



Analysis on Public Infrastructure Montenegro

CREDITS

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This document has been produced as a part of the project “CSOs as equal partners in the monitoring of public finance” which started beginning of 2016 and is implemented by a consortium of 10 organizations from 7 countries and will last for four years.

The aim of the project is to improve the transparency and accountability of policy and decision making in the area of public finances through strengthening the role and voice of NGOs in monitoring the institutions that operate in the area of public finances. In this way, the project will strengthen CSO knowledge of public finance and IFIs and improve CSO capacities for monitoring. Additionally, it will help advocate for transparency, accountability and effectiveness from public institutions in public finance. Moreover, this project will build know-how in advocating for sustainability, transparency and accountability of public finance and IFIs. This project will also increase networking and cooperation of CSOs on monitoring of public finance at regional and EU level. Lastly, it will increase the understanding of the media and wider public of the challenges in public finance and the impacts of IFIs.

Key project activities are research and monitoring, advocacy, capacity building and transfer of knowledge/practices and networking in the field of the 4 specific topics: public debt, public-private partnerships, tax justice and public infrastructure.

More information about the project can be found on <http://wings-of-hope.ba/balkan-monitoring-public-finance/> and on the Facebook Page Balkan Monitoring Public Finances

CONTENT

INTRODUCTION	3
1. OVERVIEW OF TRENDS IN PUBLIC INFRASTRUCTURE PROJECTS.....	4
1.1. Role of civil society in decision making.....	6
1.2. Priorities of the EU	6
2. CASE STUDIES	7
2.1. Highway Bar-Boljare – The project of the Century.....	7
RECOMMENDATIONS	9
REFERENCES	10

INTRODUCTION

During last five years Montenegro allocated over 880 million euros for capital infrastructure projects. Most of these funds were obtained through loans which led to significant increase of the public debt. That limits country's abilities to engage in other large projects. Implementation of the largest infrastructure projects is shrouded in secrecy and followed by allegations of corruption, while public participation in the decision making is discouraged by the Government. The most prominent example is the largest project in history of the country – Bar-Boljare highway, described in special case study in this paper.

1. OVERVIEW OF TRENDS IN PUBLIC INFRASTRUCTURE PROJECTS

Infrastructure is defined by the law as “structures of general interest”ⁱ. This includes all larger projects, roads, airports, railroad, sea ports and breakwaters, but also gas and oil pipelines, water supply structures, sewerage systems, hydro and thermal power plants, renewable energy sources and structures for transmission and distribution of electricity.ⁱⁱ

The construction of the largest infrastructure projects such as highway “Bar-Boljari” and the second block of the Thermal Power Plant are regulated by separate legislation.ⁱⁱⁱ

One of the main bodies responsible for large infrastructure is the Privatization and Capital Investment Council. The Council proposes and coordinates activities on implementation of major infrastructure facilities, especially construction of highways and other transportation facilities, power plants and projects related to the development of information systems.^{iv}

The Government also established National Investment Commission^v, responsible for guidance, monitoring, preparation and implementation of investment projects in infrastructure sector.

Both the Council and the Commission are high-level bodies, headed by the Prime Minister of Montenegro. Members of the councils are ministers, mayors and representatives of the business and trade unions^{vi}, while the Commission is composed of ministers only.^{vii} Operative body of the Government is Secretariat for Development Projects, in charge for monitoring implementation of development projects.^{viii}

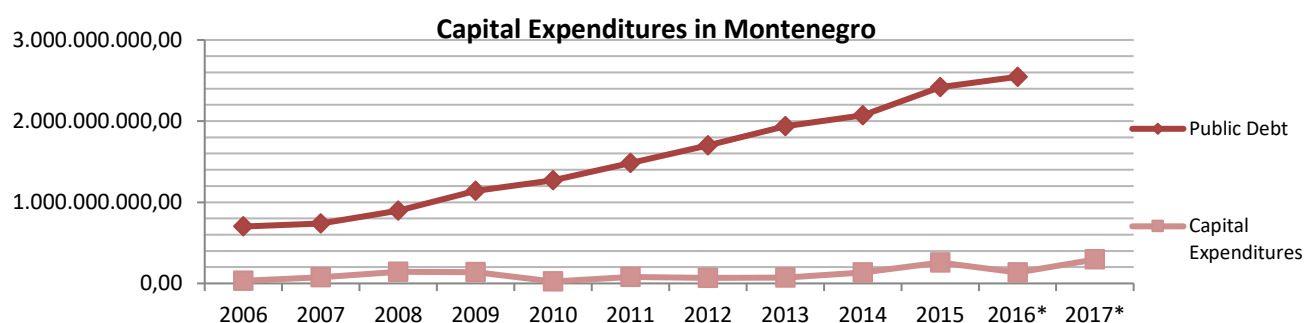
The Secretariat for Development Projects prepared Information about 64 key infrastructure projects which will be implemented in the period 2016 – 2025, worth 4.3 billion Euro.^{ix} Vast majority of these funds will be allocated for infrastructure projects in transportation and energy.^x

Sector	Num. of projects	Worth (in mln. euro)
Transportation	9	3,000
Energy	10	1,100
Environment	30	172
Society	15	84
Total	64	4,356

Table 1: Planned infrastructure projects for period 2016 – 2025 (source: Information of the Secretariat for Development Projects)

However, the Government did not secure funding for implementation of these projects. They estimate that 1.8 billion is missing, without taking in the account key infrastructure projects^{xi}, like the highway, whose total costs are not provided.^{xii}

Similar infrastructure projects were previously dominantly financed through loans from foreign financial institutions and bonds. That lead to significant increase of the public debt, reaching nearly 2.5 billion Euro, or over 68% of the GDP, at the end of 2016. The debt is expected to further increase in the following years, once payments for the highway loan are due.^{xiii} International financial institutions recommended to the Government to immediately start reducing the debt.



*Amounts for 2016 and 2017 are given according to the Law on State Budget for 2016 and 2017

Graph 1: Overview of expenditures for infrastructure from 2006 until 2017 (Source: SAI reports on final budget account)

Therefore, it is highly unlikely that Montenegro will be able to implement planned infrastructure projects. Plans for funding remaining two phases of the highway or second block of the Thermal Plant in Pljevlja are not yet presented to the public.

During last four years there has been increase in expenditures for capital projects, 134 millions were spent in 2014, nearly double in 2015 or 256 millions. There is no official information for 2016 and 2017, but according to the annual budget laws 134.5 million in 2016 and 295 million in 2017 were allocated.^{xiv} These expenditures dominantly referred to construction of power transmission cable between south and the north of the country (Tivat and Pljevlja), construction of the part of the Bar-Boljare highway first

phase, investments into projects of water supply and waste water management in the coastal part of Montenegro and improvement of rail infrastructure and railways.

Most infrastructure projects were implemented through loans provided by the international actors, such as the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), Council of Europe Development Bank (CEB) and the World Bank. However, the largest loan was issued by the China Exim Bank for construction of the first phase of the highway.^{xv}

1.1. Role of civil society in decision making

Civil society is not participating in decision-making process on priorities or strategic framework for public infrastructure projects. They are sometimes consulted through public debates, following already made decisions by the Government.

NGOs criticized several large infrastructure projects because of their negative impact at the environment, lack of transparency and suspicious of corruption.^{xvi} Nevertheless, the Government continued with its plans, kept as secret documents that would show feasibility of major capital projects and other information that are of high public interest.^{xvii}

6

Following initiative of the civil society, members of the Parliament proposed establishment of new committee for oversight of implementation of the highway and other large infrastructure projects, but the ruling majority rejected that idea.^{xviii}

1.2. Priorities of the EU

The European Union financed various infrastructure projects in Montenegro with over 30 million euros in last seven years.^{xix} Key projects were development of the radar station, border crossing between Montenegro and Albania, bypass road at the capital Podgorica and training centre of the Police Academy. Priorities for infrastructure support are set by the European Union, together with the Government of Montenegro, and civil society is not involved in that process.

2. CASE STUDIES

2.1. Highway Bar-Boljare – The project of the Century

Development of the first phase of the Highway is the most financially ambitious infrastructure project in the history of Montenegro, currently worth over one billion euros. Implementation of that project is shredded in secrecy, significant state aid is provided to the Chinese investor and local sub-contractors that are close to the ruling elite, and there is no adequate oversight of the project.

The Government decided to invest in construction of the highway, claiming it will contribute to economic development of the country, especially of the poor northern region.^{xx}

Study developed by British consulting company “URS”, ordered by the European Investment Bank, show that this project is economically non-viable, having in mind that it does not meet the parameters of the internal rate of return, net worth or the relation between costs and benefits.^{xxi}

However, the Government published the tender and in 2009 signed contract with Croatian company “Konstruktor”, but they failed to submit guarantees for the project. The Government turned to Greek-Israeli company “Aktor-HCH”, but that attempt also failed.

In 2012 the Government started negotiations with Chinese companies that were held behind closed doors. In 2014 the Government signed contract with the Chinese Exim Bank.

We took loan worth 944 million US dollars, nearly quarter of GDP for that year, for construction of only one phase of the highway, in total length of 41km. Montenegro did not protect itself from currency exchange fluctuation, and due to dollar increase, the loan increased by around 163 million EUR.^{xxii} The loan covers 85 percent of the project and the Government will provide remaining 120 million euros over four years expected period of construction. Therefore, one kilometre of the highway will cost around 27 million euros.

One of conditions for the loan was that main contractors are Chinese companies, while 30% of works are provided to local subcontractors. Main contractor is Chinese company “China Road and Bridge Corporation” (CRBC) blacklisted for corruption by the World Bank^{xxiii}. Main local companies are linked

to Government's officials^{xxiv} and already involved in many murky deals.^{xxv} Therefore, it is not surprising that the Government declares most information on this project secret.

At the end of 2014, the Parliament of Montenegro adopted the Law on Bar-Boljare Highway, excluding contractors from VAT, income and personal income taxes, contributions for compulsory social insurance for foreigners involved in the project and customs on building materials, equipment and facilities in relation to construction of the highway.^{xxvi} However, the majority in the Parliament decided not to establish oversight mechanisms.

According to the World Bank, rising imports related to highway construction would substantially raise external imbalances over a four-year period of planned construction, which will erode Montenegro's ability to deal with fiscal and external shocks.^{xxvii} Debt exposure to the US dollar-denominated highway loan present risks to public finances at the time of loan repayment.^{xxviii} Under these circumstances, according to the World Bank, the selection of the highway project as a stimulus to growth appears to be a step backwards.^{xxix} Increase of public debt caused other consequences, such as increase of the VAT and introduction of new taxes^{xxx}.

RECOMMENDATIONS

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- ⁱ Law on Spatial Development and Construction of Structures, Official Gazette of Montenegro no. 51/08, 40/10, 34/11, 47/11, 35/13, 39/13 and 33/14, article 7, par. 1.
- ⁱⁱ State-owned structures of general interest are deemed: roads (motorways, artery roads and regional roads) and the accessory structures thereof; airports and the accessory infrastructure thereof; railroad infrastructure for public traffic and accessory structures thereof; sea ports and breakwaters; infrastructural structures of significance for Montenegro (arterial gas pipelines and oil pipelines; inter-regional and regional water supply structures, inter-regional and regional sewerage systems); hydro-power plants and thermal-power plants and accessory structures thereof; structures for the production of electricity from renewable sources; structures for education, science, healthcare, sports, culture and social welfare; manufacturing systems employing at least 50 workers; four-and five-star hotels (except apart hotels, condo hotels and garni hotels), hotel resorts, small hotels, boutique hotels, holiday villages and wild beauty resorts; eco lodges and ethno villages; structures of transmission and distribution network at voltage of 35kW and above and telecommunication structures representing a part of communication systems of international and national importance and telecommunication structures being constructed on the territories of two or more municipalities; radio broadcasting structures, cable cars connecting the territories of two or more local self-governments, structures serving rural development purposes (agricultural, rural housing and tourism, livestock breeding, grape growing, fruit-growing) that are on the territory of two or more local self-governments and shelters under state ownership. Law on Spatial Development and Construction of Structures, article 7, par. 2.
- ⁱⁱⁱ Law on Bar-Boljare Highway, Official Gazette of Montenegro no. 52/14; Law on Ratification of the Protocol between the Government of Montenegro and the Government of Czech Republic on Cooperation in Field of Energy and Infrastructure, Official Gazette of Montenegro no. 06/16.
- ^{iv} Decision on the scope of work and the structure of the Privatization and Capital investment Council, article 2, par. 1.
- ^v Decision on establishment of the National Investment Commission, adopted on 15 December 2016.
- ^{vi} Privatization and Capital Investment Council is composed of the president Dusko Markovic, Prime Minister of Montenegro, deputy president Milutin Simovic, Deputy Prime Minister for Economic Policy and Financial System and Minister of Agriculture and Rural Development and members: Darko Radunovic, Minister of Finance, Dragica Sekulic, Minister of Economy, Pavle Radulovic, Minister of Sustainable Development and Tourism, Osman Nurkovic, Minister of Transport and Maritime Affairs, Kenan Hrapovic, Minister of Health, Kemal Purisic, Minister of Labour and Social Welfare, Damir Sehovic, Minister of Education, Mehmed Zenka, Minister of Human and Minority Rights, Natasa Pesic, General Secretary of the Government, Aleksandar Zuric, President of the Municipality of Bijelo Polje and representative of the Union of Municipalities of Montenegro, Velimi Mijuskovic, President of the Chamber of Economy, Suzana Radulovic, General Secretary of the Montenegrin Employers Federation, Dusko Zarubica, General Secretary of the Federation of Trade Unions of Montenegro, Srdja Kekovic, General Secretary of the Union of Free Trade Unions of Montenegro and Branko Vujovic. *Decision on the Appointment of the Privatization and Capital Investment Council*, Government of Montenegro, 2 December 2016.
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- ^x Ibid.
- ^{xi} Remaining two phases of the Highway, Adriatic-Ionian gas pipe and reconstruction of the Railway from Podgorica to the border with Albania.



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