sup>;
- Infrakos' Finance Department should maintain all relevant data on a daily basis, and all department personnel should comply with existing legislation and regulations. Infrakos should create and update, at least at 12-month intervals, each type of material required by the Law on Public Finance Management, including advertising notices, minutes of bid opening and evaluation, and contracts of the tender winner<sup>99</sup>;
- Infrakos should ensure that requests for transactions and transfers of funds for capital projects are accompanied by the required documents for the commitment of funds, reports to the public procurement regulator commission, decisions on the establishment of commissions and minutes of the opening and evaluation of bids, contracts and reports on the acceptance of works. The Chief Executive Officer and the Financial Director should be the sole authorities within Infrakos responsible for the review and approval of transactions<sup>100</sup>;
- Infrakos should maintain separate bank accounts for expenditure categories and capital investments, closely monitoring the performance of each project for which capital investment funds are used. Each project should have its own unique code<sup>101</sup>;
- Infrakos should ensure that all expenditure incurred against contracts is in accordance with the EIB Procurement Guidelines (2011). Tender documents

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98 Page 13 item 13 Project Administration Manual (PAM)

99 Page 10 "Document storage rules" PAM

100 Page 10 "Preparation controls." and "Delegated requests..."PAM

101 Page 10 "Cost allocations..." PAM

should include reference to the EIB Anti-Fraud Policy and require bidders to submit a signed integrity agreement with their bid<sup>102</sup>;

- For contracts co-financed by the EIB and EBRD, Infrakos should ensure that the EBRD Procurement Policies and Rules, standard tender documents and evaluation report formats are applied in the procurement process and are acceptable by the EIB<sup>103</sup>.

## Audit Scope

This audit covered the period 2015-2024 when agreements were signed with the borrowing banks EBRD, EIB, EU and grants with those banks and KIBP. The contracts signed by Infrakos with the design, execution and supervisory body companies were also part of the audit. We analysed the efficiency of the project implementation, the procedures used for contracting the works, including planning, coordination, monitoring, reporting and the associated costs, taking into account that the project is still not operational nine years after it started. To answer our audit questions, we considered the management of the processes of contracts signed for works and consulting and supervisory services (including amendments) and loan and grant agreements.

Subjects of this audit are: Ministry of Environment, Spatial Planning and Infrastructure, Ministry of Economy and Infrakos.

We have also included in the explanations the Debt Obligations Office within the MFLT which has been the key institution in the negotiation, signing and disbursement of loans with the EIB and EBRD and the Development Cooperation Office within the Office of the Prime Minister for grants received from the Western Balkans Investment Framework and the EBRD.

Further, we also requested clarification from the RRA on their role in the project and the suspension of the Line, as well as on the losses incurred by Trainkos from

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102 Page 12 item 12 paragraph 1 and 2 PAM

103 Page 12 item 12 paragraph 3 PAM

the suspension of the operation of Railway Line 10 Hani i Elezit - Fushë Kosovë for the period 2020-2024<sup>104</sup>.

## **Audit Methodology**

Our approach to the audit of the Railway Line 10 rehabilitation project included a range of techniques to obtain audit evidence and assurance, starting from the procedures used for contracting the works, financial analysis of expenditures and their consolidation, interviewing relevant officials from the central level and Infrakos, analysing relevant documents, and assessing the processes for implementing this project.

To answer the audit questions and to support the audit conclusions, we will apply the following methodology:

- Analysis of international and national loan and grant agreements for this project;
- Analysis and assessment of the planning and execution phases of the rehabilitation project, including resource allocation, timelines and project implementation processes. This will include examination of relevant documentation such as project proposals, contracts and relevant procurement guidelines according to the European Investment Bank manual;
- Analysis of Kosovo Treasury payment reports for the period 2015-2022 processed and recorded under project code 15046, through the MIA budget code;
- Analysis and processing of data received from the Infrakos Finance Department for direct payments to contractors;
- Analysis of changes from the initial and final project design and their impact on the project budget and on the interests of lending banks;

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104 Suspension from 2020 for travellers and for freight transport from 2021.

- Reconciliation of the report on disbursements made for the years 2015-2024 received from the Debt Management Division within the MFLT and reports from the PIU within Infrakos;
- Consolidation of Treasury payment reports, Infrakos reports and MFLT reports;
- Analysis of regularity audit reports from the NAO for the years 2015-2023 carried out in Infrakos;
- Analysis of procurement procedures on contracting of works and services, according to the European Investment Bank manual, including identification of any inconsistencies or irregularities that may have occurred during the evaluation, contracting and implementation phases;
- Examination of the monitoring and evaluation mechanisms established to monitor the progress and performance of the rehabilitation project and determine their effectiveness in ensuring accountability and transparency by the PIU;
- Interviewing responsible officials from the stakeholders involved in the project implementation process starting from MFLT – (Debt Management Division), ME (Policy and Monitoring Unit of POEs), Infrakos (Directorate of Planning, Finance, PIU) and MI (Land Department);
- Analysis of the contract amount with executed payments and disbursements;
- Analysis of Infrakos' business plans for the period 2015-2023;
- Analysis of Trainkos' business plans (within the PMU) for the period 2015-2023 on revenue forecast and revenue collected in terms of freight and passenger transport; and
- Analysis of the implications on revenue collection from the stalled project implementation.



# Annex III Letters of Confirmation



REPUBLIKA E KOSOVES / REPUBLIC OF KOSOVO MINISTRIA E MJEDISIT, PLANIFIKIMIT HAPËSINOR DHE INFRASTRUKTURËS MINISTARSTVO ŽIVOTNE SREDINE, PROSTORNOG PLANIRANJA I INFRASTRUKTURE MINISTRY OF ENVIRONMENT, SPATIAL PLANNING AND INFRASTRUCTURE	
Tipi i origjinalit Orgjinali Nr i Faqeve Nr i Stranica Nr i Pages	SP. 02 - 01 - Nr i Protokollit Prot. No. Data 19.02.25 PRISHTINË / A No. 1

**Republika e Kosovës**  
**Republika Kosova-Republic of Kosovo**  
**Qeveria –Vlada-Government**  
**Ministria e Mjedisit, Planifikimit Hapësinor dhe Infrastrukturës**  
**Ministarstvo Životne Sredine, Prostornog Planiranja i Infrastrukture**  
**Ministry of Environment, Spatial Planning and Infrastructure**

*Zyra e Sekretarit të Përgjithshëm / Kancelarija Generalnog Sekretara / Office of the General Secretary*

## LETËR E KONFIRMIMIT

Për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për raportin e auditimit të përformancës “Efikasiteti në realizimin e projektit Rehabilitimi i Linjës 10 Hani Elezit – Leshak”, dhe për zbatimin e rekomandimeve.

Për: Zyrenë Kombëtare të Auditimit

Vendi dhe data:

I nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit “Efikasiteti në realizimin e projektit ‘Rehabilitimi i Linjës 10 Hani Elezit – Leshak’” (në tekstin e mëtejshëm “Raporti”);
- pajtohem me gjetjet dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t’ju dorëzoj një plan të veprimit për implementimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Izedin BYTYQI  
 U.d. Sekretari i përgjithshëm i MMPH-së



Faqe 1 nga 1

REPUBLIKA E KOSOVES - REPUBLIC OF KOSOVO	
QEVERIA - VLADA - GOVERNMENT	
MINISTRIA E EKONOMISE	
MINISTARSTVO EKONOMIJE	
Njësia Org.	No. Prot.
Org. Jedin.	Br. Prot.
Org. Unit.	Prof. No.
No. i fagëve	Shën.
Proj. shënica	Datum.
No. paqes	Ditë.
PRISTINE A	
NO. 1	



**Republika e Kosovës**  
**Republika Kosova-Republic of Kosovo**  
**Qeveria-Vlada-Government**  
**Ministria e Ekonomisë**  
**Ministarstvo Ekonomije - Ministry of Economy**

**LETËR E KONFIRMIMIT**

Për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për raportin e auditimit të performancës **“Efikasiteti në realizimin e projektit Rehabilitimi i Linjës 10 Hekurudhore Hani i Elezit – Leshak”** dhe për zbatimin e rekomandimeve.

Për: Zyrën Kombëtare të Auditimit

Vendi dhe data: 26/02/2025

I nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit **“Efikasiteti në realizimin e projektit Rehabilitimi i Linjës 10 Hekurudhore Hani i Elezit – Leshak”** (në tekstin e mëtejshëm “Raporti”);
- pajtohem me gjetjet dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t’ju dorëzoj një plan të veprimit për implementimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

**Artane RIZVANOLLI**

*Artane Rizvanolli*

Ministre e Ekonomisë





## LETËR E KONFIRMIMIT

Për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për raportin e auditimit të performancës **“Efikasiteti në realizimin e projektit ‘Rehabilitimi i Linjës 10 Hekurudhore Hani i Elezit – Leshak’”**, dhe për zbatimin e rekomandimeve.

Për: Zyrën Kombëtare të Auditimit

Vendi dhe data: Prishtine, 10/02/2025

I/e nderuar/a,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit **“Efikasiteti në realizimin e projektit ‘Rehabilitimi i Linjës 10 Hekurudhore Hani i Elezit – Leshak’”** (në tekstin e mëtejshëm “Raporti”);
- pajtohem me gjetjet dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t’ju dorëzoj një plan të veprimit për implementimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Kryeshefi Ekzekutiv

Naser Krasniqi





National Audit Office of Kosovo  
Arbëria District,  
St. Ahmet Krasniqi, 210  
10000 Pristina  
Republic of Kosovo