



ASSESSING RUSSIA'S ECONOMIC FOOTPRINT IN MONTENEGRO

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Overview

The last decade has seen a significant level of economic engagement by Russian companies and individuals in Montenegro. Vital economic ties have been sustained despite the fact that bilateral political relations worsened as this small Adriatic country stepped up its efforts to complete the NATO accession process. The deterioration of political relations between the two countries culminated in an alleged failed coup attempt in 2016 and the Russian backing of the opposition Democratic Front (DF) party. Even so, Russian investment flows never dropped below 10 % of total foreign direct investment (FDI).

Russian FDI in Montenegro makes up close to a third of the country's gross domestic product (GDP), and Russia is the single largest direct investor in Montenegro, with USD 1.27 billion in cumulative investments – equal to 13 % of all FDI stock in the country. Montenegro's largest company, the Podgorica Aluminum Plant (KAP), used to be part of the metal empire of Oleg Deripaska, who is reported to have close ties to Russian President Vladimir Putin, until the government initiated a bankruptcy procedure in 2014 after KAP accrued more than EUR 360 million in

KEY POINTS

- Russia's share of the Montenegrin economy has shrunk significantly in recent years, from 29.4 % of total revenue in 2006 to around 5.5 % in 2015, largely as result of the withdrawal of the Russian capital from the Podgorica Aluminum Plant (KAP), one of the largest companies in the country.
- The number of Russian tourists in Montenegro has grown consistently, from 61,000 in 2006 to 316,000 in 2016 (around 25 % of the total). The dependence of the economy on Russian investment in real estate and Russian tourism raises the possibility that a further deterioration in bilateral relations could pose risks to the economy.
- Russia has exploited governance gaps to take advantage of lucrative privatization opportunities and to extract state subsidies (as in the case of KAP).
- Russia has assertively tried to meddle in Montenegro's domestic politics by supporting political parties, launching media attacks against the government and allegedly organizing street protests and a coup d'état.

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debt.^{1,2} The aluminum plant, which used to contribute approximately 15 % of Montenegro's GDP, 51 % of exports, and employ 2.3 % of the population, has shrunk significantly since then. A current court claim worth hundreds of millions of EUR launched at the end of 2016 by the Russian businessman against the government of Montenegro could put the country at serious financial risk.³

According to official data from the Montenegrin corporate registry, one-third of all foreign companies in the country in 2016, exactly 1,722 companies, were owned by Russian nationals.⁴ In the first years after Montenegrin independence, Russia's corporate footprint reached around a quarter of the economy, primarily due to the ownership of KAP by Deripaska. Control over KAP provided Russia additional economic leverage through Montenegrin Electric Enterprise (EPCG), to which KAP became heavily indebted over the period of Deripaska's control.

Russia's share of the economy has however shrunk significantly in recent years, from 29.4 % of total revenue in 2006 to around 5.5 % in 2015. Similar trends may be observed in an analysis of the number of employees working for Russian-controlled entities in Montenegro, which fell from 14.2 % in 2007 to just 2.3 % in 2015, again, primarily because of Deripaska's loss of control of KAP. The aluminum plant was by far the biggest asset owned by a Russian businessman. Most of the other Russian companies operating cur-

rently in Montenegro are small and dispersed in different subsectors of the service industry. In comparison, Russia's corporate presence in Serbia has stayed relatively constant, at around 10 % of the economy.

Tourism is the most important sector of Montenegro's economy and the most important generator of economic growth. Tourism makes up around one-fifth of the Montenegrin GDP and over 54 % of exports.⁵ Montenegro's annual income from tourism is approximately EUR 800 million, and at least a quarter of that money comes from Russian tourists. The number of Russian tourists in Montenegro has grown consistently, from 61,000 in 2006 to 316,000 in 2016 (around 25 % of the total). The deterioration of political ties has not influenced this trend, as many Russian tourists have bought real estate that they use for permanent residences or brief stays. However, following the alleged failed coup attempt, the Russian media has started a negative campaign describing Montenegro as dangerous for Russian citizens.⁶

The media attacks were part of a broader, more assertive effort to meddle in Montenegro's domestic politics. One example of this trend was the events around the parliamentary elections held in Montenegro in the fall of 2016, which followed an invitation to become the 29th NATO member, to which Russia vociferously objected. On Election Day, October 16, Montenegrin security services arrested 20 Serbian nationals who had allegedly plotted to

¹ According to media reports, Oleg Deripaska invested more than USD 1 billion in the Sochi Olympics and his mining company, Rusal, received a USD 4.5 billion loan from the Russian state-owned Vnesheconombank (VEB). A 2006 U.S. diplomatic cable released by WikiLeaks implied that Deripaska is very close to Putin, accompanying him regularly on foreign trips. Sources of the U.S. Embassy in Russia also reported that Deripaska is among the business leaders Putin turns to on a regular basis.

² Dusica Tomovic, "Montenegro Sells Bankrupt Aluminum Plant," Balkan Insight, 11 June, 2014, <http://www.balkaninsight.com/en/article/montenegro-s-bankrupt-aluminium-plant-sold-to-a-local-company>

³ Reuters. (2016). "Russia's Deripaska sues Montenegro for lost aluminum investment," 7 December, 2016, accessed on 3 January, 2018 at <https://af.reuters.com/article/metalsNews/idAFL5N1E2544>

⁴ Foreign Affiliates Statistics for 2016, Data obtained by the Montenegrin Corporate Registry.

⁵ "Predrag JELUŠIĆ: Turizam daje petinu BDP-a i čini više od polovine izvoza Crne Gore," *Portal Analitika*, 27 September, 2015, <http://www.portalanalitika.me/clanak/203071/predrag-jelusic-turizam-daje-petinu-bdp-a-i-cini-vise-od-polovine-izvoza-crne-gore>

⁶ "Криминал, минные поля и столбняк: почему Черногория становится опасной для туристов," TV Zvezda, 25 March, 2017, https://tvzvezda.ru/news/vstrane_i_mire/content/201703251100-mpeq.htm

"Альянс наготове: Черногория в одном шаге от вступления в НАТО," TV Russia1, 28 March, 2017, <http://www.vesti.ru/doc.html?id=2871302>

"Захарова: МИД РФ рекомендует россиянам дважды подумать, прежде чем ехать в Черногорию," Tass.ru, 29 May, 2017, <http://tass.ru/politika/4291514>

prevent the election of a pro-NATO government, and possibly assassinate Prime Minister Djukanovic. Evidence mounted as Serbia's former Gendarmerie commander Dikic was arrested, Russia's security chief Nikolai Patrushev visited Belgrade for talks, and reports surfaced that Serbia had secretly expelled several Russian citizens in relation to the coup attempt.⁷ Former Serbian Prime Minister and now-President Aleksandar Vucic himself later acknowledged the plot, presented further evidence of it, and offered his cooperation to the Montenegrin Special Prosecution.⁸ Prime Minister Djukanovic publicly accused Russia of instigating Montenegro's anti-NATO protests, some led by the right-wing DF coalition, and plotting the coup through its Serbian connections to destabilize the country.⁹ The government also issued an international arrest warrant for two Russian military intelligence officers and two Serbian nationals believed to have close ties to the Russian government.

There is a risk that Russian leverage over KAP, the country's exposure to Russian investments, and the fact that Russians own a considerable portion of all real estate in the country could be used to influence Montenegro's foreign and security policies. The dependence of the economy on Russian investment in real estate and Russian tourism raises the possibility that a further deterioration in bilateral relations could pose risks to the economy.

Russia has also actively sought to secure its presence at Montenegro's energy market: Lukoil invested \$39 million in one of Montenegro's largest companies, Roksped, which engages in the petroleum trade.¹⁰ Moreover, Russians have exploited governance gaps to take advantage of lucrative privatization

opportunities and to extract state subsidies (as in the case of KAP). Weak rule of law and corruption continue to hamper the establishment of a sound business environment in Montenegro. Its institutions are not able to implement reforms, and there are weak policies against clientele networks, economic oligarchy, and illicit business practices.¹¹ Such conditions and practices do not encourage trustworthy foreign or domestic investments, but instead potentially attract investors with dubious source of funds.

Russia's Economic Footprint in Montenegro

Foreign direct investment (FDI) sparked Montenegro's economic growth following independence in 2006. During the next 10 years, a total of around EUR 8.1 billion was invested in this small economy, one-seventh of which came directly from Russia. Based on official data from the Central Bank of Montenegro, the total value of FDI originating directly from the Russian Federation in this period was roughly EUR 1.3 billion, or 30.9 % of GDP.

Since 2006, Russia has consistently been among the three leading investors in the country, in addition to Norway and Italy. Other major investors in this period included Austria, Switzerland, Cyprus, the Netherlands, Serbia, Slovenia, the United Kingdom, Hungary, and the United Arab Emirates. In the period from 2007 to 2016, a significant part of the FDI inflow to Montenegro came from countries and territories that have been designated offshore financial centers.¹² One of the biggest Russian investments in Montenegro, the acquisition of the Podgorica Aluminum Plant, came from a company registered in Cyprus.

⁷ Damir Marusic, "Did Moscow Botch a Coup in Montenegro?" *The American Interest*, 30 October, 2016, <http://www.the-american-interest.com/2016/10/30/did-moscow-botch-a-coup-in-montenegro/>

⁸ Higgins, Andrew (2016). "Finger Pointed at Russians in Alleged Coup Plot in Montenegro," *The New York Times*, 26 November, 2016, accessed on 3 January, 2018 at <https://www.nytimes.com/2016/11/26/world/europe/finger-pointed-at-russians-in-alleged-coup-plot-in-montenegro.html>

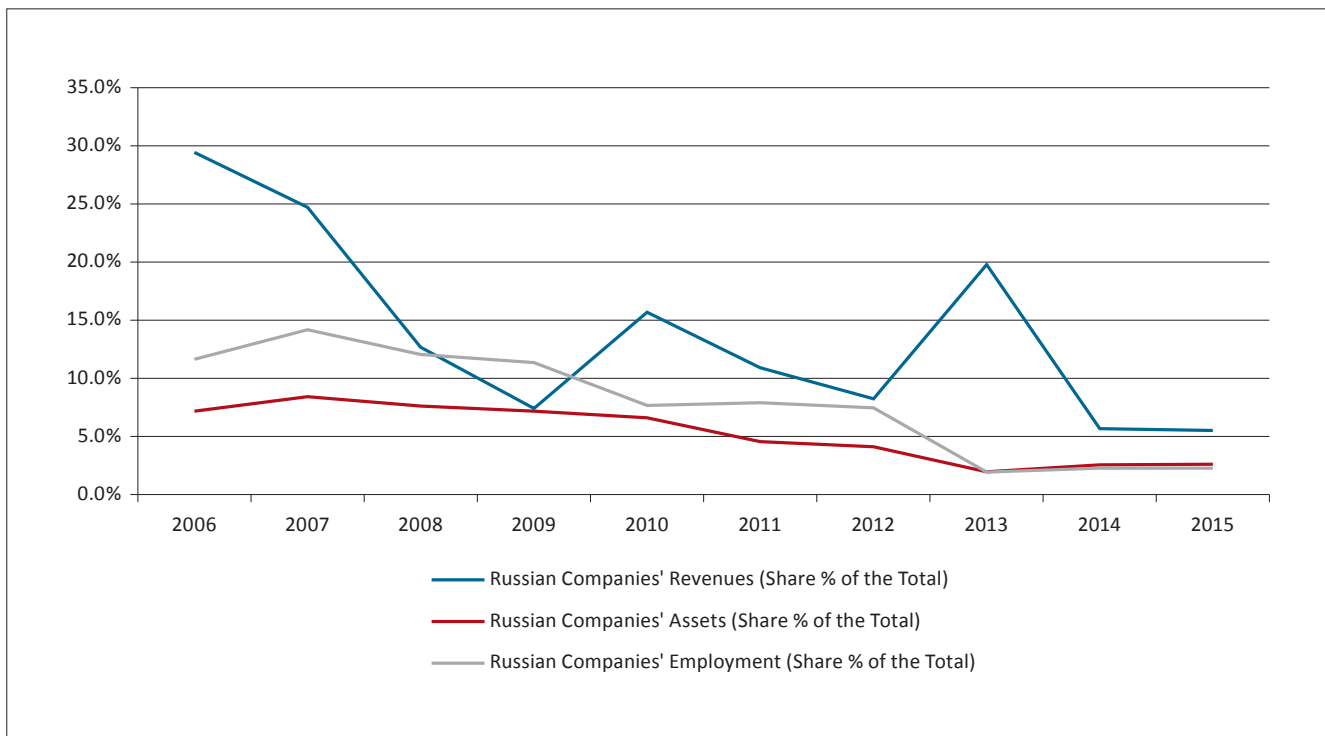
⁹ Charles Recknagel, "Pro-Russian Parties Seek To Derail Montenegro's NATO Bid," *Radio Free Europe/Radio Liberty*, 28 November, 2015, <http://www.rferl.org/content/montenegro-opposition-protests-nato-bid/27395329.html>

Julian Borger, "Montenegro's PM quits after suggesting Russia had role in election plot," *The Guardian*, 25 October, 2016, <https://www.theguardian.com/world/2016/oct/25/montenegro-investigating-russia-alleged-election-coup-plot>

¹⁰ Energy Business Review (2008). "Lukoil acquires Roksped," *EBR*, 8 April, 2008.

¹¹ Marovic, Jovana, *Nations in Transit 2016: Montenegro Report*, Freedom House, 2016.

¹² Data on FDI inflow by countries from the Montenegrin Investment Promotion Agency, May 2017.

Figure 1. Russia's Corporate Footprint in Montenegro

Source: CSD calculations based on a commercial corporate database survey using ultimate beneficial ownership as criteria.

During the peak era (2011 – 2014) of Russian investment after Montenegrin independence, Russian nationals bought numerous apartments and houses on the coast, causing real estate prices to skyrocket. Numerous media reports speculated that these sales were used for money laundering, but no official confirmation was ever provided.¹³ Since independence, Russian nationals have paid close to EUR 25 million in real estate sales taxes. Official data on the amount of real estate owned by Russians is not publicly available, as real estate registries do not provide aggregate data search options, but one number circulated in the

media is 70,000 properties.¹⁴ Meanwhile, estimates of the number of Russian nationals that permanently reside in Montenegro vary. According to a 2011 census, around 1,000 inhabitants declared themselves Russians or Russian speakers.¹⁵ According to a 2014 statement by the Russian Ambassador, there are up to 7,000 Russians permanently residing in Montenegro,¹⁶ while estimates of Russian-speaking diaspora go up to 15,000.¹⁷

High levels of Russian FDI have translated into a significant corporate presence on the ground. Of over

¹³ OCCRP (2011). "Russian Elites Pay Millions for Real Estate in Montenegro," 30 November, 2011.

O'Farrell, Michael, and Patrucic, Miranda. "Montenegrin Prosecutors Launch Probe Into Irish Investment," 20 August, 2013.

Сухотин Андрей и Анин, Роман (2011). "Montenegrin Gnomes," Novaya Gazeta, 28 November, 2011.

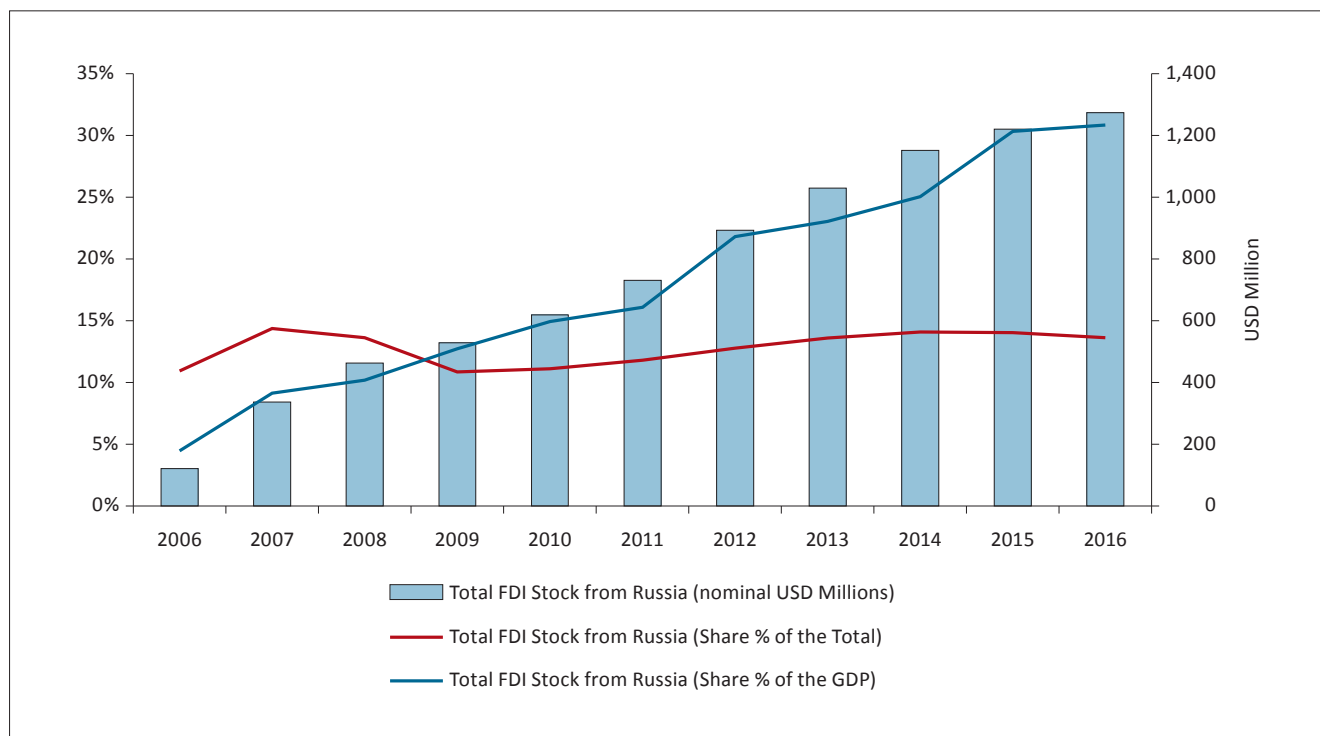
Bilefsky, Dan. (2008). "Despite Crisis, Wealthy Russians Are Buying Up Coastal Montenegro," The New York Times, 31 October, 2008.

¹⁴ "Rusi su u Crnoj Gori kupili 70.000 nekretnina," Vijesti.me, 17 May, 2014, <http://www.vijesti.me/vijesti/rusi-su-u-crnoj-gori-kupili-70000-nekretnina-21034>

¹⁵ Official data by MONSTAT, Census of Population, Households and Dwellings in Montenegro 2011, July 2011.

¹⁶ "Nesterenko: U Crnoj Gori živi do sedam hiljada Rusa," Vijesti.me, 27 January, 2014, <http://www.vijesti.me/vijesti/nesterenko-u-crnoj-gori-zivi-do-sedam-hiljada-rusa-174290>

¹⁷ "Rusi su u Crnoj Gori kupili 70.000 nekretnina," Vijesti.me, 17 May, 2014, <http://www.vijesti.me/vijesti/rusi-su-u-crnoj-gori-kupili-70000-nekretnina-21034>

Figure 2. Stock of Russian Foreign Direct Investment

Source: CSD calculations based on central bank and UNCTAD statistics.

4,200 foreign-owned firms currently registered and operating in Montenegro, Russians own 32 %, according to the latest data from the national statistical agency, MONSTAT.¹⁸ The lax regulatory and tax framework allowing foreign companies to repatriate their profits and dividends without restrictions could explain the interest in opening and taking over local companies.

Until 2013, KAP was one of the largest companies in the country and among the 16 Montenegrin firms in which Russian legal entities owned a share of 25 % or more.¹⁹ Currently, its exact ownership structure is unclear. However, in 2014, the Montenegrin government sold a majority stake in the plant to the local metal company Uniprom for EUR 28 million and promised EUR 76 million in additional investment. CEAC, an investment company controlled by Oleg Derispaska that

previously owned a majority stake in KAP, has filed another arbitration case against the Montenegrin government, this time before a Cypriot court, following two unsuccessful claims in Paris and Vienna. In a country where industrial production is almost non-existent, control over one of the largest single employers could be considered a potential source of political influence. For example, controlling KAP gave a Russian-owned firm an effective tool to potentially pressure the country's energy sector through the dependence of the local power supplier, EPCG, on its biggest client, KAP.

In order to ensure a cheap and secure electricity supply to KAP, Deripaska attempted to take full control of power production in Montenegro by bidding to purchase the Thermal Power Plant (TPP) and coal mine in Pljevlja via his En+ Group.²⁰ The merger and

¹⁸ Tomovic, Dusica. (2016). Russians Dominate Foreign Ownership of Montenegrin Companies. BalkanInsight, August, 2016, accessed on 14 January at <http://www.balkaninsight.com/en/article/russians-own-every-third-company-in-montenegro-report-08-17-2016>

¹⁹ There are around 200 other registered LLCs where Russians own more than 10 % of shares.

²⁰ En+ Group is a Russian energy company controlled by Oleg Deripaska, registered in New Jersey. The Central European Aluminum Company (CEAC) is established to manage the businesses of the En+ Group in CEE.

acquisition was stopped by Parliament in June 2007, when MPs of a smaller governing coalition member, the Social-Democratic Party, joined with opposition MPs to vote against the agreement, arguing that Montenegro must keep control over its most important energy resources, and that this takeover would be both economically and politically harmful to the country.²¹

The share of Russian companies in the overall economy (in terms of revenue) has shrunk significantly, from 29.4 % in 2006 to 5.5 % in 2015, because of the failing aluminum producer. Similarly, Russia's leverage over the labor market has been reduced significantly. While in 2007 more than 14 % of the country's workers were employed by Russian-owned or indirectly controlled companies, this share fell to just above 2.3 % in 2015.

While investments from Russia have generally expanded significantly since Montenegrin independence, trade ties remain largely underdeveloped. The total trade turnover between Russia and Montenegro in the past 11 years stands at around EUR 215 million (roughly 5 % of GDP), which is relatively small compared to the amount of Russian capital flowing into the country. However, while trading of goods has been limited, trade of services based on tourism, which is one of the key pillars of Montenegro's economy, has been booming. Since 2006, the main Montenegrin imports from Russia have been petroleum derivatives, base metals, and electronic equipment. Montenegro's main exports to Russia include wine, non-metal minerals, and agricultural products; however, the country's primary export to Russia is in services, namely tourism, which, according to the authors' estimates, totaled around EUR 225 million in 2016 alone.²²

Worsening political ties, however, negatively affected bilateral trade. Montenegro joined the EU sanctions against Russia in 2014, which led to an embargo on agricultural imports similar to Russia's actions against all countries that followed the sanc-

tions regime. The second economic blow came in April 2017, when the Russian agricultural inspection body banned the import of wine and other alcoholic beverages from the Montenegrin state-owned wine company, Plantaze, under the pretext that a regulatory inspection showed the presence of pesticides and plastic in the company's products. Over the previous five years, 20 % of Plantaze's exports, or 110 million bottles of wine, were exported to Russia, one of its biggest markets. Plantaze has challenged the regulatory decision in a Russian court, which is still deliberating on the issue. Meanwhile, the Montenegrin government argued that the prohibition of wine imports was politically motivated by Montenegro's membership in NATO.²³

Vulnerable Sectors

Tourism, a pillar of the Montenegrin economy, seen as the strategic driver of future economic growth, is the sector most vulnerable to Russian influence. Russian investors own some of the largest and most visited hotels in Montenegro. In addition, Russian tourists make up a large share of the total volume of foreign tourists. However, the Russian corporate presence in the tourism sector is dispersed across many small actors, which makes it difficult for the Russian government to exercise direct control over the sector.

Montenegro has very few valuable mining resources, most of which Russian investors have already targeted. While the former importance of the industrial mining sector for the country's economy made Russia a dominant player, this is no longer the case. After Deripaska's withdrawal, Russian businesses control only a few industrial assets in Montenegro. Similarly, unlike in most southeastern European countries, Russia does not exercise significant influence over the energy sector. After failing to acquire control over the Thermal Power Plant, the state electricity company and a key energy producer, Russia's presence in the energy sector has been limited to

²¹ "DPS izgubio bitku ali se ne predaje," *ND Vijesti*, 13 June, 2007.

²² Response to the questionnaire, Statistical Office of Montenegro (MONSTAT), May 2017.

²³ BBC (2017). "Montenegro approves Nato membership as Russia protests," BBC Europe, 28 April, 2017.

Lukoil's recent expansion of gas stations throughout the country.

Overall, the penetration of corrosive capital, not only Russian, into key economic sectors of any country is a vulnerability, as foreign governments can use indirect influence over the investment decisions of private firms and individuals to affect the growth prospects of these sectors and, in turn, those countries. For example, were Russia to seek to discourage its nationals from investing in Montenegrin real estate or traveling to the country, there could be a domino effect on the construction and hospitality businesses. Furthermore, a lack of adequate supervision over the nature of capital inflows into Montenegro creates critical risks, including of money laundering, organized crime and corruption. The fact that the Montenegrin government has disbursed some of the small country's most lucrative assets through a number of non-transparent privatization tenders and without adequate public discussion could potentially transform governance deficits into a tool to capture decision-making processes on the political level.

Tourism and Real Estate

Tourism makes up around one-fifth of Montenegrin GDP and over 54 % of the export of goods and services.²⁴ It is a strategic sector of the Montenegrin

economy, and forecasts from the World Travel & Tourism Council (WTTC) show that by 2026, tourism could constitute up to 30 % of the country's GDP.²⁵ Russian tourists are the largest group of visitors to Montenegro, amounting to 25 % of the total.²⁶ Since 2006, the number of Russian tourists has jumped five-fold, to 316,000 in 2016, spending a total of 2.87 million nights. At an average price per night of around EUR 70, one could estimate that in 2016 alone, Russian tourists spent a little over EUR 200 million only on accommodations, which is around 5 % of GDP.²⁷

The deterioration of bilateral relations since 2014 has had a negative impact on the flow of Russian tourists to Montenegro. The Russian government tried to accelerate this trend by discouraging its citizens from spending vacations in Montenegro. The Russian Foreign Minister, Sergey Lavrov, said in March 2017 that Montenegro is sacrificing its economic relations with Russia by joining NATO.²⁸ A negative Russian media campaign describing Montenegro as dangerous for Russian citizens followed the statement. Media reports pointed to increased crime, filthy beaches, and a difficult tourist season.²⁹ The negative publicity campaign seems to have had an effect. Although Russians accounted for the largest group of tourists in Montenegro in June 2017 (25.2 %), their number fell from 49,666 to 18,845 year-on-year.³⁰

²⁴ "Predrag JELUŠIĆ: Turizam daje petinu BDP-a i čini više od polovine izvoza Crne Gore," *Portal Analitika*, 27 September, 2015, <http://www.portalanalitika.me/clanak/203071/predrag-jelusic-turizam-daje-petinu-bdp-a-i-cini-vise-od-polovine-izvoza-crne-gore>

²⁵ Ministry of Tourism and Sustainable Development, Intervju: Prihodi od turizma u 2016. biće veći od 850 miliona eura, 29 September, 2016, <http://www.mrt.gov.me/vijesti/165472/Prihodi-od-turizma-u-2016-bice-veci-od-850-miliona-eura.html>

²⁶ "Četvrtina turista u Crnoj Gori su Rusi," *Bankar.me*, 20 May, 2017, <http://www.bankar.me/2017/05/20/cetvrtina-turista-u-crnoj-gori-su-rusi/>

²⁷ The estimate is based on the average revenue per room rate in the 2014 Horwath Hotel Industry Survey Montenegro, commissioned by the Montenegrin government, accessed at <http://www.mrt.gov.me/ResourceManager/FileDownload.aspx?rid=221725&Type=2&file=Poslovanje%20hotelijerstva%20u%20Crnoj%20Gori%202014..pdf>

²⁸ "Unclear How Montenegro NATO Accession to Boost Alliance's Security – Lavrov," *Sputnik*, 23 March, 2017, <https://sputniknews.com/military/201703231051876080-montenegro-nato-accession/>

²⁹ "Криминал, минные поля и столбняк: почему Черногория становится опасной для туристов," *TV Zvezda*, 25 March, 2017, https://tvzvezda.ru/news/vstrane_i_mire/content/201703251100-mpeq.htm

"Альянс наготове: Черногория в одном шаге от вступления в НАТО," *TV Russia1*, 28 March, 2017, <http://www.vesti.ru/doc.html?id=2871302>

"Захарова: МИД РФ рекомендует россиянам дважды подумать, прежде чем ехать в Черногорию," *Tass.ru*, 29 May, 2017, <http://tass.ru/politika/4291514>

³⁰ Intellinews (2017). "Tourist numbers up in Montenegro but Russians stay away," 31 July, 2017.

Meanwhile, estimates of the number of Russian nationals who permanently reside in Montenegro differ. According to the 2011 census, around 1,000 residents declared themselves Russians or Russian-speakers.³¹ According to a 2014 statement by the Russian Ambassador, up to 7,000 Russians permanently reside in Montenegro,³² while estimates of the Russian-speaking diaspora go up to 15,000 of a total of around 33,000 foreign permanent residents in 2013.³³ In several primary schools, young Russians can currently attend classes in Russian. Russian residents also own small businesses such as shops, restaurants and tourist agencies.

In the privatization process after 2006, Russian businessmen and companies acquired several Communist-era hotels in attractive locations. While there is no comprehensive analysis on the entirety of Russian investments in tourism, local media and independent civil society organizations have worked to document attempted Russian investments that sought to use Montenegro's governance deficits to facilitate deals. In several cases, Russian firms that appeared to be shell companies with little capital won large privatization tenders without being able to fulfill the government's requirements for modernization, as agreed in the privatization deals. In several notable cases, despite failing to implement the privatization agreements, there have been little or no consequences for the Russian investors involved.

One example is the privatization of the Lido Hotel in Ulcinj. In 2006, a Russian-owned company, Capital Estate, based in Budva won a tender to purchase the hotel with an offer of EUR 10.8 million, promising another EUR 38 million in investment. The Russian company paid the tender bid but failed to commit the additional investment.³⁴ Despite calls from local authorities to terminate the agreement with Capital Estate, the government legitimized the investment delay by annexing the contract.³⁵ The hotel was demolished in 2013, but a new hotel has not yet been built. Other example was the construction of a hotel complex in Maljevik in Bar Municipality by the Cyprus-registered Sonuba Montenegro, which was later acquired by 2010 Russian Mercury Group.

Another questionable practice in Montenegro's real estate sector involves the sale of attractive pieces of state-owned land for below-market prices. Russian companies have been involved in such deals. One example is the sale of the former military complex Skocidjevojka in Budva. The property was sold before Montenegrin independence for EUR 2.35 million, while the land was later resold for EUR 41.7 million. The deal involved Russian-owned companies registered in Montenegro and offshore registered companies owned by Montenegrin businessmen.³⁶ Claiming that the government lost tens of millions of euros in the deal, the anti-corruption non-profit MANS brought a complaint naming the then-Minis-

³¹ Official data by MONSTAT, Census of Population, Households and Dwellings in Montenegro 2011, July 2011.

³² "Nesterenko: U Crnoj Gori živi do sedam hiljada Rusa," *Vijesti.me*, 27 January, 2014, <http://www.vijesti.me/vijesti/nesterenko-u-crnoj-gori-zivi-do-sedam-hiljada-rusa-174290>

³³ "Rusi su u Crnoj Gori kupili 70.000 nekretnina," *Vijesti.me*, 17 May, 2014, <http://www.vijesti.me/vijesti/rusi-su-u-crnoj-gori-kupili-70000-nekretnina-21034>

³⁴ "Capital Estate: Port Milena na sprječava da ispunimo svoje obaveze," *Vijesti.me*, 24 March 2012, <http://www.vijesti.me/ekonomija/capital-estate-port-milena-nas-sprjecava-da-ispunimo-svoje-obaveze-66186>

³⁵ "Vladi šamar iz Ulcinja," *ND Vijesti*, 7 March, 2011.

³⁶ The main buyers of the property were the Russian company Opora and the Montenegrin company Spartak, represented by Nikolay Zemlyanskyi and Alexander Belyakov. Two months before signing the purchase agreement, the buyers established a new company in the Seychelles – Blaze Corporation – which was used to pay the purchase price of 2.35 million euros. Two years later, in 2007, Skocidjevojka was sold to a Cyprus-registered company, Caldero Trading Limited, owned by Montenegrin businessman Zoran Becirovic, for EUR 14 million. Within seven days, he resold the complex to Palestinian businessman Mohamed Borhan Rachid for EUR 41.7 million. In 2015, the Hipo Alpe Adria Development company announced a public tender for the property, because Rachid's company, Monte Mena, was unable to pay back a EUR 5.28 million loan used for the purchase of the property. Later, Austria's Meindl Bank AG acquired the resort for EUR 7.3 million.

Milovac, Dejan and Mrdovic, Ines. *Urban Planning: Captured by Corruption – Case Studies from Montenegro 2011/2012*. MANS. Podgorica, 2012.

ter of Finance in 2012,³⁷ but there is no information that an investigation was ever opened.

Some Russian investments are now under investigation by Montenegro's Office of the Special Prosecutor for Organized Crime and Corruption.³⁸ One case that did result in a criminal conviction was the construction of a resort in Cape Zavala, near Budva, in 2008. Mirax Group, owned by Russian businessman Sergey Polonsky, started the project together with Svetozar Marovic, the then-Vice President of the Montenegrin ruling party, the Democratic Party of Socialists of Montenegro (DPS), whose family was among the most influential in the town of Budva. Mirax announced it would construct an exclusive tourist resort on the Zavala Cape, including villas and luxury hotels that were to resemble the Burj al Arab in Dubai. The project was partially financed by the First Bank, controlled by the brother of then-Prime Minister Milo Djukanovic.³⁹ Construction continued from 2008 to 2009 without a permit, until financial problems brought the project to an abrupt halt.

In April 2008, MANS brought a complaint to the Supreme State Prosecutor naming the key actors in the Zavala affair: DPS Vice President Svetozar Marović, Secretary for Investment for the Municipality of Budva Dragan Marović, and the Executive Director of Mirax Balkan, Vječaslav Lejbman. After nearly two years of investigation, the prosecution indicted 10 local officials from the Budva municipality, including the mayor of Budva, Rajko Kuljaca, and his deputy, Dragan Marovic, who is also a brother of Svetozar Marovic.⁴⁰ Finally, in 2016, the Appellate Court of Montenegro sentenced Kuljaca to two and a half years in prison, together with

the former Municipal Secretary for Investments Dragan Marovic, who received two years. They were found guilty of abuse of office and damage to the municipal budget of EUR 820,000 to the benefit of Zavala Invest, a subsidiary of the Russian Mirax company. Eight other municipal employees received eight years of prison sentences in total.⁴¹

Mining and Energy

The most important Russian investment in Montenegro, which also marked the beginning of close economic cooperation immediately before Montenegrin independence in 2006, was the purchase of the Aluminum Plant Podgorica (KAP) and the bauxite mine Niksic by the Russian businessman Oleg Deripaska. He owns the Russian mining giant Rusal in Russia through the Cypriot offshore company Salomon Enterprise, which later changed its name to the Central European Aluminum Company (CEAC Holdings Limited). He paid EUR 58.5 million for 65.4 % of KAP and 32 % of the Niksic mine. This agreement included the obligation that Deripaska repay EUR 90 million of the two state-owned companies' legacy debt.

Part of the privatization agreement stipulated that KAP receive electricity at preferential terms and prices from the state-owned power supplier, EPCG, until 2010.⁴² Following the end of the preferential deal, the Russian owner of KAP attempted to obtain additional electricity subsidies after the expiration of its contract with the EPCG. It appeared that Deripaska's plan was to ensure long-term electricity supply to the aluminum plant by also buying the only thermal power plant (TPP) and coal mine in Pljevlja, offering

³⁷ "Prodajom Skočidevojke država oštećena za desetine miliona," *Vijesti.me*, 7 July, 2012, <http://www.vijesti.me/ekonomija/prodajom-skocidjevojke-drzava-ostecena-za-desetine-miliona-82917>

³⁸ For example, the purchase of Hotel As, in Petrovac by the Russian-Montenegrin company Nega Tours; the construction of the luxury tourist settlement Tsarskoye Selo (Imperial Village) near Budva by the Moscow-based Tradeunique holding company; and the purchase of Hotel Otrant in Ulcinj by the Russian company Barkli SK.

³⁹ Organized Crime and Corruption Reporting Project. (2012). Zavala: Cape Corruption. OCCRP, 11 June, 2012, accessed on 14 January, 2018 at <https://www.reportingproject.net/firstbank/en/zavala-cape-corruption>

⁴⁰ MANS, Zavala – the case study, 2008 – 2011 <https://www.reportingproject.net/firstbank/en/documents/finish/13-zavala-cape-corruption/83-zavala-13>

⁴¹ <http://www.vijesti.me/vijesti/rajku-kuljaci-dvije-i-po-draganu-marovicu-dvije-godine-zatvora-916506>

⁴² The power sale contract with the EPCG, which was valid until 2010, envisaged that in its first three years, KAP would receive two-thirds of the electricity under a preferential regime, while in the next two years, only half of the power would be bought for a discounted price.

EUR 45 million for the TPP and EUR 5 million for the coal mine. Controlling the whole power supply chain would reduce KAP's energy costs and provide the plant with uniform control over one of the most important inputs in aluminum production. The merger and acquisition was stopped by Parliament in June 2007 after a small group of MPs from the ruling party joined forces with the opposition to block the deal. Since its privatization, KAP has been the biggest consumer of electricity in Montenegro, at nearly 2 billion kWh (2 TWh) annually, or close to half of the country's total power demand.

The global economic crisis had an enormous impact on Deripaska's businesses, with reportedly billions in losses. Especially hard hit was the aluminum industry, including KAP and Rusal. KAP generated enormous losses, and the company reduced the number of employees from 2,116 in 2007 to 1,344 in 2010. It appears that the Russian owner expected the Montenegrin state to support the restructuring of KAP, following the logic of "too big to fail."

CEAC and the government signed a new agreement in October 2010, according to which the Montenegrin state regained 29.36 % of KAP and 31.45 % of the bauxite mine. CEAC kept the management rights, and the government of Montenegro appointed Board members with veto powers in both companies.⁴³ Through the contract, Montenegro provided KAP with a state guarantee in the amount of EUR 135 million that would back new loans taken by the aluminum plant. In es-

sence, the Russian owner of KAP received the exact terms requested – state loan guarantees, state debt forgiveness,⁴⁴ a cut in the number of employees, and an additional EUR 2 million provided to KAP by the state budget for covering severance compensations. However, KAP did not secure a preferential electricity price.

In February 2011, Hungary's OTP bank informed the government that the state guarantees would be activated, as KAP had not paid one of its credit installments. As a result, the Montenegrin government pursued action against the owners of KAP, which culminated with an order issued by the Ministry of the Economy to prepare for a state takeover of KAP, as the aluminum plant had failed to pay its electricity bills or the debts guaranteed by the state.⁴⁵

In March 2012, the Montenegrin parliament voted to mandate that the government terminate its cooperation with CEAC and acquire majority ownership of KAP despite the associated risks. After KAP continued to accumulate debts to EPCG,⁴⁶ failing to fulfill the obligations of the agreement with the state, the government filed a request with the Commercial Court in June 2013 to start a bankruptcy procedure for KAP.

After the start of bankruptcy procedures, CEAC initiated arbitration against the state of Montenegro, demanding compensation for EUR 100 million. KAP also expressed a willingness to reach an out-of-court settlement, apparently reasoning that such a decision would be beneficial for all sides, and especially

⁴³ According to sources, the government accused KAP of stealing 190515 MWh of electricity worth EUR 9.6 million from a European interconnection mechanism in 2013, which was later paid by Montenegrin taxpayers. However, the transfer of this electricity went through another state-owned company, Montenegrin Electric Transmission (CGES).

Rapoza, Kenneth. (2015). "This Crazy Country Is Picking A Fight With A Billionaire Worth 80 % Of Its GDP". *Forbes*, November 29, 2015, accessed on 21 January, 2018 at <https://www.forbes.com/sites/kenrapoza/2015/11/29/this-country-picking-fight-with-a-russian-billionaire-who-is-worth-80-of-its-gdp/#6181f34574c8>

ENTSO-E. (2013). Montenegrin TSO CGES Asked to Balance its System and Compensate TSOs for Power Flows. June 7, 2013, accessed on January 21, 2018, at <https://www.entsoe.eu/news-events/announcements/announcements-archive/Pages/News/montenegrin-tso-cges-asked-to-balance-its-system-and-compensate-tsos-for-power-flows.aspx>

Prelec, Marco. (2014). *Winners and Losers: Who benefits from high-level corruption in the South East Europe energy sector?*. SEE Change Net, June, 2014, accessed on January 18, at <http://www.mans.co.me/wp-content/uploads/2014/06/SEE-energy-corruption.pdf>

⁴⁴ Including debts for unpaid income taxes for 2006 and 2007, as well as almost EUR 15 million of unpaid taxes on employees' salaries.

⁴⁵ In early 2012, KAP owed EUR 28 million for electricity to EPCG with little prospect of repayment.

⁴⁶ Reaching EUR 61 million by July 2013.

for Montenegrin taxpayers. CEAC argued that the Montenegrin state violated several obligations set out in the privatization agreement and, although it did not announce the exact value of the dispute, it claimed that it would demand compensation for over EUR 600 million.⁴⁷

So far, CEAC has lost two arbitration cases against Montenegro – one at the United Nations Commission on International Trade Law (UNCITRAL) arbitration tribunal (January 2017)⁴⁸ and one at the International Center for Solving Investment Disputes (ICSID) (July 2016).⁴⁹ At the end of 2016, Deripaska filed a lawsuit in a Cypriot court against Montenegro,⁵⁰ claiming that, following his significant and well-timed investment in KAP and the bauxite mine, the Montenegrin state undertook a series of hostile measures to expel him from the company's ownership. He asserted that Montenegro denied his investments fair and equal treatment, contrary to international law and contractual obligations.

Following the introduction of the bankruptcy procedure, a firm called UNIPROM, which is owned by Veselin Pejovic, a local businessman who reportedly has close ties to the government, bought KAP for EUR 28 million.⁵¹ By the end of March 2017, UNIPROM had already invested EUR 10 million in the plant, to be followed by two more modernization efforts worth a total of EUR 18 million.⁵² The new management laid off more than half of the workforce. KAP now employs 550 workers in an attempt to optimize its difficult financial situation.

Apart from the electricity/aluminum nexus, the Russian economic footprint in Montenegro's energy sector is limited to the country's fuel distribution market. Lukoil Montenegro, a daughter company of Russia's Lukoil, has been active on the Montenegrin market since 2006. It has invested around EUR 56 million, mostly in 11 gasoline stations, making it the second-largest fuel distribution company in the country after Jugopetrol Kotor, which is owned by a Greek partially state-owned oil company, Hellenic Petroleum. Following the debt crisis, the Greek state has tried to sell its share in the company, and some Russian investors, including Rosneft expressed interest. Marking the 10-year anniversary of Lukoil's entry into Montenegro, the company's country CEO, Andrey Kuku, said it had no ambitions for a monopoly position but was aiming to achieve a 15 % market share. Unlike Jugopetrol, Lukoil does not have its own domestic import terminal, which means that it needs to buy gasoline and diesel from Hellenic Petroleum. Lukoil extended its presence on the Montenegrin fuel market in 2008 when it acquired the petrol station chain Roksped, which has lucrative stations along the country's coast. Finally, Novatek, a Russian private company, has been involved in subsea oil and gas exploration in partnership with Italy's ENI. In 2006, the joint venture received a 30-year exploration concession in the Adriatic Sea.⁵³

Unlike in Macedonia, Bosnia and Herzegovina, and Serbia, it does not appear that Russia aims to control the Montenegrin fuel market, which remains largely

⁴⁷ Tomovic, Dusica. (2016). Russian Tycoon Sues Montenegro Over Aluminum Plant. *BalkanInsight*. November, 15, 2016.

⁴⁸ Government of Montenegro, Press release, "Arbitral Tribunal in Vienna rules: All CEAC claims against Montenegro rejected," 13 January, 2017, <http://www.gov.me/en/News/168376/Arbitral-Tribunal-in-Vienna-rules-All-CEAC-claims-against-Montenegro-rejected.html>

⁴⁹ Government of Montenegro, Press release, "CEAC loses arbitration against Montenegro, has to bear arbitration costs," 27 July, 2016, <http://www.gov.me/en/News/163686/CEAC-loses-arbitration-against-Montenegro-has-to-bear-costs-of-trial.html>

⁵⁰ "Deripaska's suit against Montenegro falls under investment protection pact – CEAC", *TASS*, 8 December, 2016, <http://tass.com/economy/917849>

⁵¹ "Pejović založio KAP za kredit, pa ga istim novcem kupio," *Vijesti.me*, 27 August, 2015, <http://www.vijesti.me/vijesti/pejovic-zalozio-kap-za-kredit-pa-ga-istim-novcem-kupio-848755>

⁵² *Vijesti* (2017). "The Uniprom-KAP provides investment of another 18 million euros," 30 March, 2017 accessed on 20 November, 2017 at the PR webpage of UNIPROM at <https://uniprom.me/en/holding/index.php/newsroom/74-the-uniprom-kap-provided-investment-of-another-18-million-euros>

⁵³ Jessica Resnick-Ault, "Oil dips despite steep draw in U.S. crude stocks," *Reuters*, 16 August, 2016, <http://www.reuters.com/article/us-global-oil-idUSKCN1AW018>

diversified and competitive. Sales volumes are small, and there is little room for expansion. Russia was most interested in controlling the power generation sector, as seen in the KAP case. However, the Montenegrin government did not succumb to the pressure to re-negotiate power sale terms to accommodate KAP, ultimately triggering the company's bankruptcy procedure.

Governance Deficits

Montenegro is ranked 42nd of 190 countries in the World Bank's Doing Business ranking for 2017. Weak rule of law and corruption continue to hamper the establishment of a healthy business environment in the country. The EU accession progress reports on Montenegro emphasize that corruption remains prevalent in many areas and is a serious problem for the implementation of the EU acquis. Weak institutions do not have the capacity to investigate financial fraud or confiscate criminal assets, while the judicial system is not fully independent. The track record for the implementation of penalties is patchy, and lenient penalties do not deter or prevent corruption.⁵⁴ Since 2015, the Central Bank and the Administration for the Prevention of Money Laundering and Terrorist Financing have upgraded their monitoring and risk assessment systems. However, only a few new investigations have resulted, which indicates an implementation gap.⁵⁵

The limited capacity of the financial intelligence and anti-money laundering authorities makes the detection of corrosive capital flowing into the country difficult. In addition, gaps in the internal control and audit mechanisms of state institutions and limited cooperation with investigative authorities often make the work of special prosecutors working on corruption cases ineffective. The most obvious governance areas affected by the lack of proper oversight have

been the monitoring of the implementation of the annual budget framework, the allocation of state aid to strategic companies (including KAP), and public procurement.⁵⁶ Examples were revealed in the 2013 State Audit Institution (SAI) report, which criticized state loan guarantees provided to various companies in 2010 and 2011, including to KAP. The guarantees were issued without a detailed risk and cost/benefit analysis, and despite KAP's difficult financial situation, culminating in the plant's default on its bank debt and subsequent bankruptcy.⁵⁷

SAI determined that the Economy and Finance ministries, as well as the State Aid Regulatory Commission, did not conduct a due diligence assessment of the financial position of KAP, and did not consider the findings of private auditors. SAI's report claimed that financial indicators had demonstrated that KAP could not pay back the loans from its own resources, placing the profitability of the plant in question. All guarantees that the Government gave to KAP were eventually paid by taxpayers. The lack of a detailed financial assessment of this foreign investor's capacity to purchase the largest company in the country and implement the investment requirements specified in the initial agreement contributed to the later controversies surrounding the renegotiation of the contract between the state and KAP's Russian owner.

Several foreign investors, including those coming from Russia and from other countries, have systematically exploited these governance gaps. As showed by the above cases, the involvement of public officials in questionable privatization tenders of state-owned enterprises is prevalent, especially pertaining to some of the country's most lucrative assets. Choice parcels of real estate on the coast and valuable natural resources were too often transferred through long-term concessions that could be judged to be inconsistent with the public interest, such as

⁵⁴ COM (2016) 715. Montenegro 2016 Report. 2016 Communication on EU Enlargement Policy. 9 November, 2016.

⁵⁵ Ibid.

⁵⁶ Center for Democratic Transition (2014). Corruption and Anti-Corruption In Montenegro (2013 – 2014). Report developed as part of the Southeast European Leadership for Development and Integrity (SELDI) initiative.

⁵⁷ Ibid.

the sale of state-owned property at below-market prices, or the lack of supervision of the implementation of post-privatization investment promises.

According to some reports, the rapid development of the real estate and construction sectors, which attracted predominantly foreign investors, also contributed to a significant risk of money laundering. Data from the Montenegrin Directorate for the Prevention of Money-Laundering shows that the takeover of the state-owned hotel Otrant was facilitated in 2005 via a money transfer by the Russian company Barkli SK, and passed under the radar of the U.S. Financial Crimes Enforcement Network (FinCEN). The transfer was wired through a Latvian bank, while companies from Bulgaria, owned by Ukrainian citizens, covered the trace to the ultimate owners. No indictments were issued after investigations, despite media reports raising questions about the Russian owners.⁵⁸ The fight against money laundering has faced challenges in Montenegro, including corruption, insufficient capacity to conduct financial investigations, weak cooperation among government agencies, and a judicial system susceptible to influence.⁵⁹ According to the Montenegrin financial intelligence unit (FIU), the most suspicious financial transactions have been related to real estate and lease contracts.⁶⁰

Most state-owned companies in Montenegro have changed ownership over the past two decades of

economic transition, whether through privatization, liquidation, or sales of stocks. A number of these privatized entities have gone bankrupt and are no longer operational. What these deals have in common are poorly defined contracts that impose obligations on the state to implement social programs, provide subventions, cover the costs of production, forgive taxes, take over debts, and pay benefits for current and retired employees long after the change in ownership. The state supervision of privatized companies has been virtually non-existent, and privatization contracts that were not fulfilled remained in effect (as opposed to being terminated as stipulated by the agreements). Many privatization deals, especially involving large-scale hotels, were marred by allegations of high-level corruption and conflicts of interest.⁶¹

Russia's Political Interference

Slavic Orthodox identity is also part of the anti-Western platform that the Kremlin has tried to use, largely unsuccessfully, to undermine Montenegro's Western orientation, working with religious conservatives and pan-Slavic groups. For example, Russian Orthodox Patriarch Kirill expressed concern over Montenegro's NATO accession.⁶² The Russian government condemned Montenegro's NATO membership and worked to prevent it, in particular by backing ethno-nationalist groups whose policy platforms are at odds

⁵⁸ "Dva i po miliona za Otrant stigla sumnjivim kanalima," ND Vijesti, 25 October, 2005. In 2004, the Russian company Barkli SK bought the Otrant Hotel, which was part of a large state-owned company, Ulcinj Riviera, which was then in bankruptcy. Barkli offered EUR 2.5 million for Otrant, with the obligation to invest another four million EUR in the next five years. In autumn 2011, Otrant became the property of NLB Interfinanz Bank for 10.6 million EUR, because Barkli failed to repay a loan.

⁵⁹ Three money-laundering investigations were initiated in 2017, but only seven convictions have been handed down by Montenegrin courts in the last 10 years.

Standard. (2017). For ten years, seven convictions for money laundering. 20 November, 2017, accessed on 24 January, 2018 at <http://standard.co.me/index.php/ekonomija/item/3613-za-10-godina-sedam-osudujucih-presuda-za-pranje-novca>

⁶⁰ U.S. Department of State – Bureau of International Narcotics and Law Enforcement Affairs (INL). 2013 International Narcotics Control Strategy Report (INCSR)--Volume II: Money Laundering and Financial Crimes Country Database--Montenegro through Suriname. 1 July 1, 2013, accessed on 3 January, 2018 at <https://2009-2017.state.gov/j/inl/rls/nrcrpt/2013/database/211183.htm>

⁶¹ "Kako je propala crnogorska privreda," MANS, 2015 <http://www.mans.co.me/wp-content/uploads/spi/IPAMonitoring/Stecajci/KakoJePropalaPrivredaCG.pdf>

⁶² Dusica Tomovic, "Serbian Church Urges Montenegro NATO Referendum," Balkan Insight, 5 January, 2016, <http://www.balkaninsight.com/en/article/serbian-church-urges-montenegro-to-hold-referendum-on-nato-01-04-2016>

with Western values.⁶³ Russian Deputy Prime Minister Dmitry Rogozin went even further when he said that Montenegro would regret joining NATO.⁶⁴ Several meetings between some Montenegrin anti-NATO opposition leaders and Russian officials were organized in 2015 and 2016 around this issue.

In 2014, Montenegro aligned with the EU sanctions against Russia after the annexation of Crimea. In early 2015, the Montenegrin government openly declared its commitment to join NATO. The government also rejected a Russian request to use the Montenegrin port of Bar for military purposes, despite the fact that Russia had allegedly proposed payments worth at least half of the country's annual GDP.^{65,66}

Montenegro has accused the Russian Federation of meddling in the 2016 parliamentary elections by attempting to overthrow the government through the strongest opposition coalition in Montenegro – the Democratic Front (DF). Russia rejects these accusations. DF has also rejected these accusations, stating that coup attempt was staged by the ruling party, and that all charges against DF are politically motivated. There is an ongoing court case led by the Special Prosecutor for the coup attempt against some MPs from the DF leadership for acting against the country's constitutional order. Furthermore, these MPs have been charged with participation in a money-laundering scheme during the 2016 election campaign. Allegedly, the DF used funds of criminal origin, provided in large amounts by Russia through offshore accounts, and then split into small installations and sent to individuals, who then officially

donated the money to the party.⁶⁷ The Special State Prosecutor's Office inquiry into DF's financing has so far resulted in charges against another DF leader, MP Nebojsa Medojevic, as well as a number of DF activists, for facilitating the flow of illicit funds into the party's accounts.⁶⁸

The plot in question is now the subject of court case in Montenegro. The indictment⁶⁹ includes 14 charged, including two Russian nationals, Eduard Shishmakov and Vladimir Popov, a retired police general from Serbia, and a former commander of the Serbian Gendarmerie, Bratislav Dikic, as well as two leading politicians and MPs from DF, Andrija Mandic and Milan Knezevic. It was reported that one of the plotters was a member of Russian military intelligence and former Deputy Military Attaché at the Russian Embassy in Poland, who was subsequently declared *persona non grata* and expelled from Poland on espionage charges.⁷⁰

Policy Recommendations

While Russia's economic engagement in Montenegro remains significant, Montenegro managed to resist an allegedly Russian-orchestrated use of hard power (in the coup attempt) as well as soft power, joining NATO in 2017. Of course, it is possible that Montenegro's foreign and security policy may have turned in a different direction if, for example, the Russian businessman Oleg Deripaska had been able to acquire the country's biggest power production units in 2007. With a Kremlin-friendly businessman in control of the

⁶³ Bellingcat (2017). "Montenegro Coup Suspect Linked to Russian-backed 'Ultrationalist' Organisation," 25 April, 2017 accessed on 20 November at <https://www.bellingcat.com/news/uk-and-europe/2017/04/25/montenegro-coup-suspect-linked-russian-backed-ultrationalist-organisation/>

⁶⁴ Rogozin: Crna Gora će zažaliti zbog odluke da pristupi u NATO, *Vijesti*, 12 January, 2016, <http://www.vijesti.me/vijesti/rogozin-crna-gora-ce-zazaliti-zbog-odluke-da-pristupi-u-nato-869751>

⁶⁵ "Rusija uzalud tražila vojnu bazu u Baru," *Vijesti*, 19 December, 2013, <http://www.vijesti.me/vijesti/rusija-uzalud-trazila-vojniu-bazu-u-baru-167011>

⁶⁶ "POBJEDA: Rusi 2013. tražili luke Bar i Kotor za vojne brodove", *Portal Analitika*, 29 January, 2015, <http://portalanalitika.me/clanak/174714/pobjeda-rusi-2013-trazili-luke-bar-i-kotor-za-vojne-brodove>

⁶⁷ IntelliNews (2017). "Money laundering probe into Montenegro's pro-Russian Democratic Front extended," 31 August, 2017.

⁶⁸ <http://www.tuzilastvocg.me/media/files/ZAHTJEV%20SKUPSTINI%20.pdf>

⁶⁹ http://tuzilastvocg.me/media/files/Kt-S_br_271-16.pdf

⁷⁰ "Russia 'linked' to election-day coup plot in Montenegro," SkyNews, 21 February, 2017, <http://news.sky.com/story/russia-linked-to-election-day-coup-plot-in-montenegro-10775786>

largest power generation and metallurgical companies in the country, with a combined share of 30 % of GDP, it is possible that Russia would have been able to leverage its economic footprint to affect the country's orientation.

Nevertheless, Montenegro continues to face significant governance challenges related to tackling corruption, prosecuting money-laundering cases, and managing the privatization of key assets. Despite the existence of party competition, political power has remained heavily concentrated in the hands of a small group of individuals. The judicial system is inefficient in resolving or even initiating high-level corruption cases, while the mismanagement of privatization agreements and state-owned companies has gone unsanctioned.

The concentration of power in small, powerful networks can, and has been used by Russia to exert pressure on economic and political decision-making in Montenegro. The enormous exposure to Russian capital locks Montenegro into a long-term asymmetrical relationship, which could become a source of economic instability in times of economic crisis, as the KAP withdrawal showed, or of political instability, as the 2015 – 2016 protests showed. The creation of non-transparent networks between local and Russian politicians and businessmen involving questionable privatization tenders, possible money laundering, and appearance of the raiding of lucrative assets, has enabled the channeling of significant investment into the country. Yet these short-term economic gains mask long-term risks resulting from a lack of economic diversification, and a disregard for property rights and the rule of law.

Several key policy recommendations have been identified in the analysis of the economic vulnerabilities created by Russia's influence in Montenegro:

- Diversification of foreign direct investment away from an overreliance on capital coming from a few foreign states and concentrated primarily in one or two industries.
- Improvement of state-owned energy companies' corporate governance to prevent their decapitalization via long-term energy supply agreements, benefitting companies that enjoy preferential treatment by the government.
- A clear separation between the management of state-owned energy companies and politics, so that foreign investors with close political connections do not receive unfair preferential treatment.
- Strengthening existing institutions responsible for privatization agreements and the implementation of their terms through an annual review by a newly-created agency, which must be independent from politics, and with staff approved by Parliament.
- Single-bidder privatization tenders for lucrative real estate over EUR 1 million should be abolished, while independent consultants should conduct evaluations. Where efficient, state-owned stakes should be sold through the stock exchange.
- Businesses with strategic importance for the economy or the national security of Montenegro should not be exempt from competitive public procurement procedures.
- The government should strengthen its Anti-Money Laundering Department to closely monitor foreign transactions that could involve money laundering operations, tax evasion, or illicit financing of political parties and media outlets.
- Transparent and user-friendly corporate, foreign investment, and real estate databases such as a national cadaster should be created, which would allow easier tracking of potential money laundering operations and would help identify potential illicit flows entering the country, as well as the ultimate beneficial owners of investments.
- Financial intelligence, the tax administration, and anti-money laundering institutions should investigate ultimate beneficial ownership, in order to prevent inflows of funds stemming from illegal activities.
- Strengthen the capacity of counter-intelligence to improve monitoring of extremist groups that may be financed by foreign actors.
- Political party financing should be more strictly regulated and relevant intelligence bodies should strengthen their monitoring of foreign subversive activities.