



BALKAN
MONITORING
PUBLIC
FINANCES

Montenegrin Highway

Road to destitution



Key facts (1)

- 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
- Study developed by British consulting company “URS” show that this project is **economically non-viable**, does not meet the parameters of the internal rate of return, net worth or the relation between costs and benefits.
- 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**.

Key facts (2)

- 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**.
- Montenegro 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.
- **For two remaining phases it is still not determined how it will be financed or constructed.**

Key facts (3)

- Montenegro did not protect itself from currency exchange fluctuation, and due to dollar increase, the **loan increased by around 163 million EUR.**
- 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 kilometer 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.**

Key facts (4)

- **Main local companies are linked to Government's officials** and already **involved in many murky deals.**
- 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.**

Key facts (5)

- However, the majority in the Parliament decided **not to establish Parliamentary oversight mechanisms.**
- New issue from September 2017 – **forgotten loop will cost up to 30 million EUR** in addition.
- Chinese and the Prime Minister claim it was forgotten in the project, minister at that time and currently the Speaker in the Parliament claims it was not. Negotiations opened.

Key facts (6)

- 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**.
- **Debt exposure to the US dollar-denominated highway loan present risks to public finances** at the time of loan repayment. 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**. **Increase of public debt caused other consequences, such as increase of the VAT and introduction of new taxes.**

Additional reading

- **Public infrastructure analysis**
(<http://www.mans.co.me/en/wp-content/uploads/2017/06/Montenegro-PublicInfrastructureAnalysis.pdf>)
- **Public debt analysis**
(<http://www.mans.co.me/en/wp-content/uploads/2017/06/Montenegro-PublicDebtAnaliysis.pdf>)

Thank you!

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