

## PROJECT COMPLETION REPORT

Road Modernisation Federation BIH

Bosnia Herzegovina

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## Scope

The Road Modernisation Federation BiH project was approved by the Bank's Board of Directors in March 2015. The Finance Contract of the investment loan of EUR 50 million under the 2104-2020 External Lending Mandate was signed in February 2016. The project was jointly co-financed with the World Bank.

The project concerned a multitude of small and mid-sized investments to modernize the roads network of the Federation of Bosnia and Herzegovina (FiBH) and enhance its road safety performances. The project included construction of new sections and slow lanes, rehabilitation of road pavement, elimination of road safety black spots and improvements to tunnels and bridges on 35 sections of 12 national roads on a network of a total length of approximately 220 km within the Federation of Bosnia and Herzegovina.

The project comprised design, supervision and civil works concerning the following six categories of investment schemes:

- Construction of road sections
- Construction of slow lanes
- Rehabilitation of road pavement (and axis corrections)
- Elimination of road safety black spots
- Improvement of Tunnels
- Improvement of bridges

Among the largest individual schemes comprise the (re-) constructed M 17.3 road from Stolac to the Neum (36 km) on the Adriatic coast and the new 4.5 km road section between Kladanj and Podpaklenik on the M18 including the 850m tunnel Karaula

In June 2022, The Finance Contract (FC) was amended in order to update the project completion date and extend the Final Availability Date of the EIB loan; the amended FC also included some non-material modifications to the project scope.

The tables in Annex 1 provide further detail of the various interventions under the six categories

**The various project schemes were chiefly delivered in substance – as described at appraisal stage and included in the Financer Contract of the loan and its amendments.**

Promoter name: JP Ceste Federacije BiH

Link to Website: <https://jpdcbh.ba/en>

## Cost and Schedule

At board approval it was expected that the project would be carried-out during a five-year implementation timetable (2015-2019); however, due to the multitude of investment schemes the exact sequence and duration of each scheme was not yet defined. The overall schedule was therefore a very rough estimate.

After signature of the Finance Contract, the project works started finally in the first quarter of 2016. The complexity of some of the tunnel works, rehabilitation works during operation, delays due to the lengthy process of land acquisition (mainly from other public entities) and interruption of procurement and works during the COVID 19 pandemic resulted in a postponement of project completion to November 2022.

The updated end-of-works date and the resulting extension of the loan's Final Availability date to 23 February 2023 were subject of the first amendment of the Finance Contract.

The overall project investment cost was estimated at appraisal in EUR 103,29 million. The project investment cost at outturn resulted in EUR 120.93 million thus 17% higher than projected at appraisal. This increase is mainly a result of the higher land acquisition cost and consultancy additional services cost due to the encountered delay of completion. despite the difficulties and delays encountered during implementation.

The project was jointly co-financed with the International Bank for Reconstruction and Development (IBRD loan 8640 Federation Road Sector Modernization project). The cooperation between the two International Finance Institutions (IFI) was laid out in project specific "Principles of Collaboration" with the IBRD coordinating the monitoring of the jointly-cofinanced schemes as lead IFI. The Implementation Completion and Results Report (ICR) of the World Bank was published in April 2024. <sup>1</sup>

The project finance structure consisted of a EUR 50 million by the EIB loan (FC 82.137) and EUR 56.55 million by the IBRD with EUR 14.38 million financed by the borrower's own resources. The EIB loan is fully disbursed with the last disbursement transferred in February 2023.

## Performance

### Demand and economic profitability

At appraisal the Average Annual Daily Traffic (AADT) on all concerned rehabilitation schemes under the various categories was projected for 2022 to be around 6,400. Actual traffic reported by the promoter matches those forecasts. The World Bank ICR concludes the overall satisfactory economic outcome of the project with an ex-post Economic Rate of Return (ERR) of 13.4 percent which matches the ex-ante evaluation value.

For the two major project schemes the Bank had calculated the economic profitability applying its methodology for cost benefit analysis of roads.

- Project scheme Stolac - Neum

Opening traffic of the newly (re-constructed) Stolac-Neum road (M17.3) was projected at appraisal to count for around 2,800 vehicles per day. This forecast was assuming that over 50% of the traffic on the alternative routes but will be shifted towards the new re-constructed M17.3 and additionally induct 5% of new traffic.

Based on recent promoter data, the actual traffic figures on this road in 2023 reached only an AADT of around 1,600. Project cost for this section increased by 25% compared to the initial estimates at appraisal. The economic profitability of this scheme will thus change from a projected Economic Rate of Return (ERR) of 10% to an actual ERR of around 5 %.<sup>2</sup>

It should be noted that travel on this road section to the Bosnian seaside town of Neum is very seasonal with traffic of around 3,200 vehicles per day during summertime.

As the Finance Contract under this project foresees another update three years after completion; the promoter will update traffic counts in 2025 and assess if the economic profitability improved.

- Project Scheme Kladanj - Podpaklenik

Opening traffic of the newly constructed Karaula tunnel and its accesses was projected at appraisal to count for around 4,000 vehicles per day; based on recent promoter data, the traffic figures on this road in 2023 exceeded the projections with an actual AADT of around 4,700. Project cost for this section was around 10% lower compared to the initial estimates at appraisal. The route on M18

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<sup>1</sup> World Bank ICR of the B&H Federation Road Sector Modernization Project is available under [World Bank Document](#)

<sup>2</sup> The economic rates of return are based on calculations made using the EIB proprietary cost benefit analysis model for roads investments

via the tunnel replaces the previous Karaula pass passage thus shortening significantly travel distance and time. The economic profitability of this scheme is resulting an excellent Economic Rate of Return (ERR) of over 20% as projected at appraisal.

### Employment

Ex-ante the employment effects were estimated using the Bank's services methodology resulting the creation of 700 person-years of temporary labour during the projected 5-year implementation time. Based on the promoter information the actual employment during the eight years construction counted for around 900 person-years.

### **EIB Involvement**

The project was jointly co-financed with the IBRD and monitoring activities between the two International Finance Institutions (IFIs) were coordinated and governed under the project-specific "Principles of Collaboration". Monitoring by the expert teams of both IFIs was quite intense and time consuming given the multitude of works and services contracts for the scattered interventions and the related procurement procedures.

In addition to the semi-annual progress reports received from the promoter, the EIB team undertook several missions for an in-situ physical monitoring of the project activities. The promoter's project implementation unit was supported by an international consulting team providing technical assistance financed under the EIB loan.

### **ESCS**

The Environmental and Social Completion Sheet (ESCS) has been published separately.

### **Promoter's Optional Final Comment**

The Promoter expresses satisfaction with the completed program, which was successfully implemented, primarily thanks to excellent communication and coordinated activities of the parties involved.

The performance indicators of the project itself have been achieved and exceeded in all areas.

The lessons learned during the implementation of the Program will be very useful in the implementation of future programs of this public company.