



Vulnerabilities to Chinese influence in Montenegro

This paper analyzes the main areas of Chinese engagement in Montenegro. It specifically explores the implications of the Bar-Boljare Highway project and provides an analysis of the gaps in democratic and economic governance that make Montenegro vulnerable to corrosive capital.

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Supported by the Center for International Private Enterprise (CIPE)



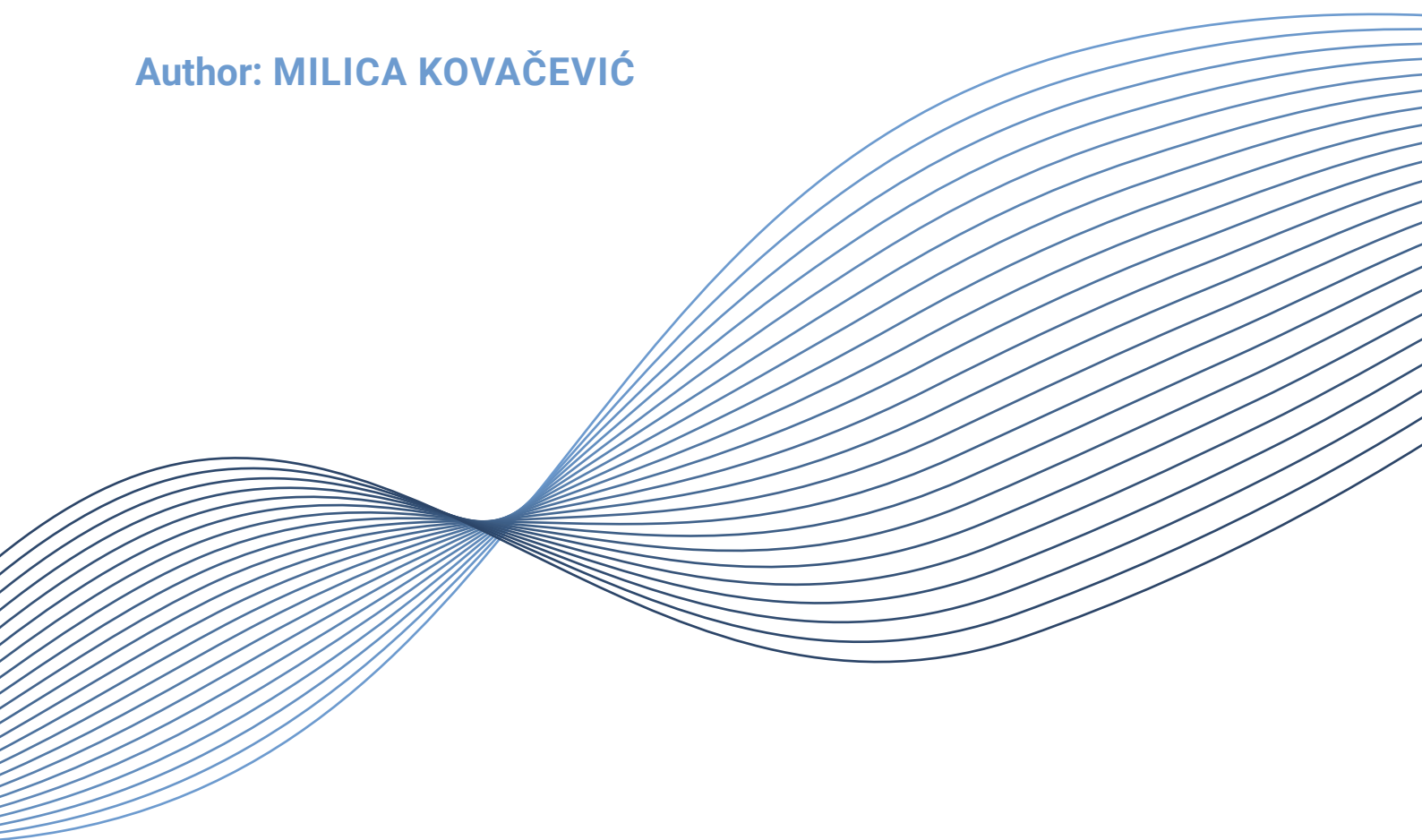
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This publication was produced by the Center for Democratic Transition (CDT) located in Podgorica, Montenegro, with support from the Center for International Private Enterprise (CIPE) in Washington D.C.

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Introduction

The crisis of the European Union (EU) enlargement policy and reduced political and economic presence of the West in the Western Balkans has created an opportunity for authoritarian states to expand their influence into the region.

In 2018, the Center for Democratic Transition, along with partners from the region and with support of the Center for International Private Enterprise (CIPE), analyzed Russia's economic presence in Montenegro and the Western Balkans region in whole. The research concluded that Russia has leveraged the region's governance gaps to advance its own interests. This finding was particularly amplified in the small nation of Montenegro.

With its EU accession negotiations stalled, a weakened European perspective of the Western Balkans, and strengthened nationalist political elites, the democratic and governance setbacks in Montenegro have worsened. The problems documented back in 2018 still exist today. Though Russia may be economically weakened by long-running North Atlantic Treaty Organization (NATO) and EU sanctions, other foreign actors with strong economies are using the same strategic shortcomings to their advantage.

China's involvement in Montenegro's energy and infrastructure projects will burden the country with significant debt for years to come. For example, the loan that the Government of Montenegro took to finance the construction of the Bar-Boljare Highway has already increased its national debt to more than 70 percent of its gross domestic product (GDP).¹ The combination of fiscal and governance risks from increasing Chinese dependence could jeopardize Montenegro's geostrategic orientation and its related democratic development. Under the burden of such a high public debt, Montenegro experiences that it is increasingly difficult to find money in the financial markets and is already borrowing at less favorable interest rates than neighboring countries.² Montenegro's public debt discourages potential investors, as they will see an increase in taxes to finance the public debt as an unjustified business expense. The lack of investment inflows and other revenues will make it difficult for Montenegro to continue to finance reform projects.

In its recent "Nations in Transit" report, Freedom House stated that China uses weak and corrupt systems to expand its influence abroad, including through a strategy of debt diplomacy, a strategy in which an economically more powerful country extends huge loans to

1 Investment Climate Statements: Montenegro. (2020). U.S. Department of State. <https://www.state.gov/reports/2020-investment-climate-statements/montenegro/>

2 Dan. (2019). Crna Gora se najskuplje zadužila. <https://www.dan.co.me/?nivo=3&rubrika=Ekonomija&clanak=703687&datum=2019-07-07>

developing countries, which burdens these countries and makes them vulnerable to influence.³ As a result, foreign-held debt in the Western Balkans region is increasingly found in the hands of China. Montenegro and North Macedonia owe 39 and 20 percent of their national debt respectively to China⁴. China has been known to adapt its overseas investment toolkit to each country based on its weakest institutions to promote corrupt political and economic structures. This enables degradation in the rule of law and transparency in the recipient countries.

When China exerts its influence through the strategy of debt diplomacy, it provides funds to financially weak countries to create political dependence. As a result of this strategy, countries in transition have increased their external debts to the benefit of China. This can in turn weaken their sovereign democratic control.

Montenegro must be careful when valorizing its resources, especially when it comes to power generation investments in coal, hydropower, wind, and solar plants. The government should not allow highway construction projects when there is a lack of financial resources and a lack of economic growth opportunities to cover the cost of debt over the medium term. Despite the expressed need of the Montenegrin people for large development projects, the government should not leverage the country's limited resources as incentives to large countries such as China, for fast, cheap, and aggressive economic access.

This report assesses Chinese influence in Montenegro through an economic lens. A special focus in this analysis is the Bar-Boljare Highway project, as it yields a significant impact on the country's amount of foreign debt. The authors used official documents, statistics, open-source data, and interviews with experts in the field to develop this report. The objective of this effort is to initiate a dialogue on Montenegro's democratic and economic governance gaps that make the country vulnerable to adverse foreign activities. The goal is to motivate all interested stakeholders to identify ways to address the identified governance gaps.

3 Stojanovic, M. (2020). Freedom House: Serbia, Montenegro, Hungary 'No Longer Democracies. Balkan Insight. <https://balkaninsight.com/2020/05/06/freedom-house-serbia-montenegro-hungary-no-longer-democracies/>

4 Csaky, Z. (2020). Dropping the democratic facade in Europe and Eurasia. Freedom House. <https://freedomhouse.org/report/nations-transit/2020/dropping-democratic-facade>

Bilateral relations

Since gaining independence in 2006, Montenegro has signed 17 cooperation agreements and memorandums of understanding with China. The first agreement between the Government of Montenegro and the Government of the People's Republic of China was signed in August 2006 and was related to economic and trade cooperation. A Memorandum of Cooperation within the Belt and Road Initiative was also signed in 2017 during the first International Belt and Road Forum held in Beijing. Other signed agreements between the two countries relate to government cooperation in the fields of diplomacy, culture, education, infrastructure, health, agriculture, rail transport, defense, and anti-corruption. In 2008, Chinese public broadcasters signed Memorandums on Cooperation with Montenegrin public broadcaster, Radio-Television of Montenegro.⁵

In order to attract tourists from China, the Montenegrin Ministry of Foreign Affairs has been working on easing the visa policy with China. Currently, holders of diplomatic and official passports of Montenegro and the People's Republic of China can travel into the respective country without a visa for up to 90 days. Nationals of the People's Republic of China who hold a regular or business passport may enter, transfer, and stay in Montenegro for up to 30 days without a visa. This requires them to have a letter of invitation or be part of an organized tourist group and hold a certificate of paid tourist arrangement and proof of secured return to the country of origin or transit.⁶

According to October 2019 data from the Ministry of Internal Affairs, at that moment the total number of Chinese nationals granted permanent residence in Montenegro was 63. The total number of Chinese nationals granted temporary residence in Montenegro was 2,192. These temporary residence permits are available for issue with a validity period of up to one year.⁷

People-to-people exchange programs between Montenegro and China are well-developed and include frequent visits of large groups consisting of different stakeholders, such as public administrations, local governments, business associations, media, academia, schoolteachers, and pupils. The Montenegrin Chamber of Commerce has organized several visits of business delegations from China and signed several memorandums of cooperation with Chinese business associations and business centers. The Chamber also signed the Memorandum on Cooperation with the Tianjin Chamber of Commerce in 2001. A memorandum regarding cooperation between the Chambers of Commerce of Montenegro and Beijing, as well as with the Chinese Council for the Promotion of International Trade was signed in 2017. Additionally, the Memorandum of Understanding between the Arbitral Tribunal acting at the Chamber of Commerce of Montenegro and the Shanghai International Arbitration Center was signed in 2019.⁸

5 RTCG. (2018). RTCG ima značajnu ulogu u jačanju saradnje. <http://www.rtcg.me/vijesti/drustvo/217350/rtcg-ima-znacajnu-ulogu-u-jacanju-saradnje.html>

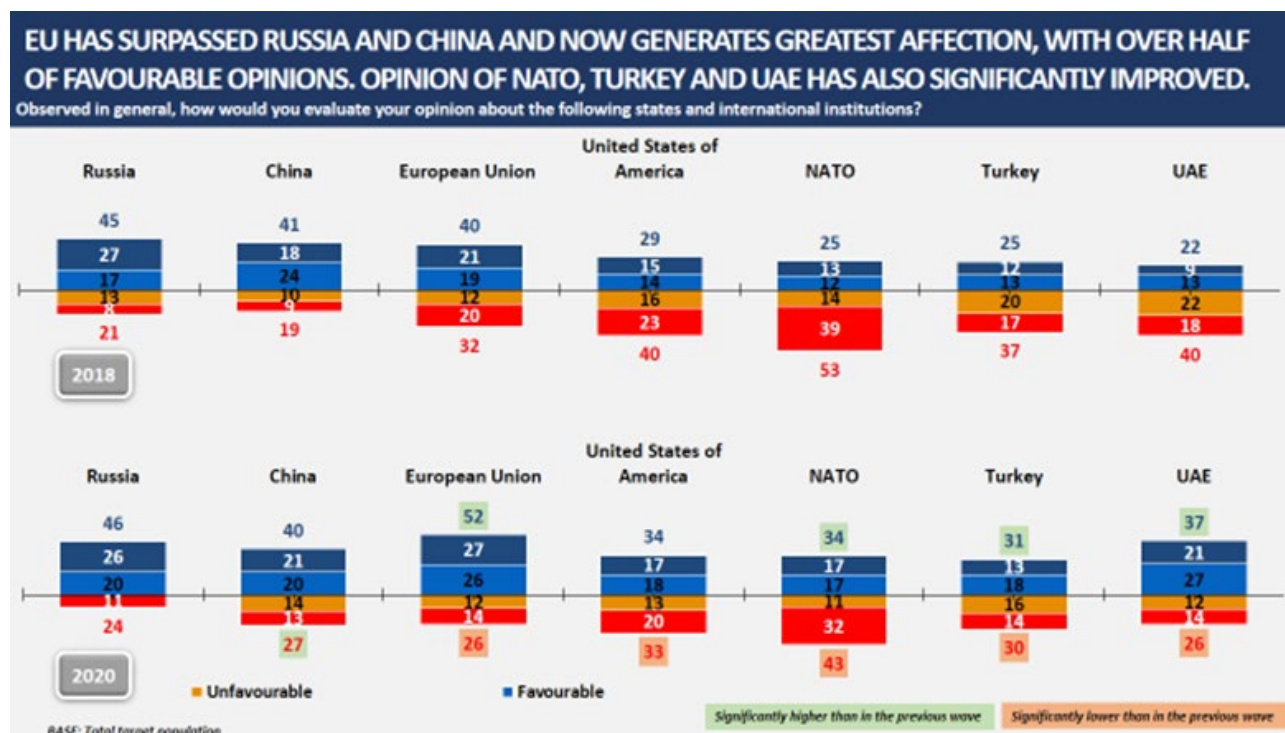
6 Information from the Ministry of Foreign Affairs (2019).

7 Information from the Ministry of Interior. (2019).

8 Information from the Chamber of Commerce. (2019).

Cooperation between the two countries in the field of education is also constantly evolving. All three universities in Montenegro have established partnerships with Chinese universities. Each year, scholarships are awarded to the best Montenegrin students to study in China. Since 2016, the Government of China has awarded 63 such scholarships to Montenegrin students through Montenegro's Ministry of Education.⁹ The Confucius Institute at the State University of Montenegro was founded in 2015. Since then, the Institute has opened 48 Chinese language classrooms across the country that have already taught 400 students.¹⁰

The increase of China's economic and political presence in Montenegro has affected local public opinion. According to a public opinion poll conducted by CIPE in June 2020, the European Union outpaced the favorability of China in the eyes of the Montenegrin public, but other western actors are still behind them.



Source: CIPE

9 Information from the Ministry of Education. (2019).

10 Interview of the Chinese Ambassador Liu Jin to MINA. (2019). Embassy of the People's Republic of China in Montenegro.

Economic cooperation

Since regaining its independence in 2006, Montenegro's inflow of foreign direct investment (FDI) has served as an important generator for the country's economic growth. The most significant investments have come from Italy, Russia, Serbia, Cyprus and, more recently, the United Arab Emirates, Azerbaijan, China, and the United States.¹¹ A significant portion of investment flows originate in offshore financial centers.¹² Tourism, the banking sector, energy, and real estate are the sectors where foreign investors invest the most within Montenegro's economy.¹³

In recent years, Montenegro has become known for its exposure to capital from authoritarian countries.¹⁴ Despite the deterioration of bilateral political relations after Montenegro joined NATO and imposed sanctions for Russia's annexation of Crimea, Russia continues to be among the country's five leading investors. Further strategic diversification of FDI in certain industries such as real estate and tourism, is therefore, necessary to prevent further concentration of capital from non-democratic states.

The People's Republic of China was among the first countries to recognize Montenegro's independence in 2006. Since then, China's economic cooperation has gradually developed. With the rise of public debt during its economic crisis after independence, Montenegro has turned to the East for much-needed money. This was driven by the fact that the West had tighter lending conditions that Montenegro did not meet.¹⁵ All foreign investors in Montenegro enjoy national treatment¹⁶ with the only limitation being that special permission is necessary for production and trade of arms or military equipment. There are also no limits on foreign control in the right to private ownership or the establishment of companies in Montenegro. In addition to that, Montenegro does not currently have a screening mechanism for inbound foreign investment.¹⁷ The Montenegrin Government does not require registration of ultimate beneficial ownership, leaving space for capital that originates from hidden owners and illegal activity. National legislation regarding public procurement, including its transparency, can be circumvented by signing international agreements. This was the case for the Bar-Boljare Highway project. This example proved that investments in projects with strategic importance for the Montenegrin economy can be, therefore, exempt from much-needed public scrutiny.

11 2018 Investment Climate Statement. (2018). U.S. Department of State.
<https://me.usembassy.gov/wp-content/uploads/sites/250/2018-ICS-Montenegro-COMPLETED.pdf>

12 According to IMF operational definition, an offshore center is a country or jurisdiction that provides financial services to non-residents on a scale that is incommensurate with the size and the financing of its domestic economy. See more at
<https://www.imf.org/external/pubs/ft/wp/2007/wp0787.pdf>

13 Bankar.me. (2019). Strane investicije se preusmjerile sa nekretnina na turizam i bankarstvo.
<https://investitor.me/2019/09/09/strane-investicije-se-preusmjerile-sa-nekretnina-na-turizam-i-bankarstvo/>

14 Assessing Russia's Economic Footprint in Montenegro, Policy Brief No. 73. (2018). Center for the Study of Democracy.
<https://csd.bg/publications/publication/policy-brief-no-73-assessing-russias-economic-footprint-in-montenegro/>

15 Bondaz, C., Godement, K., & Pantucci. (2015). Chinese infrastructural investments in the Balkans: Political implications of the highway project in Montenegro.

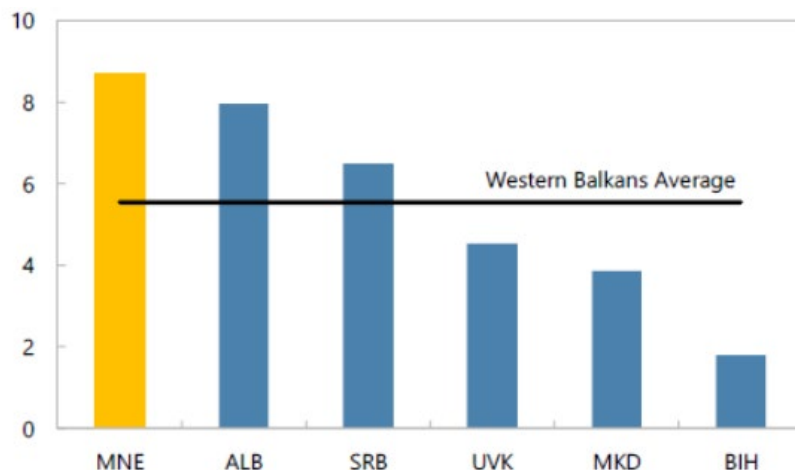
16 The principle of giving others the same treatment as one's own nationals.

17 2018 Investment Climate Statement. (2018).
<https://me.usembassy.gov/wp-content/uploads/sites/250/2018-ICS-Montenegro-COMPLETED.pdf>

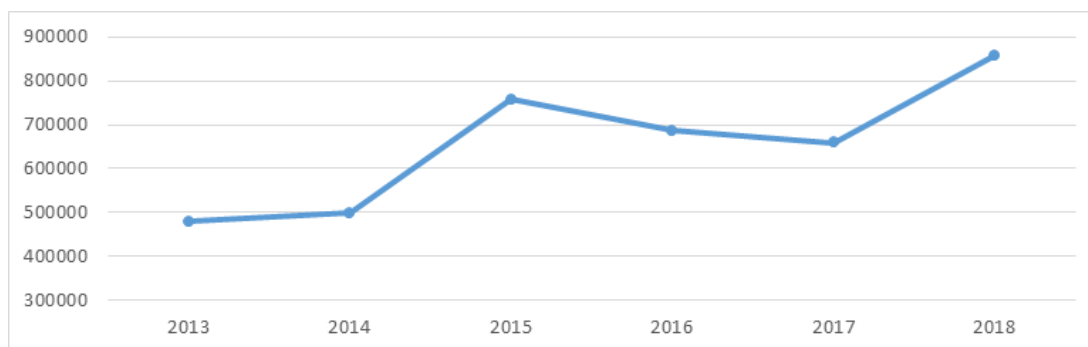
Foreign Direct Investment

Montenegro's gross FDI inflows made up 9 percent of its GDP in 2018, a high amount compared to the nation's regional peers.¹⁸

Graph 1. Foreign direct investment inflow (percent of GDP) in 2018¹⁹



Graph 2. Total gross FDI inflow in Montenegro (000 EUR)²⁰



Official data does not show a significant increase of FDI coming from China. The earliest available data regarding Chinese investment was from 2014, when China invested in Montenegro's real estate at a rate of 76 percent of total Chinese FDI and in intercompany debt²¹ at a rate of 24 percent. Since then, there has been no publicly available data on the structure of Chinese investment released.²² It is, however, known that Chinese investment levels decreased in 2018 and 2019. According to new data published by the Central Bank of Montenegro in October 2020, China is currently the largest investor in Montenegro, with 70 million direct investments in 2020.²³

18 Assessing Russia's Economic Footprint in Montenegro, Policy Brief No. 73. (2018). Center for the Study of Democracy. <https://csd.bg/publications/publication/policy-brief-no-73-assessing-russias-economic-footprint-in-montenegro/>

19 Sources: WIIW, FDI database and IMF Staff calculations. / Based on BPM6, directional principle.

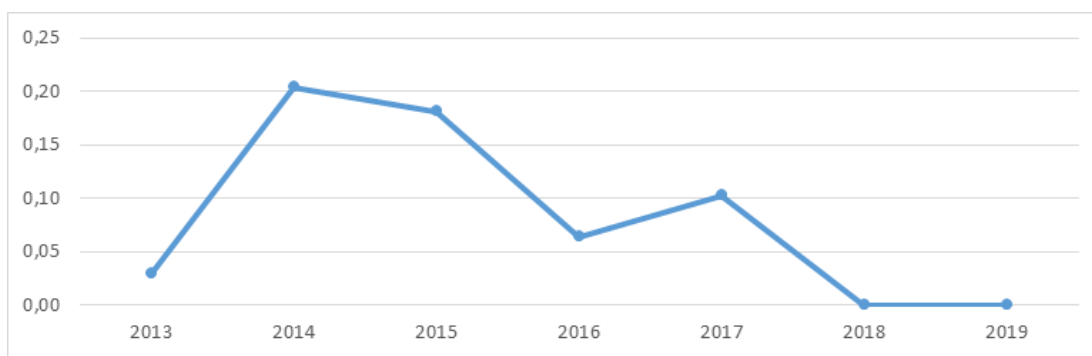
20 Source: Central Bank of Montenegro

21 Intercompany debt is type of foreign direct investment that covers borrowing and lending of funds between direct investors and subsidiaries, branches, and associates. The borrowing and lending are reflected in intercompany claims and liabilities and is not reflected in company's capital.

22 Data on FDI structure is not public if there are less than three companies from one country. Central Bank of Montenegro does not publish such data, only the total investment amount per country.

23 Source: Central Bank of Montenegro <https://www.cbcbg.me/me/statistika/statisticki-podaci/ekonomski-odnosi-sa-inostranstvom/platni-bilans>

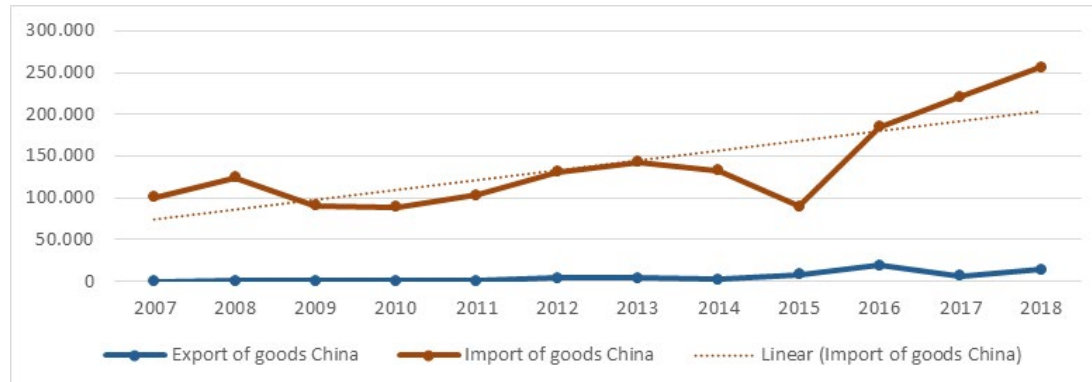
Graph 3. Inflow related to Chinese investment in Montenegro (% in total FDI) ²⁴



Export – import deficit

Montenegrin imports from China have increased over the past several years, as shown below. It is important to note that the country's export of goods to China has not shown significant change. Montenegro's increase in imports from China is related to the machinery and equipment needed for the construction of its Bar-Boljare highway. In 2018, one-third of imports from China consisted of electrical machinery and equipment. The remaining share of imports consisted of iron, steel products, clothing and accessories. In return, Montenegro exported aluminum, lead ore, and wine to China.

Graph 4. Export and import of goods from China during period of 2007 – 2018 (000 EUR) ²⁵

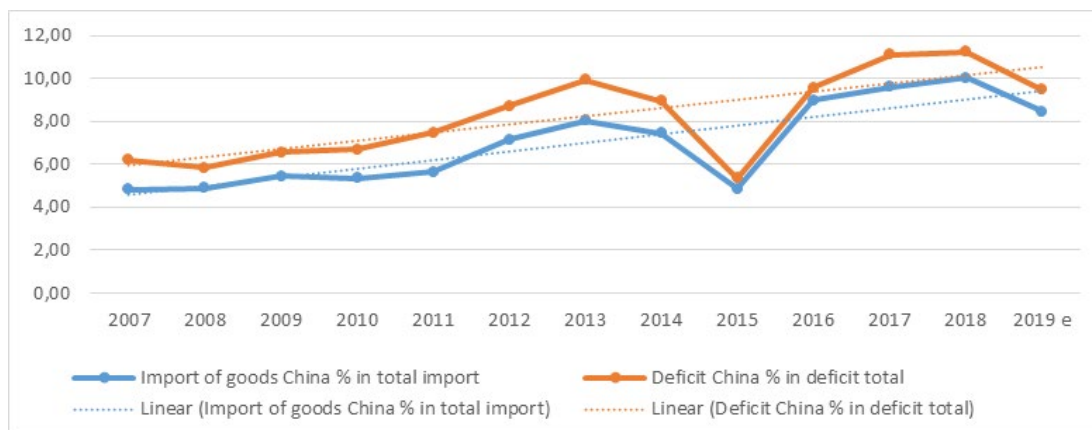


The graph below highlights the share of imports from China in terms of total import of goods and the share of Montenegro's foreign trade deficit with China in relation to total deficit. Both are increasing, particularly after 2015. The correlation coefficient between import of Chinese goods and total foreign trade deficit, goods without services, is exceedingly high, calculated at above 0.7. This finding means that Montenegro's trade relationship with China has significant impacts on its trade balance.

²⁴ Percentage is calculated based on data from Central bank of Montenegro (China FDI share in total FDI) for period 2013 - July 2019

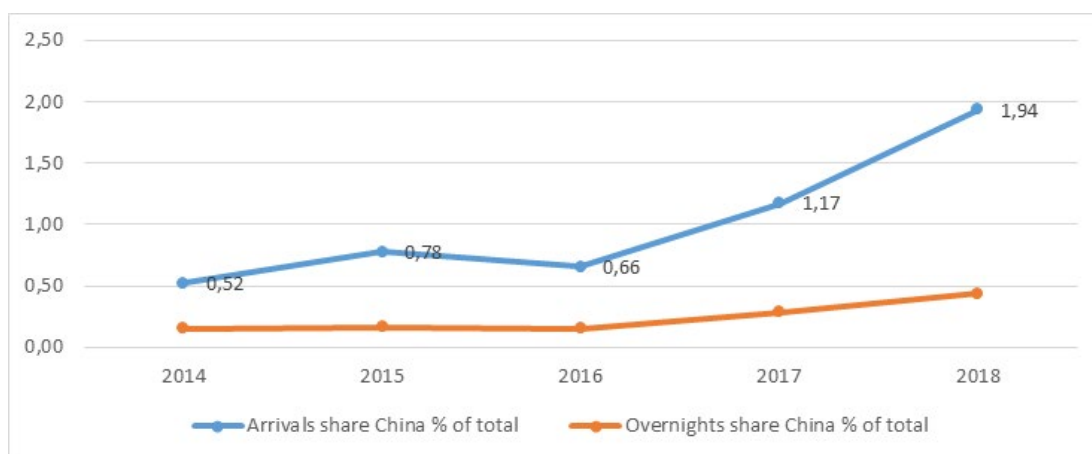
²⁵ The graphs above provide data on Montenegro's exchange of goods with China. Data for services is not available in the necessary format, nor the time period used in these charts.

Graph 5. Chinese share in Montenegro's import and foreign trade deficit



The number of tourists visiting from China and Hong Kong has increased since 2014, as well as the number of nights they spend in Montenegro. In the first nine months of 2019, the number of such tourists visiting Montenegro was more than five-times higher than in 2014, at 7,932 in 2014 to 44,883 in 2019.

Graph 6. Total share of arrivals and overnight stays of tourists from China and Hong Kong²⁶



While the the number of tourists from China and Hong Kong has rapidly increased, they only stay in Montenegro on average, 1.5 nights. This is significantly below the average length of stay for other tourists, which is 6.2 nights. This data shows that Montenegro is not the final destination for Chinese and Hong Kong tourists.

Key projects

The first major business arrangement between China and Montenegro was the directly negotiated procurement of ships for two state-owned companies, Montenegrin Navigation and Bar Navigation. In 2010 and 2013, the Government of Montenegro issued state guarantees worth \$93.7 million USD, which amounted to roughly two percent of the nation's GDP, to Chinese maritime companies for the procurement of four ships. The loan arrangements were made in collaboration with the Chinese

state-owned company, Poly Technologies, who built the ships. The loan was provided by the state-owned EXIM Bank of China. The agreement stipulated that in the event of a dispute on the payment of guarantees, the arbitration would be organized in Beijing. According to the media, the Montenegrin government did not conduct proper economic analysis on the cost-effectiveness of this project. At the time of the country's worst financial crisis, critics of the government were warning that a sizeable portion of state guarantees would end up having to be paid for by its citizens.²⁷

The second major contract between China and Montenegro was for the construction of the nation's largest infrastructure project, The Bar-Boljare Highway, in February 2014. The 41km section that is under construction by China Road and Bridge Corporation (CRBC) is part of 170km route that will extend from the Adriatic port of Bar to Montenegro's border with Serbia. The highway will serve as a better connection from Montenegro to Serbia and further to European corridors, while also improving the country's internal connectivity and reducing regional disparities through increasing the development prospects of the less developed north of the country. To-date, this project has gone on to raise Montenegro's national debt to over 70 percent of its total GDP. This project is projected to continue posing a severe burden on the country's public finances for years to come. It has significantly limited the nation's future space for financial maneuvering, thus impacting Montenegro's future economic decisions. Another consequential effect as a result is its threat to yield influence on political decisions.

In addition to infrastructure projects, Chinese companies are slowly entering Montenegro's energy sector. In 2019, Montenegro-owned energy company Elektroprivreda Crne Gore (EPCG) awarded the ecological reconstruction of the Thermal Power Plant Pljevlja to a consortium of Chinese companies, namely Dongfang Electric International, Bemax, BB Solar (co-owned by Blazo Djukanovic, son of Montenegrin President Milo Djukanovic) and Permonte.²⁸ The project worth 54.4 million EUR includes the construction of desulphurization and denitrification units, improving the operation of the electro-filter plant, construction of a wastewater treatment system, and the reconstruction of the internal ash and slag transport system. In addition to this consortium, additional tenders were submitted by the German-Slovenian consortium, Hamon-Rudis, and the Chinese group Shanghai Electric, but their bids were priced as significantly more expensive. The project is planned for 2019-2021.²⁹ It is important to note that one of the awardees, Dongfang Electric Cooperation, had been among six large state-owned enterprises that were publicly criticized by China's main anti-corruption agency after inspections uncovered corruption and breaches of regulations.³⁰

Chinese companies are showing increasing interest in pursuing renewable energy projects in

27 Matijašević, B., Mrdović, I. (2016). Ugovorili brodove od 100 miliona bez prave analize o isplativosti. MANS. <https://www.mans.co.me/ugovorili-brodove-od-100-miliona-bez-prave-analize-o-isplativosti/>

28 Milošević, M. (2019). Blažo Đukanović i Bemax u konzorcijumu iz Kine. Vijesti Online. <https://www.vijesti.me/vijesti/ekonomija/blazo-dukanovic-u-bemax-u-konzorcijumu-iz-kine>

29 Milošević, M. (2019). Blažo Đukanović i Bemax u konzorcijumu iz Kine. Vijesti Online. <https://www.vijesti.me/vijesti/ekonomija/blazo-dukanovic-u-bemax-u-konzorcijumu-iz-kine>

30 Milošević, M. (2019). Antikorupcijska agencija Kine sumnjčila Blažove partnere za mito. Vijesti Online. <https://www.vijesti.me/vijesti/ekonomija/antikorupcijska-agencija-kine-sumnjčila-blazove-partnere-za-mito>

Montenegro. Involvement from Chinese companies started in 2016, when state-owned China Power and the State Development & Investment Corporation (SDIC) showed interest in the construction of hydropower plants in Moraca.³¹ Final bids for the project were ultimately only submitted by Norinco International Ltd. from China and Bereket Enerji from Turkey. No further developments on this project are known to the public.

Podgorica-based World Vision Corp (WVC) intends to build the first kinetic-powered power plants in Montenegro. In November 2019, one of the founders and co-owners of the company, Sreten Djuretic, shared the news that they were entering into business with a strategic partner, China's state-owned China Rainbow International Investment (CRIIC), and were ready to invest in domestic power plants of more than 100 megawatts (MW).³²

For additional examples of greater Chinese company involvement in Montenegro's energy sector in 2015, when the contract for the construction of the Mozura wind power plant in the Ulcinj municipality was provided by the Government of Montenegro to Enemalta PLC Malta, after winning a competitive public procurement process. While the majority owner of this company is the Government of Malta, 33 percent is owned by Shanghai Electric Power.³³ In 2020, information came to public attention that this project was the subject of an international investigation for alleged money laundering. It was also investigated by late Maltese journalist Daphne Caruana Galizia, who was murdered in 2017 for investigating and exposing grand corruption in Malta.³⁴

31 Mirjačić, M. (2017). Kinezi žele da grade hidroelektrane na Morači. *Vijesti*.
<https://www.vijesti.me/vijesti/ekonomija/kinezi-zele-da-grade-hidroelektrane-na-moraci>

32 Pobjeda. (2019). Podgorička kompanija planira u Crnoj Gori prve elektrane na kinetički pogon. *Bankar.me*.
<https://www.bankar.me/2019/11/11/podgoricka-kompanija-planira-u-crnoj-gori-prve-elektrane-na-kineticki-pogon/>

33 Ministry of Economy. (2015).
<http://www.mek.gov.me/vijesti/154258/Saopstenje-Vjetroelektrane-na-Mozuri-gradi-drzavna-kompanija-Republike-Malte.html>

34 Balkan Energy News. (2020). EU expects Montenegro to investigate Možura wind farm allegations.
<https://balkangreenenergynews.com/eu-expects-montenegro-to-investigate-mozura-wind-farm-allegations/>

Bar-Boljare Highway Project

Background

The construction of the Bar-Boljare Highway originates in planning documents from the 1969 Regional Spatial Plan Southern Adriatic. The route for this project was also envisaged in various Montenegrin spatial planning documents leading up to the 2000s, and was later officially adopted by the Montenegrin government in 2008.³⁵



Source: <http://barboljare.me>

The key motivation behind this project is Montenegro's need to improve regional connectivity. The highway is part of the country's plans to integrate its transport network with those of neighboring countries to boost tourism and trade, improve road safety, and strengthen national security.³⁶ The goal is to provide a safer and more efficient transport route, especially in the northern part of the country.

In 2008, the government embarked on building the Bar-Boljare Highway by means of a public-private partnership. The first stages of the project included the design, financing, construction, operation, and maintenance of one or more sections of the highway. This first attempt to find a partner was through transparent, competitive and open international public procurement. The intention was to

35 Official website of the project: <http://barboljare.me/en/history/>

36 International Monetary Fund. (2018). Public infrastructure in the Western Balkans: Opportunities and Challenges. International Monetary Fund. <https://www.imf.org/~/media/Files/Publications/DP/2018/45547-western-balkans-public-infrastructure-020818.ashx>

finalize a concession agreement between the Government of Montenegro and a winning bidder for a period of 30 years.

In 2009 and 2010, Montenegro's government conducted intense negotiations with the first-ranked bidder, Croatian Konstruktor. Prime ministers of Montenegro, Croatia, and Serbia even cut the ribbon and toasted the start of work in October 2009.³⁷ After Konstruktor's failure to provide funding, negotiations with then second-ranked Greek-Israeli Consortium Aktor/HCH were initiated. That attempt was also unsuccessful, as the consortium failed to deliver required financial guarantees by established deadlines.³⁸

In June 2011, the Ministry of Transport and Maritime Affairs signed an agreement between the Government of Montenegro and the Government of the People's Republic of China on the promotion of cooperation for infrastructure construction.³⁹ The agreement was ratified in 2013 and amended in 2014 to allow different forms of financing other than concessions. These adjustments allowed the Government of Montenegro to avoid public procurement for the selection of a contractor for the Bar-Boljare highway. This was possible due to Montenegro's current Law on Public Procurement, which allows for exemptions when a project is implemented based on international agreements.

In its search for partners after the first two awardees failed, Montenegro's Ministry of Transport and Maritime Affairs received expressions of interest in the Bar-Boljare highway construction project from many potential partners, including companies from China, Turkey, the United States, Germany, Poland, India, Italy, and Canada. Four companies/consortia/institutions were selected as finalists: US-Turkish Consortium Bechtel-Enka, Turkish Consortium Dogus-Gulsan, China Communications Construction Company (CCCC) and (China Road and Bridge Corporation) CRBC, and the European Investment Bank.⁴⁰ The details of these offers remain unknown to the public, except for what the government has announced.

Key dates

- **July 2013:** The Government of Montenegro evaluated offers and determined that the offer from the Chinese companies CCCC and CRBC to be the top-ranked option.
- **February 2014:** The Design and Build Contract was signed between the Government of Montenegro, CCCC, and CRBC.
- **March 2014:** Montenegro's Ministry of Transport and Maritime Affairs and Ministry of Finance submitted a loan application to the EXIM Bank of China.
- **October 2014:** The Preferential Loan Agreement was signed between the Government of Montenegro

37 RFE. (2009). Počela gradnja autoputa od Bara do Boljara. https://www.slobodnaevropa.org/a/autoput_bar_boljare/1852004.html

38 Kapor, G. (2013). Hronologija priče o izgradnji autoputa: Šest godina obećanja. Vijesti. <https://www.vijesti.me/vijesti/ekonomija/259037/hronologija-price-o-izgradnji-autoputa-sest-godina-obecanja>

39 Official Gazette of Montenegro – International Treaties 08/2013, 07/2014

40 Official website of the project: <http://barboljare.me/istorija-razvoja/>

and the EXIM Bank of China. The conclusion of the Project Financing Agreement was subjected to the Design and Build Contract.

- **November 2014:** The Government of Montenegro submitted both contracts to the parliament for reference and the Draft Law on Bar-Boljare Highway for approval. Contract stipulates that Beijing had jurisdiction in the case of arbitration. Montenegro relinquished significant budget revenues by agreeing on numerous tax breaks associated with the project.
- **December 2014:** The law on Bar-Boljare Highway was adopted.
- **May 2015:** May 11 served as the commencement date of the works on the priority section Smokovac-Uvac-Mateševu of the Bar-Boljare Highway.⁴¹

Relation to the EU investment priorities

The Bar-Boljare Highway is a critical project for Montenegro's integration within the EU, as it would connect Montenegro with European roadways. In addition, the highway will connect the Adriatic Sea and Danube. It will also extend the Pan-European Corridors network, creating the shortest existing routes between Hungary and Romania, Southern Italy and Albania, and Serbia and Montenegro.⁴²

When China instigated the Initiative of Cooperation between China and Central and Eastern European Countries, better known as the 16 (17)+1 Forum, in 2012, one of its central goals was to stimulate transport infrastructure investment, including in the Western Balkans. While Bar Boljare was initially not included in this planning, it ended up not only being built by Chinese, but also received EU funding through the Western Balkans Investment Framework.⁴³

While Europe's plans for the Western Balkans region seem to complement China's plans as part of its Belt and Road Initiative, the European Commission also emphasized that Montenegro must ensure its transport network projects are implemented in line with the TEN-T regulatory framework in its 2019 Montenegro Report. The European Commission also outlined the need for future infrastructure investments to be implemented in compliance with EU standards on public procurement, state aid, and environmental impact assessment. This is particularly required for projects where technical preparations receive significant EU funding.

Construction

The Bar-Boljare Highway is a four-phase project to connect Montenegro's main southern seaport, Bar, to Serbia's road network and the Pan-European Corridor X.

Phase 1 is a 41km section named Smokovac-Uvac-Mateševu, which is currently under construction.

41 Official website of the project: <http://barboljare.me/en/history/>

42 The Bar-Boljare Highway is included in the SEETO Comprehensive Regional Transport Network, as part of SEETO Road Route 4 (SEETO Road Route 4: Vrsac – Belgrade – Podgorica – Bar).

43 European Commission. (2019). Montenegro 2019 Report. <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-montenegro-report.pdf>

It will connect Podgorica with the Kolašin municipality in northern Montenegro. Due to its difficult terrain, Phase 1 is projected to be the most expensive phase, estimated at around 1 billion EUR. The remaining three phases are estimated to cost around 1.7 billion EUR total. Phase 2 is a 21km section running from Mateševu to Andrijevica. Phase 3 is a 56km route from Andrijevica to Boljare that would link the highway to the Serbian border. Phase 4 is a 34km stretch of roadway from Podgorica to Djurmani to extend the highway from Podgorica to the coast. An eventual corridor to Belgrade requires Serbia to extend a road that is currently under construction, which would require an additional 100 km to the border with Montenegro.⁴⁴

CRBC began working on Phase 1 in May 2015. The Exim Bank of China is providing a USD-denominated loan for 85 percent of the highway's total costs, which were initially set at 809 million EUR, 23 percent of Montenegro's 2014 GDP. It is currently expected that estimated overruns of the project may raise the costs by seven percent due to USD appreciation and unhedged currency risk. Additionally, the costs have already increased by 18 percent since the project's inception due to the subsequent appreciation of the dollar and currency risk.⁴⁵ The loan payment from the Exim Bank of China carries a two percent interest rate over 20-year repayment period. Principal payments are slated to begin in July 2021, costing around 66 million USD/year.

Montenegro's Law on Bar-Boljare Highway exempts contractor and subcontractors from: Value Added Tax (VAT); customs duties on imported equipment and materials; expatriate income tax and social contributions; excise tax on motor fuel and corporate tax of the contractor's company registered in Montenegro.

According to Montenegro's Ministry of Finance, from the beginning of the construction in May 2015 until September 2019, contractor CRBC and affiliated CCCC, were exempt from paying taxes and contributions for the salaries of its employees in the amount of 19.92 million EUR. The company imported goods in the amount of 41.19 million EUR that were also exempt from import duties and VAT. To-date, CRBC has saved 4.5 million EUR from reimbursement of the excise duty paid.⁴⁶ Total tax exemptions for all works on the project thus far are estimated at around 100 million EUR.⁴⁷

In August 2019, the highway project employed 2,186 Chinese workers and 167 domestic workers at CRBC, and an additional 669 workers through subcontractors.⁴⁸ According to the Design and Build Contract, domestic subcontractors were agreed to be allocated for 30 percent of the work. The total value of the subcontracted products and services from 2015 to 2020 amounts to 445.31 million EUR. Montenegro's Ministry of Finance data show that Bemax, Cijevna Commerce, and Montenegro Petroleum have received the largest portions of this sum to-date, close to 160 million.⁴⁹

44 Official website of the project: <http://barboljare.me/en/basic-data/>

45 Investitor.me. (2019). MMF tvrdi da je trošak za auto-put već premašio milijardu eura. <https://investitor.me/2019/09/13/mmf-tvr-di-da-je-trosak-za-auto-put-vec-premasio-milijardu-eura/>

46 Kapor, G., Mirjačić, M. (2019). Ko je i za šta dobio novac od gradnje prve dionice Smokovac - Mateševu. Vijesti. <https://www.vijesti.me/vijesti/ekonomija/ko-je-i-za-shta-dobio-novac-od-gradnje-prve-dionice-smokovac-matesevo>

47 Kapor, G., Mirjačić, M. (2019). Ko je i za šta dobio novac od gradnje prve dionice Smokovac - Mateševu. Vijesti. <https://www.vijesti.me/vijesti/ekonomija/ko-je-i-za-shta-dobio-novac-od-gradnje-prve-dionice-smokovac-matesevo>

48 Monteput. (2019). FOI response. <http://monteput.me/wp-content/uploads/2019/10/Rje%C5%A1enje-PJ-br.-11995-od-09.10.2019..pdf>

49 Kapor, G., Mirjačić, M. (2019). Ko je i za šta dobio novac od gradnje prve dionice Smokovac - Mateševu. Vijesti.

Bemax has been compensated for a total of 95.69 million EUR for 33 completed projects associated with the Highway. These include the construction of all asphalt structures, tunnels, bridges, underpasses, and electrical installations. Bemax was exempt from taxes and duties on this amount of work and received 1.14 million EUR in refunds of its excise duty paid. MP Nebojsa Medojevic claimed that the real owner of Bemax was the then Montenegrin Minister of Foreign Affairs, and now the chief adviser to President Djukanovic, Milan Rocen. Rocen, however, denied having any business ties to Bemax.⁵⁰

According to the Ministry of Finance, Cijevna Commerce has received 34.4 million EUR for mixing and transporting concrete, loading, unloading, storing and transporting materials, construction of quarries, crushing plants, and concrete factories. The company has received a 1.22 million EUR in excise duty refunds.

The third largest subcontractor for this project is Montenegro Petrol, a company that was registered as a wholesale business but has since been hired for construction works on the highway. So far, the company has received compensations in the amount of 28.7 million EUR. Montenegro Petrol has built access roads, assembled concrete mixing plants and built bridges over Tara and Drcka. To-date, it received 637,280 EUR based on a refund for its excise duty paid.

The list of subcontractors also includes the Ramel company, which is contracted at 9.2 million EUR. This company was contracted for electrical installations.⁵¹

Skladgradnja, a Croatian company that was originally awarded a valuable contract, has left Montenegro after failing to pay wages to its workers. The company received consent from Montenegro's Ministry of Maritime and Transport to participate in the construction of the highway, even though its owner, Slaven Zuzul, was accused by the Croatian authorities of fraudulent activities in the "tunnel painting" affair⁵² and fined for non-payment of worker salaries, as reported by Croatian media ⁵³.

In 2015, disputes began between the Montenegrin government and CRBC about additional works such as the construction of the Smokovac Loop, regional roads at Veruša and Matesevo, as well as the construction of water and electricity networks on the highway that were not within the original contract for Phase 1. At the beginning of 2019, the Montenegrin government acknowledged that an additional 113 million EUR for Phase 1 would be added to the project's initial costs. On the other hand, CRBC estimated cost overruns at up to 144 million EUR in its 2017 financial statement.⁵⁴

<https://www.vijesti.me/vijesti/ekonomija/ko-je-i-za-sta-dobio-novac-od-gradnje-prve-dionice-smokovac-matesevo>

50 Radio Slobodna Evropa. (2012). Kompanija Bemax uz milionske prihode ne plaća porez. Slobodna Evropa. https://www.slobodnaevropa.org/a/bemax_ostvaruje_milionske_prihode_ne_placa_porez/24495656.html

51 Kapor G., Mirjačić, M. (2019). Ko je i za šta dobio novac od gradnje prve dionice Smokovac - Mateševo. <https://www.vijesti.me/vijesti/ekonomija/ko-je-i-za-sta-dobio-novac-od-gradnje-prve-dionice-smokovac-matesevo>

52 MANS. (2018). Optuženima za korupciju posao od 42 miliona eura. <https://www.mans.co.me/optuzenima-za-korupciju-posao-od-42-miliona-eura/>

53 Vukalo V. (2020.) Slaven Žužul u zadnji trenutak izbjegao zatvor: vlasnik 'Skladgradnje' i čelnik RNK Split osuđen jer radnicima nije isplaćivao plaće. Slobodna Dalmacija. <https://slobodnadalmacija.hr/vijesti/crna-kronika/slaven-zuzul-u-zadnji-trenutak-izbjegao-zatvor-vlasnik-skladgradnje-i-cek-nik-rnk-split-osuden-je-radnicima-nije-isplacivao-place-1054162>

54 Čalović-Marković, V., et al. (2019). Istim putem u veće dugove, Drugi izvještaj o izgradnji Auto puta Bar – Boljare. MANS. <http://www.mans.co.me/wp-content/uploads/2019/04/AutoputME-fin.pdf>

The additional works, as well as interest and exchange rate differences will significantly increase the cost of the highway. As a result, there is current public speculation about whether the Chinese offer was really better and cheaper than other bids.⁵⁵ In March 2019, a local investigative civil society organization, Network for Affirmation of the NGO Sector (MANS), filed a criminal complaint for abuse of office against former Transport Minister Ivan Brajovic, who now serves as the current Speaker of Parliament. MANS has alleged that Brajovic and other executive officials purposefully did not envisage additional works, abused their official powers, and failed to perform their official duties.⁵⁶

Completion of the project's Phase 1 was planned for May 2019 but has been delayed to September 2020. The culprit for the delay was not formally identified via the annex of the contract, but CRBC told the media that the extension of the deadline was conditioned by necessary works such as the "forgotten" loop, water supply and permanent power supply of the highway.⁵⁷

In May 2020, Montenegrin Prime Minister Duško Marković announced that CRBC requested new extensions of Phase 1 deadline due to the force majeure of the COVID-19 pandemic. CRBC claims the pandemic prevented the maintenance of planned construction dynamics. Montenegrin media have also alleged that CRBC asked for additional funds as a result, but there is no official confirmation of that.⁵⁸ According to the latest information, the works have also slowed down due to the pandemic. The Ministry of Finance said that completion might be expected in the first half of 2021, compared to its original aim of May 2019.⁵⁹

Profitability of the investment

While the project's low profitability has been reported on by the media and speculated in public dialogue, none of the feasibility studies conducted for this project have been made fully available to the public.

According to the official data⁶⁰, three feasibility studies were prepared. Reuters reviewed copies of the two studies by Louis Berger for the Montenegrin Government, and URS Infrastructure & Environment UK Limited for the European Investment Bank. Both reports concluded that there would not be enough traffic to justify Bar-Boljare's concession. Louis Berger estimated that the government would have to pay 35 million to 77 million EUR/year in subsidies to make a toll-based system attractive to outside investors. URS pointed out that "the low current traffic volumes and the weak economic forecasts mean that the economic benefits of the proposed route do not provide adequate return on investment."⁶¹

55 Investiro.me. (2019). Slučaj Autoput: Ponudu Amerikanaca smo odbili kao nepovoljnu, a Kinezima ćemo platiti više? <https://investitor.me/2019/03/12/slucaj-autoput-ponudu-amerikanaca-smo-odbili-kao-nepovoljnu-a-kinezima-cemo-platiti-vise/>

56 MANS. (2019). Podnio krivičnu prijavu protiv Brajovića i NN lica: Oštetili budžet za oko 134 miliona eura? <https://www.vijesti.me/vijesti/crna-hronika/mans-podnio-krivicnu-prijavu-protiv-brajovica-i-nn-lica-ostetili-budzet-za-oko-134-miliona-eura>

57 Kapor, G. (2020). Rekordno probijanje rokova za auto-put, a nema odgovornih. Vijesti. <https://www.vijesti.me/vijesti/ekonomija/442189/rekordno-probijanje-rokova-za-auto-put-a-nema-odgovornih>

58 Dan. (2020). Kinezi traže novi rok i još para, Vlada krije zahtjev. <https://www.dan.co.me/?nivo=3&rubrika=Ekonomija&clanak=743330&datum=2020-05-07>

59 RTS. (2020). Auto-putem kroz Crnu Goru ne pre leta 2021. godine, šta koči radove. <https://www.rts.rs/page/stories/sr/story/11/region/3934688/crna-gora-autoput-zavrsetak.html>

60 Official website of the project: <http://barboljare.me/en/history/>

61 Vasović A., Barkin, N. (2018). Chinese 'highway to nowhere' haunts Montenegro. Reuters.

Montenegro Assessment's December 2019 Report by the World Bank's Public Expenditure and Financial Accountability (PEFA) Team pointed out that the scope of the feasibility studies done in 2009 and 2012 did not match the scope of the project being implemented. According to the PEFA Report, a feasibility study prepared specifically for the current project that matches the current scope of the project was prepared by the company implementing the construction. It is marked as an internal document and was not made available to the assessment team. In March 2019, through the EU-funded regional initiative Infrastructure Project Facility, the Ministry of Transport and Maritime Affairs hired another company to conduct a full-scale feasibility study. This will include a cost-benefit analysis, in line with EU guidelines.

Transparency

Since its inception, local Montenegrin NGOs have criticized this project due to its lack of transparency and suspicions of corruption.

While there are no official reports on corruption involving Chinese officials or entities around this project, there are suspicions of corruption around the local companies that are close to the Montenegrin government in terms of projects involving Chinese funding. Findings by NGO MANS and independent media have indicated links between the subcontractors on the highway project and people who are in close contact with top government officials, especially President Milo Djukanovic. Suspicions also arise from the fact that the contractor, CRBC, has been associated with corruption in the past.⁶²

On July 29, 2011, the World Bank announced the debarment of China Communications Construction Company (CCCC) Limited, and all its subsidiaries, for fraudulent practices under Phase 1 of the Philippines National Roads Improvement and Management Project. Under the sanction, CCCC was ineligible to engage in any road and bridge projects financed by the World Bank Group until January 12, 2017. CCCC is the designated successor entity to China Road and Bridge Corporation (CRBC) which, along with six other firms and one individual, was debarred by the World Bank for eight years, beginning January 12, 2009, following an investigation of the National Roads Improvement and Management Project by the World Bank's Integrity Vice Presidency (INT).⁶³

Apart from a narrow circle of people, MANS has raised concerns that most people do not have a complete picture and understanding of the highway's construction. Many of the corresponding documents have been classified. The Montenegrin government continues to refuse to publish the conceptual design of the highway. Doing such would provide greater transparency on the

<https://www.reuters.com/article/us-china-silkroad-europe-montenegro-insi/chinese-highway-to-nowhere-haunts-montenegro-idUSKBN1K60QX>

62 Vijesti. (2014). Autoput: Posao Kinezima osumnjičenim za korupciju.

<https://www.vijesti.me/vijesti/drustvo/autoput-posao-kinezima-osumnjiceni-za-korupciju>

63 World Bank. (2011). World Bank Applies 2009 debarment to China Communications Construction Company Limited for Fraud in Philippines Roads Project.

<https://www.worldbank.org/en/news/press-release/2011/07/29/world-bank-applies-2009-debarment-to-china-communications-construction-company-limited-for-fraud-in-philippines-roads-project>

basis in which CRBC is developing the project, obtaining approvals, and permits. Additionally, all documents produced by two state commissions - the State Commission for the Review of Technical Documentation and the State Commission for the Technical Review of Works⁶⁴, including their control reports, have been marked as confidential.⁶⁵ According to Montenegro's Law on Data Secrecy, while the secrecy of documents classified with the grade "internal" expires after two years, it can be extended for an additional two years. The secrecy of these documents was extended in April 2019, meaning they should be available in April 2021.⁶⁶

Further examples of classified project materials include the Ministry of Transport's data related to finances, the project implementation's control and disputes, technical documentation, and other administrative acts.⁶⁷ The Inspection Directorate declared findings of supervision of the highway project, reports on the Tara river protection measures, and misdemeanor orders against CRBC as trade secrets.⁶⁸ Montenegro's State Audit Institution only provided partial information to MANS. This institution also denied access to information on the composition of the Highway Construction Implementation Unit, remuneration received by members of this government body, remuneration received by the members of the expropriation teams, and for the teams which defined technical solutions for the highway construction. Information about the law office and lawyers with whom the government has an agreement for the providing legal counsel on the highway project implementation is also confidential.⁶⁹

Despite the challenges encountered in obtaining information, MANS created a public information database on the highway project to substitute what the public administration has not shared with the public. The database consists of information related mostly to the project's costs and the environmental impact of its construction.⁷⁰

Environmental concerns

The Environmental Impact Assessment for the construction of Phase 1 was originally prepared by the Montenegro's Environmental Protection Agency and delivered to the Ministry of Transport and Maritime Affairs in 2015.⁷¹ Several more were subsequently ordered for specific issues that were found.⁷² NGOs criticized the original assessment for containing contradictory information and being

64 The Government formed two expert commissions - the State Commission for the Review of Technical Documentation and the State Commission for the Technical Review of Works - composed of a total of 51 domestic experts or representatives of state institutions. These commissions are directly responsible to the Ministry of Transport and the Ministry of Sustainable Development and Tourism.

65 MANS. (2018). Zašto se i dalje kriju ključne informacije o izgradnji autoputa? <https://www.mans.co.me/zasto-se-i-dalje-kriju-kljucne-informacije-o-izgradnji-autoputa/>

MANS. (2015). Netransparentnost projekta Bar-Boljare zabrinjavajuća, što prije formirati Odbor za praćenje. <https://www.mans.co.me/netransparentnost-projekta-bar-boljare-zabrinjavajuća-sto-prije-formirati-odbor-za-praćenje/>

66 RTCG. (2020). Kada će biti ukinuta tajnost podataka o izgradnji autoputa? <http://www.rtcg.me/vijesti/ekonomija/271067/kada-ce-biti-ukinuta-tajnost-podataka-o-izgradnji-autoputa.html>

67 MANS. (2018). Studija slučaja, Građani nemaju pravo da znaju kako se troši njihov novac, Projekat autoputa pod velom tajnosti. http://www.mans.co.me/wp-content/uploads/2019/02/Studija_SPI_autoput_MNE.pdf

68 MANS. (2019). Država krije kako Kinezi rade <https://www.mans.co.me/drzava-krije-kako-kinezi-rade/>

69 MANS. (2019). Izgradnja autoputa primjer kako se zloupotrebljava Zakon o tajnosti podataka. <https://www.mans.co.me/izgradnja-autoputa-primjer-kako-se-zloupotrebljava-zakon-o-tajnosti-podataka/>

70 MANS. (2015). NVO MANS predstavila bazu podataka o autoputu. <https://www.mans.co.me/nvo-mans-predstavila-bazu-podataka-o-autoputu/>

71 Environmental Protection Agency. (2015). Environmental Impact Assessment Study for the Highway Bar – Boljare, Section Smokovac – Mateševo. <http://barboljare.me/wp-content/uploads/2018/02/Objedinjeno.pdf>

72 Environmental Protection Agency <https://epa.org.me/?s=autoput>

based only on literature data, some of which was half a century old. The original assessment failed to provide a baseline status of the waters, flora, and fauna impacted by the highway project, as well as a socio-economic analysis related to health, security, and heritage protection.⁷³

In October 2018, MANS published footage,⁷⁴ taken at the UNESCO protected Tara River, which showed the destruction of shores, extraction sites of gravel, and dump sites for construction waste that were presumed to be associated with the highway's construction. MANS also claimed that satellite images showed that the river flow had changed in comparison to the time before the work on the highway began.⁷⁵ Six NGO organizations also filed a criminal complaint with the Supreme State Prosecutor against responsible officials in the Ministry of Transport, Ministry of Sustainable Development and Tourism, environmental and water inspections, members of the Highway Works Commission, and the CRBC contractor itself. The charges are around suspicions that these officials misused their positions, negligently exercised their official duty of control, and were responsible for environmental pollution which resulted in the devastation of the Tara River.⁷⁶ In April 2020, the Basic State Prosecutor's Office rejected the criminal complaint, with no explanation.⁷⁷



Source: MANS

The Tara River Basin is protected as a biosphere reserve under UNESCO's Man and the Biosphere (MAB) Program. A joint World Heritage Centre/IUCN Advisory mission visited Montenegro in November 2018. Its visit concluded that although the majority of identified negative impacts could be addressed after the highway construction is completed, some impacts will be long-lasting and irreparable. The report highlights the downstream impacts of gravel extraction from the riverbed and disposal of materials into the riverbed. The mission recommended closely assessing and monitoring the downstream impacts of the Tara River highway crossing due to its outstanding universal value. The organization further recommended developing a rigorous Environmental Management Plan to

73 Čalović-Marković V., et al. (2019). Istim putem u veće dugove, Drugi izvještaj o izgradnji Auto puta Bar – Boljare, MANS. <http://www.mans.co.me/wp-content/uploads/2019/04/AutoputME-fin.pdf>

74 MANS. (2018). Kompletan snimak devastacije rijeke Tare - gradilište autputa Bar - Boljare. <https://www.youtube.com/watch?v=MfAwRSCjaQI&feature=youtu.be>

75 Čalović-Marković, V., et al. (2019). Istim putem u veće dugove, Drugi izvještaj o izgradnji Auto puta Bar – Boljare. MANS. <http://www.mans.co.me/wp-content/uploads/2019/04/AutoputME-fin.pdf>

76 MANS. (2018). Šest nevladinih organizacija podnijelo krivičnu prijavu zbog devastacije rijeke Tare. <https://www.mans.co.me/mans-u-saradnji-sa-ekoloskim-organizacijama-podnio-krivicnu-prijavu-zbog-devastacije-rijeke-tare/>

77 MANS. (2020). Studija slučaja – postupanje crnogorskog tužilaštva u slučaju devastacije rijeke Tare. <https://www.mans.co.me/studija-slucaja-postupanje-crnogorskog-tuzilastva-u-slucaju-devastacije-rijeke-tare/>

mitigate further potential downstream impacts.⁷⁸ At the time this report is published, there has been no added information on CRBC's compliance with these recommendations.

In its 2019 Montenegro Report, the European Commission called upon authorities to assess and prevent any additional negative environmental impacts on the Tara River that would occur during the Bar-Boljare highway's development.⁷⁹

Montenegrin public debt and fiscal stability

Recognizing the need to reduce public debt, Montenegro's government adopted a tough fiscal consolidation strategy in 2017. This fiscal adjustment strategy was deemed necessary to return debt to sustainable levels from the debt acquired when completing Phase 1 of the project. In 2018, the Center for Global Development, however, identified Montenegro as one of 10-15 countries that could suffer from debt distress due to future Belt and Road Initiative related financing. Eight countries were identified as being particularly vulnerable, including Montenegro due to this highway project.⁸⁰

While the implementation of large, publicly financed infrastructure projects added economic growth, the accompanying use of fiscal resources contributed to a significant increase in government debt. This includes guarantees reaching 79 percent of Montenegro's GDP in 2018.⁸¹

In 2019, the IMF welcomed the authorities' continued implementation of their medium-term adjustment strategy. Due to the implementation of fiscal measures, Montenegro's underlying fiscal position has improved. Keeping in mind that high levels of debt remain, maintenance of a strong primary fiscal surplus over the medium-term is necessary for the government's debt to decline to lower levels. The IMF has also called for further efforts to improve the efficiency of Montenegro's public spending, including carefully managing infrastructure investment, rationalizing government employment and tax expenditures, and furthering pension reforms. In this context, Montenegrin authorities should move forward with their plans to develop medium-term budgetary and public investment management frameworks. IMF noted that such initiatives would help create fiscal space over the medium-term for greater high-productivity capital spending and targeted social spending, all while promoting fiscal and debt sustainability.⁸²

The IMF also underlined that caution will be needed when implementing the next phases of the

78 The World Heritage Committee. (2019). Report of the Joint World Heritage Centre/IUCN Advisory mission to the World Heritage property "Durmitor National Park" (Montenegro). http://www.mans.co.me/wp-content/uploads/2019/06/WHC-IUCN-Advisory-Mission-Durmitor-National-Park_TR-final-version_05-2019.pdf

79 European Commission. (2019). Montenegro 2019 Report. <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-montenegro-report.pdf>

80 Hurley, J., Morris, S., Portelance, G. (2018). Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective. Center for Global Development. <https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf>

81 International Monetary Fund. (2019). IMF Executive Board Concludes 2019 Article IV Consultation with Montenegro.

82 International Monetary Fund. (2019). IMF Executive Board Concludes 2019 Article IV Consultation with Montenegro. <https://www.imf.org/en/News/Articles/2019/09/09/pr19329-montenegro-imf-executive-board-concludes-2019-article-iv-consultation>

Bar-Boljare highway project, until feasibility, cost-benefit analyses and financing issues are fully addressed. In this context, the IMF underscored the need to consider the trade-offs between undertaking the highway investment versus other priority spending needs to meet Montenegro's development goals. Additionally, it was recommended that public-private partnership arrangements should be approached with caution to reduce the risk of assuming significant contingent and fiscal liabilities.

According to the IMF, "a rush to complete the highway is likely to jeopardize Montenegro's fiscal sustainability."⁸³ IMF projected that the completion of the second and fourth phases could cost Montenegro an additional 25 percent of its GDP. Should authorities choose to move forward with completing the project by 2026 with new debt financing, general government debt and guarantees could remain above 80 percent of the national GDP for the remainder of this decade. If they choose not to, Montenegro's national debt would reach 50 percent of GDP by 2030. Returning debt to this 50 percent baseline level by 2030 would require a new round of fiscal adjustment of 3 percent of GDP from 2021 to 2023 and the maintenance of primary surpluses averaging 44 percent of GDP from 2026 to 2030. Completing and sustaining a new fiscal adjustment of this size is, therefore, predicted to be challenging.

The COVID-19 pandemic has further weakened the Montenegrin economy. In 2020, the IMF projected that Montenegro would face a 9 percent GDP drop due to the pandemic.⁸⁴ They also project that public debt will peak at 90 percent in 2020, but will decline over the forecasted horizon, assuming fiscal consolidation is resumed in 2021 and maintained over the medium-term.⁸⁵

The future of the project

Despite the warnings about the risks to fiscal stability, it is unlikely the Government of Montenegro will decide to withhold the project. With the large amount of money already spent to complete its Phase 1, a discontinuation would be a debacle. However, funding for the remaining phases has yet to be found and secured.

To avoid further debt, the government suggested a public-private partnership in which a third party would continue to build and operate the highway under a thirty-year concession agreement to recover the debt.⁸⁶

Preparations for the second phase of the highway are underway. In March 2018, the government established an expert negotiation team in charge of preparing the continuation of the Bar-Boljare

83 International Monetary Fund. (2019). Montenegro : 2019 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Montenegro. <https://www.imf.org/en/Publications/CR/Issues/2019/09/09/Montenegro-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-48667>

84 Nian Mooi, Y. (2020). Combating the Impact of COVID-19 in Montenegro. International Monetary Fund. <https://www.imf.org/en/News/Articles/2020/07/02/na070220-combating-the-impact-of-covid-19-in-montenegro>

85 International Monetary Fund. (2020). IMF Country Report. <https://www.imf.org/en/Publications/CR/Issues/2020/06/25/Montenegro-Request-for-Purchase-under-the-Rapid-Financing-Instrument-Press-Release-Staff-49535>

86 Semanić, H. (2019). Controversial Chinese motorway the largest Montenegrin project since independence. European Western Balkans. <https://europeanwesternbalkans.com/2019/04/16/controversial-chinese-motorway-largest-montenegrin-project-since-independence/>

highway construction. The government applied to the Western Balkans Investment Framework (WBIF) for grant money to prepare preliminary projects and to conduct new environmental impact assessments.⁸⁷

In March 2018, the government signed a memorandum of understanding with CRBC to build further sections of the highway based on a public-private partnership.⁸⁸ According to the document, the two parties expressed mutual interest in the construction of the second and third phases and agreed to form a joint group to coordinate activities.⁸⁹

In November 2018, the government announced that the second phase is projected to cost around 273 million EUR and announced that it would apply for an EU grant in the amount of 54.6 million EUR.⁹⁰ While CRBC continues to show interest in completing the rest of the project, its interest does not prevent other interested parties to be involved in its second, third, and fourth phases. Even with this known, MANS has expressed concerns that CRBC is favored to stay on the project, considering the facts that it is already building the first section of the highway and has better access to project information.⁹¹

In June 2020, the Montenegrin government requested financing from the IMF under the Rapid Financing Instrument (RFI), stating that until the outlook for public finances significantly improves, it will not undertake construction of further phases of the Bar-Boljare highway, or other large capital expenditures that could jeopardize debt sustainability.⁹²

87 List of Western Balkans Investment Framework (WBIF) projects is available at <https://www.wbif.eu/wbif-projects>

88 European Commission. (2019). Montenegro 2019 Report. <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-montenegro-report.pdf>

89 Čalović-Marković, V., et al. (2019). Istim putem u veće dugove, Drugi izvještaj o izgradnji Auto puta Bar – Boljare. MANS. <http://www.mans.co.me/wp-content/uploads/2019/04/AutoputME-fin.pdf>

90 Government of Montenegro. (2018). Press release. <http://www.gov.me/vijesti/193913/Nacionalna-investiciona-komisija-dala-saglasnost-na-aplikaciju-da-ii-dionica-Autoputa-bude-sufinansirana-sredstvima-EU.html>

91 Čalović-Marković, V., et al. Istim putem u veće dugove, Drugi izvještaj o izgradnji Auto puta Bar – Boljare. MANS. <http://www.mans.co.me/wp-content/uploads/2019/04/AutoputME-fin.pdf>

92 International Monetary Fund, European Department. (2020). Request for Purchase under the Rapid Financing Instrument; Press Release; Staff Report; and Statement by the Executive Director for Montenegro. <https://www.imf.org/en/Publications/CR/Issues/2020/06/25/Montenegro-Request-for-Purchase-under-the-Rapid-Financing-Instrument-Press-Release-Staff-49535>

Conclusions and Recommendations

When assessing China's economic and political influence on Montenegro, it is necessary to keep in mind a set of long-term conceptual, political, and economic decisions that Montenegro must make. The country must definitively decide on which political pattern it wishes to belong to. If Montenegro decides to become part of the Western civilization of a democratic and orderly civil society, then the public and private sectors should act according to these rules. A fragile democracy in a constant process of transition cannot strengthen the institutions of democratic governance if it is at the mercy of the economic or political influence of a regime that is totalitarian and undemocratic.

Such influence can be resisted by strengthening democratic institutions. By doing so, Montenegro will remove itself from the sphere of influence of authoritarian regimes and their interests. Strengthening the rule of law and democratic governance at the domestic level are also Montenegro's obligations as a candidate for EU membership.

Currently, the Chinese financed highway ends in the middle of nowhere and will not be able to generate returns for the for the near future, as it is not yet connected to the regional network. Meanwhile, it is eating up scarce resources that could be used in other profitable ways. The main corrosive effect of the Chinese loan is that it blocks the autonomy of the current and future Montenegrin governments, as it financially ties Montenegro's hands for years to come.

In its new enlargement methodology, the EU indicated expectations that candidate countries show commitment to the strategic goal of joining the Union. The European Commission also announced that the commitment of public officials to the strategic goal of EU accession will be assessed more clearly in its annual reports. Montenegro should take actions to prepare for being assessed from this perspective as well.

Based on this assessment of Montenegro's vulnerabilities to corrosive capital, we identified the following key policy recommendations to strengthen the country's resilience to the benefit of its democratic and economic development:

1. Strengthening the rule of law, governance, and transparency

Investment destinations where the rule of law, governance, and transparency are weak attract corrosive capital⁹³ and repel constructive capital that enables strong business environments. Montenegro should introduce effective political finance regulations to prevent malign foreign political influence. Mechanisms to prevent corruption, illicit financing, and money laundering should also be enhanced to minimize the opportunity for elite capture. Transparent corporate, foreign investment, and real estate databases should be created to help identify corrosive and illicit flows

93 CIPE coined the term "corrosive capital" to describe financing which lacks transparency, accountability, and market orientation.

of capital that are entering the country. Significant improvements should be made to strengthen the law enforcement capacities, prosecution, and judiciary to increase effectiveness of regulations in these areas.

In the elections held on August 30, 2020, the government in Montenegro was changed, after almost 30 years of the rule of the dominant Democratic Party of Socialists. As a first step in solving the identified problems, the new Montenegrin government should disclose all the documents connected to the highway project at the earliest possibility. A full parliamentary disclosure of detailed finances of the projects conducted under inter-governmental agreements, thus circumventing national public procurement regulations, should be mandatory. The same should apply for ultimate beneficial ownership disclosure of companies who are engaged in publicly contracted infrastructure.

2. Strengthening regulatory frameworks

Montenegro should establish an effective investment screening mechanism. This screening should be required of investments in sectors that are critical to Montenegro's economy and national security. It should include foreign investment in domestic strategic industries and critical infrastructure, such as energy production and supply, tourism, real estate markets, transport, telecommunications, mineral resources and the media. Ultimate beneficial ownership should be examined in order to prevent inflows of funds stemming from illegal activities or malign actors.

Country's investment control mechanism must be clearly aligned with the country's EU and NATO strategic orientation. At the same time, caution must be applied when considering that corrosive capital and dirty money could come also enter Moldova through offshore jurisdictions. Such loopholes should not be allowed when considering large scale public projects.

3. Strengthening democratic institutions

The capacity of independent media, civil society, public and private sectors to assess, monitor, and evaluate foreign investment, including associated influence, is critical for building societal resilience and more coherent responses to external interference. The EU and the US should support such efforts in Montenegro.

4. Diversifying foreign direct investment

As a small country, Montenegro will always have extremely asymmetric economic relations with powerful economies. However, it must avoid developing an overreliance on capital from any foreign states that is concentrated primarily within its key industries. Allowing entrance into such key industries must be evaluated from the perspectives of national security and economic development. Montenegro should refrain from assuming additional loans that are incompliant with EU regulations.



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