

Red Flags

Triaging China's Projects in the Western Balkans

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A Report of the CSIS Europe, Russia, and Eurasia Program
and Reconnecting Asia Project



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Contents

1 Executive Summary	1
2 Overview	2
3 CEEED Risk Assessment Tool	4
4 Country-Level Indicators	6
<i>EU Integration</i>	6
<i>Economic and Debt Sustainability</i>	8
5 Red Flags: Project-Level Indicators	10
<i>Corruption and Governance Indicators</i>	10
<i>Environmental Indicators</i>	13
<i>Digital Indicators</i>	14
6 Transparency	17
7 Triaging “Red Flags”	18
8 Policy Recommendations	20
9 Annex I: Infrastructure Cost-per-Unit Estimates	22

Executive Summary

This report, the third in a series on Chinese economic activities in the Western Balkans, offers a “red flags” checklist to help policymakers in the United States and in the Western Balkans identify activities that warrant further scrutiny. These “red flags” indicators, or what the authors call CEEED, are critical for evaluating a project’s potential to feed instability or impede development—areas where the United States and its partners should not *cede* ground to China. They include:

- Corruption and governance;
- Economic and debt sustainability;
- Environmental impacts;
- EU integration; and
- Digital security.

A final section provides recommendations for U.S. engagement to build resiliency against China’s influence in the region. The checklist tool and its instructions and methodology can be downloaded [here](#).

Overview

China's economic activities in the Western Balkans have helped solidify external support for its foreign policy objectives, including recognition of its One China policy and defense of its human rights abuses, international legal violations, and predatory economic behaviors. They have also provided a launch pad and showcase for Chinese companies in key industries, increasing their access to the European Union and providing a platform to shape technology and standards adoption.¹ China's economic engagements have solidified the Western Balkans' acceptance of a reversal in environmental and social progress, unsustainable debt, higher barriers to EU integration and long-term economic stability, and less secure digital networks. Meanwhile, the region's need for investment, particularly in infrastructure, remains acute. Connectivity and greater integration with the European single market have been repeatedly underscored by the European Union and other multilateral institutions as necessary preconditions for economic growth in the Western Balkans, and therefore the demand for regional infrastructure is likely to grow in the wake of the Covid-19 pandemic and its attendant economic downturn.²

Addressing and managing the tension between regional infrastructure demand and the negative impacts associated with China's economic activities requires realistic assessments of the risks posed at both the country and project levels. The United States and its regional partners have finite resources—financial and diplomatic—such that treating every project as a threat is neither realistic nor wise. To be credible, assessments should be based on transparent, internationally accepted standards and best practices. They should also account for the broader geopolitical context and consider whether projects push the countries of the Western Balkans away from integration with the Euro-Atlantic community and toward China's governance model.

As a step toward that end, this report offers a framework for assessing risks in transport, energy, and information and communications technology (ICT) projects of potential concern. The framework

begins with an overview of country-level risk factors, which provide important context for the environment in which projects occur, and then discusses project-level risk factors in greater detail. With these two steps, the framework covers areas that are critical for evaluating a project's potential to impede viable, transparent, and sustainable development—areas where the United States and its partners should not cede ground to China. The CEEED framework includes corruption and governance, economic and debt sustainability, environmental impacts, European integration, and digital security. The report concludes with a series of recommendations for policy action that build on and complement the CEEED framework.

CEEED Risk Assessment Tool

The CEEED categories were informed by literature reviews, interviews, and case studies. The risks described in each CEEED category are issues for infrastructure development globally and have emerged as prominent concerns for Chinese projects in particular. They are also mutually reinforcing in many cases. Best practices in one category frequently help reduce other risks. For example, safeguards against corruption also help ensure economic feasibility. The reverse is also true, with poor practices in one area often increasing risks across multiple categories. The subsequent sections of this report explain the relationship between infrastructure and the CEEED categories, the risks and rewards that each category can present for stability and development, and methods for evaluating those risks. Collectively, they underscore why high-quality approaches to infrastructure development, such as those outlined in the Group of 20 (G20) Principles for Quality Infrastructure Investment, are critical for maintaining regional development and accountability.

COUNTRY-LEVEL INDICATORS

EU INTEGRATION

- EU accession progress & policy alignment
- Government composition and orientation
- Public sentiment
- Governance standards
- Quality of rule of law
- U.S. diplomatic relationship

ECONOMIC AND DEBT SUSTAINABILITY

- Debt-to-GDP ratios
- Percentage of public debt owed to China

PROJECT-LEVEL INDICATORS

CORRUPTION AND GOVERNANCE

- Project pipeline
- Economic feasibility studies
- Project pages
- Reporting/compliance mechanisms
- Tendering process
- Project cost
- Diligence & due ethical behavior

ENVIRONMENTAL IMPACTS

- Environmental impact assessments
- Stakeholder engagement & transparency
- Environmental risk mitigation
- Legal amendments & waivers

DIGITAL SECURITY

- Cybersecurity risk assessments
- Access control
- Maintenance & updates
- Supplier diversification, ownership, & reliability
- Respect for human rights
- Third party assessments

TRIAGING RED FLAGS



Project most likely complies with best practices and is being carried out in a transparent way.

⚠ Does not guarantee the project will be successful.



Project likely requires a closer look at individual categories.

ⓘ Most projects will likely fall in this category.



There is a serious need for further scrutiny.

⚠ Does not mean the project will fail, but should alert stakeholders and civil society.



The transparency flag indicates how much project information or documentation could be publicly located.

ⓘ Red transparency flags indicate stakeholders should reach out to project actors to request additional information.

Country-Level Indicators

Before attempting to look at individual projects, risks should be evaluated at the country level to prioritize where deeper dives into individual projects are most warranted and, vice versa, where the broader country-level context makes some projects less worrying than they would appear at first. Indicators for European integration and economic and debt sustainability naturally lend themselves to country-level rather than project-level data and analysis.

EU Integration

EU integration is designed to enhance trade connections to, and reduce barriers between, the Western Balkans and the European Union by improving both hard and soft infrastructure, including physical connectivity assets and project governance standards. The Western Balkans Investment Framework (WBIF) facilitates investment and capacity building that is in line with these goals and the European Union accession protocols, standards, and regulations (e.g., anti-corruption efforts, public administration reform, and economic growth and competitiveness). Projects that fall outside this framework or violate these standards risk hindering progress toward EU accession, weakening the rule of law, and undermining trust in government institutions.³ For example, infrastructure development with opaque financial support, also referred to as “corrosive capital,” undermines governance and enhances the political influence of external actors, slowing progress toward the goals of EU integration.⁴ The Chinese-financed Kicevo-Ohrid and Miladinovci-Stip highway construction projects in North Macedonia are examples of corrosive capital at work.⁵

Over time, the acceptance of sub-standard development risks crowding out Western development and standards, as the case of Serbia demonstrates. Despite extensive EU investment, Serbia’s leadership

still welcomes alternatives to EU practices and standards, principally Chinese approaches, which is counterproductive to Serbia's accession to EU membership and longer-term economic growth. This posture also attracts more Chinese investment and economic activities that push Serbia further away from the West.

This shift away from Europe has significant regional implications. Despite the many ups and downs of EU integration efforts in the Western Balkans, EU transportation and cross-border development initiatives help stabilize the region by promoting good neighborly relations and regional cooperation. Even though tensions remain, projects and investments in the region contribute to these positive relations. Moreover, the EU accession process provides important legal frameworks that Western Balkan countries can transpose and thus leverage to more easily cooperate with their EU neighbors, for example, in cybersecurity.⁶

In many ways, greater EU integration is a proxy measure of the Western Balkans' Euro-Atlantic orientation as a whole—a core interest for the United States. It is a net positive that the EU accession process continues apace for the Western Balkans Six (WB6), even though questions remain over the timing and likelihood of eventual membership for some countries.⁷ Accession also remains a stated goal for the leadership of all WB6 countries.⁸ Encouragingly, survey data confirms that citizens in the Western Balkans continue to see EU membership as a source of economic prosperity (Serbia being an exception).⁹

In light of these dynamics, the following indicators help quantify EU integration for Western Balkan countries and their potential openness to other actors, including in the economic sphere:

- **EU accession progress on policy alignment:** This indicator looks specifically at countries' alignment with the European Union's economic and foreign policy priorities. This is calculated by the European Commission in terms of percent alignment with EU declarations. Policy alignment is also detailed in individual country EU accession progress reports.
- **Government composition and orientation, as well as actions taken:** This is measured by a current government's leadership and coalition platform and whether it promotes a pro- or anti-European policy agenda (public stance and policies in practice). Leadership stances should be assessed based on qualitative assessments of public statements, legislative agendas, and other relevant policy actions and platforms. Special attention should be paid to whether governments take difficult steps to move toward greater EU integration and publicly support its economic value; this could mean public statements as well as anti-corruption reforms and transparency in an administration.
- **Public sentiment:** This indicator is measured by survey data for each country on public perceptions of the European Union and the West more broadly, whenever it is included in reliable public polling results.¹⁰ Public sentiment should be assessed recognizing both that the government line can influence public opinion and that public opinion can develop independent of government orientation. Nevertheless, this indicator should provide a measure of public support for integration despite Chinese investments that are sometimes presented as a better alternative than EU funds (e.g., fewer restrictions) or a different way to develop the region.
- **Governance standards:** Those standards include measures of anti-corruption and public administration reform—important steps toward EU integration—as assessed by such independent nongovernmental organization (NGOs) as Freedom House and Transparency International as well as EU rule-of-law reports.¹¹ These scores can be supported by a qualitative evaluation of corruption in each country based on the Council of Europe's Group of States against Corruption's (GRECO)

evaluation rounds.¹² Scores would trigger concern if they trend downward over several years or if countries shift into categories of hybrid or authoritarian regimes.

- **Quality of the rule of law:** This measure is based on qualitative assessments using U.S. Agency for International Development (USAID) criteria, given the importance of these values for EU integration and as a sign of alignment with the West. These criteria include consensus over governance issues, competition in the political arena, inclusion of members of society, and effective governance.¹³ In addition, evaluation of the rule of law can be supplemented by assessments from the European Union’s enlargement progress reports, particularly focusing on advancement in chapters 23 (judiciary and fundamental rights) and 24 (justice, freedom, and security).¹⁴ This indicator provides a country-level picture of the framework in which Chinese projects take place and the risk that poor-quality projects (from a governance perspective) will take place—regardless of the funder.
- **U.S. diplomatic relationships:** This indicator evaluates ties with each country based on qualitative evaluations by the U.S. embassy in that country and the assessment of the U.S. State Department. This provides a measure of how effective U.S. support for EU integration is in a given country.

Due to the broad nature of the EU Integration category, some of these indicators will require more qualitative analysis.

Economic and Debt Sustainability

Another critical country-level indicator is debt sustainability. Megaprojects that saddle taxpayers with unsustainable debt can threaten a country’s macroeconomic stability in the case of unanticipated economic shocks, as the case of Montenegro’s Bar-Boljare highway shows.¹⁵ The economic downturn in the aftermath of Covid-19 has laid bare these risks, with debt distress on the rise in emerging markets. As the world’s largest bilateral creditor, China’s opaque lending has further complicated international efforts to provide debt relief, underscoring the need for transparent financing.¹⁶

Strong and stable economies in the WB6, including rising employment and reduced debt pressure, will increase regional stability and could increase trade and investment with the United States and Europe. Beyond governance reforms, economic growth is the main area in which the Western Balkans must boost performance, given domestic needs, milestones for EU integration, and the emigration of young people. Depopulation is a looming threat for the region’s economic stability and makes growth a priority for demographic and economic reasons. Sustainable growth would allow more government investment in public services—a deficit that is a serious “push factor” for young emigration—and provide more opportunities for people seeking employment—a “pull factor” for young people leaving the Balkans today.¹⁷

Macroeconomic indicators can provide a picture of which countries are the most susceptible to the destabilizing impacts of debt distress and which have a greater capacity to absorb project debt. This is particularly true given China’s propensity for financing highly visible “megaprojects” with equally high price tags (e.g., Montenegro’s highway project to connect Serbia to the port of Bar).¹⁸ Debt itself is not a net negative, but risks increase when projects constrain a country’s ability to service its debt obligations or meet its development goals through public spending.¹⁹ Special consideration should be given to certain regional projects that could have an outsized role in a particularly sensitive (and potentially volatile) region. Taken together, this holistic view is necessary to realistically assess economic risks. Thus, the following indicators are offered to establish a country-level economic and debt risk picture.²⁰

- **Debt-to-GDP ratios:** The ratios are pulled from yearly EU economic forecast updates for candidate countries (Albania, Montenegro, North Macedonia, and Serbia) as well as progress reports for the entire WB6. As such, they are the most straightforward source for general government debt-to-GDP data. Following the logic of Western Balkan countries pursuing EU alignment, the debt-to-GDP ratio target should be under 60 percent, based on the Stability and Growth Pact (SGP) limits. That number represents the threshold for higher debt risk, with the caveat that the SGP rules have been suspended since March 2020 due to the fiscal pressure caused by Covid-19. Furthermore, some EU members would like to renegotiate these thresholds upwards, acknowledging that debt limits are unlikely to come back into force before 2022 or may be adjusted in response to the pandemic.²¹ European Bank for Reconstruction and Development (EBRD) data can provide the most recent updates that reflect the impact of Covid-19 on public debt, which is rising across the world but was starting from an already-high point in some Western Balkan countries.
- **Percentage of public debt owed to China:** This measure is based on official government sources (e.g., reports of the ministries of finance on public or external debt structure). Assessments should include debt owed to the Chinese government, policy banks, commercial banks, and other lending entities, if possible. In practice, of course, China's opaque lending practices make much of this information difficult to obtain. Identifying implicit and explicit government guarantees in private contracts is another major challenge. Countries with higher debt to China should be ranked as riskier than countries with lower debt within the context of the country's overall debt picture.²²

Given the combination of quantitative (e.g., debt-to-GDP ratio) and qualitative (e.g., diplomatic relationship) indicators, a country-level risk assessment is best represented in a scaled approach: high, medium, and low risk. At the country level, this assessment represents the risk a given country will be more receptive to Chinese economic and political influence. An example based on the most recent available data for each country-level indicator is presented in the table below.

Indicators	Albania	Montenegro
EU foreign policy alignment	100%	100%
Perception of EU	88% see membership as a good thing (1% bad) (2019)	69% see membership as a good thing (18% bad) (2019)
Governing parties' stance on EU	Supportive of EU membership (tensions over timeline)	Party leaders pledged to maintain the previous EU accession trajectory
Freedom score and status (100 = most free)	67; partly free (2020)	62; partly free (2020)
Corruption perceptions index (100 = least corrupt)	35 (2019)	45 (2019)
USAID RoL criteria	[Embassy and bureau assessment]	[Embassy and bureau assessment]
Diplomatic relationship with U.S.	[Embassy and bureau assessment]	[Embassy and bureau assessment]
Debt-to-GDP ratio	80% (mid-2020; 66.3% in 2019)	90% (projected by end of 2020; 76.5% in 2019)
Percentage of public debt owed to China	€1.6 million (\$1.9 million, 0.04% total external debt) (2019)	€671 million (\$795 million, 22% total foreign debt) (2019)
Risk assessment	Low to medium (primary risk: debt level, governance)	Medium to high (primary risk: debt, orientation of new coalition)

Note: The "diplomatic relationship with the U.S." indicator is intended to leverage internal government assessments (e.g., embassy cables) and therefore it will primarily be relevant for U.S. government officials. Non-governmental actors are encouraged to leverage public documents from the State Department and other agencies when making qualitative assessments.

Source: Based on information compiled from multiple sources. Please reference the endnote section for complete citations.

Red Flags

Project-Level Indicators

Within higher risk countries, individual project evaluations can provide a more granular picture. CSIS developed the “red flags” checklist to objectively evaluate transport, energy, and ICT at the project level for risks in the remaining CEEED categories: corruption and governance, environmental impacts, and digital security. The checklist was developed to reflect best practices identified by scholars, industry, governments, multilateral institutions, and NGOs. It is designed to use publicly available information.

Corruption and Governance Indicators

Infrastructure-related sectors, such as construction, transportation, and energy, are repeatedly singled out in studies as being among the most prone to corruption. The reasons for this are numerous and include the complexity of projects, the amount of money exchanged, and the number of stakeholders involved. Corruption raises project price tags, reduces quality and access to public services, limits economic growth, reinforces patronage networks, and creates opportunity costs that divert funding away from other necessities such as health and education.²³ It also threatens democratic development by incentivizing political support on the basis of clientelism rather than accountability for a candidate’s performance and behaviors and eroding public trust in the legitimacy of elected officials.²⁴

The construction of a section of Corridor 11 in Serbia—a project that was directly awarded to a Chinese company without a public tender and that later suffered corruption allegations and cost overruns—is just one example of how public infrastructure can be co-opted in this manner.²⁵ By contrast, good infrastructure governance helps manage the risk of corruption and its associated

outcomes, including cost overruns and other inefficiencies, by improving planning, evaluation, budgeting, and transparency throughout an infrastructure project's life cycle.²⁶ The following indicators are intended to assess the quality of project governance and, in turn, the risk of corruption.

PROJECT PIPELINE

The projects that a country decides to pursue should align with both national and regional infrastructure needs as determined by credible assessments. In the WB6, Single Project Pipelines are developed under the Western Balkans Infrastructure Framework (WBIF) using a process that engages line ministries and relevant stakeholders to determine strategic priorities and identify and select projects for WBIF funding.²⁷ Such assessments help prevent “white elephants” that are intended to funnel assets and contracts on the basis of political expedience rather than sound economic rationale—an issue that is prevalent in the WB6.²⁸ Not every project that is pursued outside of these frameworks or comparable national development plans will necessarily facilitate corruption. However, projects that move ahead without having been included in relevant national assessments have a higher likelihood that they are motivated by political motives rather than legitimate economic demands, and as such, they deserve more scrutiny.

ECONOMIC FEASIBILITY STUDIES

The economic impacts of a project should be considered during the project design and planning stages.²⁹ Economic and financial feasibility studies help ensure that a project makes sound economic sense. In turn, this prevents questionable projects that are unlikely to be sustainable or add value from getting off the ground, since they are more likely to become conduits for corruption at later stages.³⁰ Not only is it vital for such studies to be conducted and made publicly available, but the findings also need to be objective and credible.³¹ Feasibility studies can give the appearance of academic rigor, but their assumptions must be carefully reviewed, especially for overoptimism. Warning signs include couching project weaknesses as “opportunities” for further development. For example, the official feasibility study for the Gacko 2 thermal power plant in Republika Srpska (one of the two entities of Bosnia and Herzegovina), contracted to China Machinery Engineering Corporation (CMEC) in 2017, estimated that the plant would generate an annual profit of €23 million (\$28 million). But an independent analysis found the study used unrealistic coal and energy prices and failed to account for the costs of carbon dioxide. When more accurately accounting for those factors, the plant would operate at an annual loss of around €1.15 million (\$1.4 million).³²

PROJECT PAGES

Dedicated project pages can take several forms, but their core function is to make information about the project publicly available to stakeholders, including civil society and the press, in a readily accessible and centralized format.³³ Multilateral development banks such as the World Bank and the Asian Development Bank use project pages to share project reports and studies, financing and tender information, environmental impact assessments, project timelines and status updates, and stakeholder engagements, among other documentation. Governments may host project pages on their relevant ministry websites, such as their ministries of transportation, energy, or communications. The absence of a project page does not necessarily mean project information is not publicly available, but it frequently slows the process of identifying red flags and impedes the overarching goal of transparency.

REPORTING AND COMPLIANCE MECHANISMS

If corruption is suspected, good governance practices should give project stakeholders, including whistleblowers, clear channels to report their concerns. Project pages or other relevant resources should clarify reporting mechanisms to address allegations of fraud, unfair bidding processes, bribery solicitations, and other corrupt behaviors.³⁴ The G20 and Organisation for Economic Cooperation and Development (OECD) developed the High Level Reporting Mechanism (HLRM) to outline an ideal process for this kind of reporting.³⁵

TENDERING PROCESS

The need for transparent and competitive public procurement is a well-established global principle.³⁶ A red flag for potential corruption is either the absence of competitive bidding, without a compelling public justification, or irregularities in the process, since most common types of corruption—bribes, kickbacks, collusion, bid rigging, and fraud—take place around the tender process.³⁷ Tenders should be made publicly available and include the scope of the project, bids submitted, the winner, and the bid prices. While the European Union is encouraging transitions to digital “e-procurement” systems and requires most public procurements to be published in a centralized electronic system—Tenders Electronic Daily (TED)—authorities in the Western Balkans frequently rely on direct negotiations, which are less cost-effective and less transparent.³⁸ Projects that are directly awarded in the absence of competition, such as the Zemun-Borca Bridge, built by China Road and Bridge Corporation in Serbia, or that only consider a single bidder create significantly more opportunities for corruption than projects that undergo a transparent and competitive bidding process.³⁹ This is also the case when preemptive or post-facto government decrees place contracts and successful bid information under state secrecy laws, as Hungary did for the Belgrade-Budapest railway.⁴⁰

Once a bidding process is initiated, potential bidders should be given a reasonable amount of time to submit their proposals. Unusually short tenders could indicate an attempt to discourage open competition.⁴¹ EU standards dictate that bidders should have 30 days from the publication of the contract notice to submit a tender if a prior information notice was not published.⁴² Complaints from non-winning bidders that are not fairly investigated by authorities are another type of warning sign.⁴³

PROJECT COST

Projects should retain value for money, a goal that is distorted if corruption diverts project investments or inflates costs.⁴⁴ Competitive bidding helps ensure that a project’s costs are reasonable relative to the project’s life cycle. Regardless of whether or not a competitive procurement process took place, exceptionally large project price tags or exceptionally generous “credit” lines that far exceed the cost of comparable projects are cause for concern.⁴⁵ For this reason, open and transparent financing that makes project costs and terms available to the public is critical for identifying and flagging outliers.⁴⁶

However, even when such information is available, outliers can be difficult, given the number of factors that impact prices. As a guide, Annex I of this report includes average cost-per-unit estimates across infrastructure types and countries within the Western Balkans. The estimates should be treated as rough guidelines since they are based on averages that vary across country and year. Furthermore, actual project costs can rise and fall due to a variety of natural factors. Indeed, this natural variation in costs is one reason why large projects are often conduits for corruption. If a project cost falls magnitudes outside of the expected range, that should be interpreted as a sign that further investigation is warranted. In addition, a country’s project pipeline may include cost estimates that

can be used to compare winning tender prices, and news reports about projects will often indicate if credible sources have disputed the reasonability of its total cost.

On the other hand, if a project's price tag is exceptionally low relative to comparable projects, this should also raise concerns. It could either indicate that life-cycle costs, including long-term maintenance, were not properly considered or that a contractor intentionally underbid in anticipation of getting a higher price later through renegotiations.⁴⁷ This can be difficult to track since the majority of infrastructure projects, even in a developed country context, experience cost increases ranging from 28 to 200 percent.⁴⁸ The checklist assumes that cost overruns exceeding 28 percent should be considered concerning, based on research by Bent Flyvbjerg of the University of Oxford's Saïd Business School.⁴⁹

DILIGENCE AND DUE ETHICAL BEHAVIOR

The idea that companies involved in infrastructure projects should have a history of due diligence, ethical behavior, and effective corporate governance is a common international norm.⁵⁰ While illicit behaviors are difficult to track by definition, a common method for excluding untrustworthy companies is to blacklist firms that are known to have violated the law or committed fraud.⁵¹ For example, the World Bank and four of its peer institutions maintain a list of ineligible contractors—both companies and individuals—that have been sanctioned under the bank's fraud and corruption policy.⁵² A further barometer of a company's trustworthiness is whether it adheres to international accounting standards, such as the generally accepted accounting principles or international financial reporting standards which help ensure compliance with anti-corruption legislation.⁵³ Access to ultimate beneficial ownership information for companies involved in the financing or implementation of projects is also an important element of transparency and enables due diligence by the state and other actors involved; however, this information is frequently obscured.⁵⁴

Environmental Indicators

Projects that fail to consider and mitigate environmental risks can destroy more economic value than they create and harm community health. They can also contribute to the destabilizing impacts of climate change on local communities, such as air and water pollution, resource scarcity, flooding, rising water levels, and landslides.⁵⁵ These issues can greatly increase the negative externalities of a project, such as the costs of adverse health impacts on surrounding communities. In the Western Balkans, projects that fail to meet EU environmental standards also raise barriers to EU integration, particularly as the bloc moves toward its Green Deal transition. This was the case for a coal power plant outside of Tuzla, Bosnia and Herzegovina, financed by China Exim Bank in 2019, which environmental NGOs claim will not meet EU standards.⁵⁶

ENVIRONMENTAL IMPACT ASSESSMENTS (EIA)

The first step toward environmental risk mitigation is assessing a project's likely environmental impacts. This is reflected in international standards, including the G20's Principles for Quality Infrastructure, the International Finance Corporation's (IFC) Performance Standards on Environmental and Social Sustainability, and the World Bank's Environmental and Social Framework. Not only do the IFC and World Bank require an environmental risk assessment prior to financing, they also recommend that members adopt such practices for all projects, regardless of their source of funding. Prior to implementation, projects should conduct and publish an EIA that is in-line with the

aforementioned international standards and that considers the scenario in which the project does not proceed. However, according to an appeal by local environmental watchdogs submitted to the European Union in September 2020, most Chinese energy projects in the region have weak or missing environmental assessments and, as a result, breach EU environmental laws.⁵⁷

STAKEHOLDER ENGAGEMENT AND TRANSPARENCY

While conducting an assessment is the first step in the right direction, its impacts are limited if the findings are not made publicly available, impacts are not disclosed to all relevant stakeholders, or if the assessment is not objective and credible.⁵⁸ Project implementers and financiers should not only ensure the assessments are completed but also that they are completed in a transparent manner that conforms with best practices set forward in the international standards mentioned above. Pushback from civil society groups that have objected to the credibility of a project's EIA or that have been denied access to its contents are clear causes for concern, particularly if they lack routinely enforced mechanisms for domestic judicial redress. Illustrating these risks, the expansion of Serbia's Kostolac B3 coal plant, funded by the Export-Import Bank of China and constructed by CMEC, showcases poor environmental practices, low transparency, and a lack of effective stakeholder engagement. The project's EIA had to be repeated after it failed to consider transboundary environmental effects. Only a partial construction permit—dated prior to the completion of the EIA—was provided to local environmental groups upon request after the start of construction was announced mere weeks after the EIA's approval.⁵⁹ A construction permit for the main plant was not issued until a year and a half after work officially began.⁶⁰

ENVIRONMENTAL RISK MITIGATION

Just as an environmental assessment is insufficient in the absence of transparency and accountability, it is also of little use if recommendations are not adhered to during project implementation. Where environmental risks are identified, a plan needs to be developed and implemented to mitigate those risks.⁶¹ This is true not just at the start of the project but throughout the project life cycle. Environmental impacts should be routinely monitored and assessed, and mitigation measures should be adapted accordingly.⁶² As part of the risk management process, ecosystem-based adaptations should be considered, and financiers should have safeguards that require biodiversity impact mitigation.⁶³ If a project is still pre-implementation, the financier's track record of requiring and enforcing best practices for environmental risk mitigation should be considered as a proxy. Financiers that lack publicly available environmental policy frameworks that are on par with international standards should be considered higher risk.

LEGAL AMENDMENTS AND WAIVERS

Projects should be consistent with local environmental laws and regulations.⁶⁴ No laws or regulations should be retracted or amended in a way that reduces environmental safeguards to accommodate the project. Furthermore, it should be considered concerning if the project required an environmental waiver or failed to secure proper permitting, such as the aforementioned Kostolac B3 coal plant.

Digital Indicators

Digital connectivity can increase growth, expand access to public services, and promote sustainable transport and energy solutions. However, in the absence of proper safeguards, it can also threaten

privacy and security, undermine human rights, and weaken democratic institutions.⁶⁵ External threats include the risk of foreign espionage, intellectual property (IP) theft, and overreliance on state-connected companies for essential technology services. Emerging technologies such as 5G, artificial intelligence (AI), and smart cities have raised the stakes. For example, AI-powered surveillance technology has made it possible for state actors to use data to target political opponents, journalists, and other members of civil society—a phenomenon commonly referred to as “digital authoritarianism.”⁶⁶ A prominent example is Belgrade’s “safe city” project, which Huawei supplied and which local NGOs warn has been used to intimidate government opposition. At the same time, the European Union and Western Balkans are working to accelerate the digital transformation of the region while increasing cybersecurity through the digital agenda for the Western Balkans.⁶⁷ The European Union is also moving toward more restrictions on the sale of cyber-surveillance technologies to authoritarian regimes or human rights violators, and the Western Balkans are expected to follow suit.⁶⁸ To help balance this push for greater digitalization with the risks outlined above, the following checklist was designed to be applied to ICT projects to flag activities at higher risk of digital insecurity with potentially destabilizing results.

CYBERSECURITY RISK ASSESSMENTS

Proper cybersecurity risk assessments are essential to ensuring secure and trustworthy projects as underscored by the Prague Proposals, the European Union’s General Data Protection Regulation (GDPR), and the National Institute of Standards and Technology (NIST). Approaches vary, but they should comprehensively identify threats and vulnerabilities at the onset of the project and adhere to all relevant laws and regulations.⁶⁹ In some cases, specific assessments may be legally required. For example, the GDPR requires that a Data Protection Impact Assessment (DPIA) be carried out prior to the processing of any data if it is likely to result in a high risk to individuals’ rights and freedoms.⁷⁰ Although the WB6 may not be able to meet GDPR or similar high standards (e.g., APEC Cross-Border Privacy Rules) today, it should be considered concerning if a risk assessment was not conducted in line with existing laws and regulations or if the laws and regulations governing assessments are not on par with the international best practices embodied in the GDPR. Once an assessment has been conducted, the results need to be made available to the public and disclosed to affected stakeholders prior to project implementation. For example, in the case of Belgrade’s safe-city project, an impact assessment was conducted but was not transparent and did not meet legal requirements.⁷¹

ACCESS CONTROL

Strict access controls—measures that specify the companies and individuals that can access a system and under what conditions and then restrict access to authorized users, devices, and processes accordingly—are another common best practice for ensuring cybersecurity.⁷² Following a series of national cybersecurity risk assessments, the EU toolbox on 5G cybersecurity was developed, which names strict access control on the part of network operators as a key step to strengthening security.⁷³ Data and network access controls are also a common cybersecurity safeguard for data centers, cables, and smart-city environments.⁷⁴

MAINTENANCE AND UPDATES

Frequent maintenance and timely updates are critical for maintaining the security of ICT systems. This work should be planned for and ideally reflected in the overall cost of the project. Ignoring these costs up front can lead to lapses in maintenance after the system is running. Consistent with the

access control indicator, parties providing maintenance must be properly vetted, monitored, and held accountable.⁷⁵ Projects should avoid service and maintenance contracts with companies that have previously engaged in espionage or IP theft.⁷⁶

SUPPLIER DIVERSIFICATION, OWNERSHIP, AND RELIABILITY

A supplier's trustworthiness is important for preventing digital insecurity. The following set of indicators is designed to evaluate supplier security in conjunction with indicators in the corruption and governance section about due diligence and ethical behavior.⁷⁷ First, projects should avoid a monoculture that relies on a single supplier for all of its products and services to prevent dependencies, diversify supply chains, and avoid becoming "locked in" and sacrificing interoperability.⁷⁸ Second, trustworthy and secure suppliers should not be mandated to share data, intelligence, or access with foreign governments or militaries.⁷⁹ Chinese firms Huawei, China Mobile, and Hikvision are among companies cited by the U.S. Department of Defense as having ties to the People's Liberation Army.⁸⁰ To further ensure independence from undue government influence, suppliers should have transparent ownership and corporate governance.⁸¹ They should also have a strong track record of ethical corporate behavior. Warning signs include documented examples of mishandling data flows, espionage, or IP theft.

RESPECT FOR HUMAN RIGHTS

Without proper screening, emerging technologies can be misused to constrain freedom of expression (including an independent press), privacy, civic spaces, civil rights, and access to information. Suppliers should routinely conduct due diligence in line with the UN Guiding Principles on Business and Human Rights to ensure that their products, services, or processes will not be used to contribute to human rights violations prior to engaging in transactions.⁸² Warning signs include documented examples of contributing to human rights violations, particularly in the case of surveillance equipment. This encompasses a number of Chinese companies, including Hikvision and Dahua, that have been added to the U.S. Entity List for human rights violations against Uighurs, Kazakhs, and other members of Muslim minority groups in China's Xinjiang Uighur Autonomous Region.⁸³

THIRD-PARTY ASSESSMENTS

Finally, to prevent vulnerabilities stemming directly from the supplier's hardware, software, or processes, independent and credible third-party assessments of technical and non-technical aspects should be conducted.⁸⁴ One example is the EU cybersecurity certification framework that is under development to rank the projected level of risk associated with the use of a particular product, service, or process.⁸⁵

Transparency

Undergirding the project-level indicators is an emphasis on the transparency of project actors, processes, and documentation. A lack of transparency is not a definitive sign of wrongdoing, but corruption, poor governance, and environmental and digital insecurity are all amplified and mutually reinforcing under opaque conditions. Without transparency, it becomes difficult if not impossible to hold all actors involved in a project accountable, which in turn makes them more prone to risky behaviors. Opacity also impedes the ability of local and international stakeholders to voice concerns or influence the project’s implementation before any damage occurs. Conversely, projects with transparent documentation (e.g., studies, contracts, and financing), actors (e.g., financiers, contractors, and suppliers), and processes (e.g., mitigation activities, stakeholder engagement, and due diligence) make it far harder to fall below international standards and easier to identify and mitigate risk.

Concerned policymakers and local stakeholders should consider calling to suspend projects or penalize the participating companies if information cannot be located following a reasonable search or if documentation is known to exist but is not accessible to the public. Suggested criteria for this “red flag” related to a reasonable search should include: (1) searching the websites of the project’s implementers (including responsible government agencies), funders, and any contractors or suppliers with a primary role in project implementation; (2) reviewing any news articles or third-party reporting that mention the project; and (3) spending a minimum of 15 to 20 minutes researching each question, or until additional research is no longer turning up new sources of information, whichever occurs first.

Triaging “Red Flags”

Once a checklist has been filled in for a project using publicly available information, flag colors are assigned for each risk category and overall to give users flexibility in how to prioritize and interpret the results. In addition, a transparency score is generated for each section and overall based on how much information either could not be determined or was not made publicly available. A detailed description of how scores are calculated can be found in the checklist instructions and methodology.

Guidelines for interpreting flag colors are included below. These guidelines are predicated on a few basic premises. First, this checklist is designed to be filled in based on open-source research and publicly available information. It assumes that evaluators will not have access to private or proprietary information, which could increase the accuracy of the checklist. Second, it is intended to give non-industry experts a tool for evaluating projects at a high level. It is not a certification, nor is it a substitute for traditional approaches to project due diligence, which require a significant amount of detailed knowledge, time, and expertise. As such, the indicators in this list should not be considered exhaustive. Instead, the checklist covers the basic best practices that are most likely to impact the strategic policy considerations outlined in this report. It consists of questions that require a minimum amount of specialized knowledge or technical expertise to provide policymakers with a basic risk assessment tool in a relatively short period of time. The results of each assessment should be thought of as a first step to help prioritize next steps and resource allocation.

GREEN FLAGS

Projects or categories that receive a green flag most likely comply with best practices and are being carried out in a relatively transparent manner with publicly available documentation. Still, if a project

receives a green flag overall, a red flag on a specific question that an evaluator finds concerning should not be ignored. If a project in a country with authoritarian tendencies appears environmentally sustainable and to have sound governance, but raised a red flag on a question about human rights or stakeholder engagement, an evaluator may decide that the project warrants further investigation regardless of the final score. It should also be noted that a “green flag” does not guarantee a project’s economic success or that it will not have negative impacts after implementation. Flags merely indicate the extent to which best practices were followed to safeguard against risks and are not a guarantee of results.

YELLOW FLAGS

Evaluators should expect that most projects will fall into this category. As mentioned earlier in this report, infrastructure projects are prone to governance, environmental, and digital challenges even in the best of environments. Green flags are also predicated on the idea that projects followed the “gold standard” for best practices, while practices in the region routinely fall short of these objectives. Yellow flags likely require a closer look at individual categories to investigate where a project’s weaknesses lay and how those weaknesses line up with the evaluator’s risk tolerance and priorities.

RED FLAGS

Red flags signal a serious need for further scrutiny. Evaluators should check transparency scores (detailed below) to determine if a search for information beyond open sources might help further clarify the project’s level of risk. If the red flag is due to clear violations of best practices or, in the case of earlier projects, a low-level of confidence that best practices will be pursued, it is likely worth investing additional resources to evaluate options for mitigating potential risks. Finally, it is important to note that, just as a green flag does not ensure a project will succeed, a red flag does not doom a project to failure. Ideally, red flags function to alert stakeholders, policymakers, and civil society to risks that can be prevented or mitigated with further action.

TRANSPARENCY FLAGS

A lack of transparency will negatively impact the project and category flag colors, increasing the likelihood that a project will receive a yellow or red flag. The transparency flag helps indicate the extent to which a flag category was determined by overtly bad practices versus a lack of publicly available information and documentation. Sometimes a lack of information is intended to conceal illicit behavior. Other times, project implementers may simply have limited time or capacity to aggregate and post project information online or in a public forum. Another possibility is that the information is posted, but the evaluator was unable to locate it. Limited administrative capacity is an endemic challenge across the region, and while not an automatic sign of concealment of information, it is a weakness that is all too frequently exploited by internal and external actors. When projects suffer from a lack of transparency, the logical next step for an evaluator may be to reach out to all relevant actors—financiers, government agencies, or contractors—to request additional information.

Policy Recommendations

Beyond the use of the CEEED indicators and checklist outlined above, the United States should consider several actions to increase the availability of high-quality projects and highlight the risks of low-quality approaches.

The continuing need for investment in infrastructure, from bridges to broadband, in a risky investment landscape is all the more reason to put connectivity higher on the agenda for a stronger transatlantic alliance. The United States and the European Union should support such projects through the Development Finance Corporation, the Export Import Bank of the United States, pre-accession funds (through the newly-announced EU investment plan for the Western Balkans), and other international financial institutions.⁸⁶ The United States should also work more closely with its European and Japanese partners to certify high-quality projects, share resources, and mobilize private sector financing. In exceptional cases, the United States and the European Union should consider replacing failed Chinese investments when projects are valuable for the recipient country and salvageable from a commercial perspective.⁸⁷

Heightened transparency requirements related to the ultimate beneficial ownership (UBO) of the most prominent Chinese firms involved in both project financing and project implementation in the Western Balkans would be valuable to ascertain company trustworthiness and detect potential malign state actor involvement.⁸⁸ The United Nations Convention Against Corruption (UNCAC), the establishment of the European Public Prosecutor's Office (for projects which involve EU funds), and the U.S. Foreign Corrupt Practices Act (FCPA) provide international legal frameworks, implementation mechanisms, and templates to address these concerns over some actors' involvement and the type of agreement being signed. The United States and European Union should engage more purposefully with civil society groups to create open-source data and information sharing resources on the beneficial

ownership structures of major Chinese companies active in the Western Balkans region to enhance visibility and transparency. Working together in multilateral fora such as the G7, G20, International Monetary Fund, and OECD, transatlantic policymakers should cooperate to require better disclosure of all debts for which the government is responsible, some of which is sometimes implied and thus not clearly quantified.

The United States should sharpen its public diplomacy to highlight the risks of low-standard, non-transparent, and environmentally harmful development approaches in the Western Balkans, keeping in mind the type of indicators highlighted in the CEEED framework. Governments in the region dominate much of the discourse around projects and face few checks from independent media. For consistency and legitimacy, the United States and its partners must uphold the standards they are promoting for infrastructure projects. While Chinese activities are the focus of this report, and of attention at the moment, all projects should receive scrutiny to reinforce international standards.

To this end, the United States should design and conduct a **major grassroots public education and diplomacy campaign** through its embassies in the region, civil society organizations, research institutions, and investigative journalists working in this sphere. The campaign should be centered on the risks of environmental degradation and health impacts (several NGOs and investigative outlets are already focused on this), the lack of local workforce or supplier engagement, and the lack of transparency in project agreements. This also includes adequately funding such agencies as the U.S. Agency for Global Media and supporting independent local outlets through programs such as the Balkan Media Assistance Program.⁸⁹ The United States, through its embassies, should discuss publicly the long-term implications of infrastructure and technology projects, with a focus on path dependency and standard setting, and include government interlocutors.

Any successful effort to prevent low-standard approaches, and contain their negative impacts, will necessarily rely on **strong engagement with civil society organizations (CSOs) as well as investigative journalism to ensure transparency and public awareness**. Embassies should have a clear assessment of the CSO landscape in each country and connect with these organizations when a low-standard project raises red flags to enhance mutual understanding of ground realities and areas of concern. As indicators show, civil society is also a crucial interlocutor when it comes to raising potential red flags on a project's environmental or transparency risks.

Annex I: Infrastructure Cost-per-Unit Estimates

Location	Infrastructure Type	Average Cost	Currency	Per Unit	Year	Source
Albania	Rail	6,000,000	EUR	km	2013	World Bank (El-Hifnawi, 2015)
Albania	Road	5,600,000	USD	km	2006–2009	World Bank (2007)
Albania	Road	822,746	USD	km	2009	World Bank (Alexeeva 2011)
Albania	Road	300,000	EUR	km	2013	World Bank (El-Hifnawi, 2015)
Bosnia and Herzegovina	Rail	5,900,000	EUR	km	2013	World Bank (El-Hifnawi, 2015)
Bosnia and Herzegovina	Road	300,000	EUR	km	2013	World Bank (El-Hifnawi, 2015)
China	Rail	8,840,000	EUR	km	2013	Wu (2013)
Croatia	Rail	6,500,000	EUR	km	2013	World Bank (El-Hifnawi, 2015)
Croatia	Road	390,000	EUR	km	2013	World Bank (El-Hifnawi, 2015)
Eastern Europe & Central Asia	Road	1,588,000	USD	km	2018	World Bank (Mikou, Rozenberg, et. al 2019)
Eastern Europe & Central Asia	Road	1,718,000	USD	km	2018	World Bank (Mikou, Rozenberg, et. al 2019)
Europe	Rail	15,000,000	EUR	km	2019	FERRMED

Europe	Rail, Signaling	100,000	EUR	km	2017	UNECE
Europe	Road	3,000,000–5,000,000	EUR	flyover	2017	UNECE
Europe	Road	8,000,000–12,000,000	EUR	underpass	2017	UNECE
European Union	Power Plant	120	USD	MWh	2019	IEA
European Union	Power Plant	90	USD	MWh	2019	IEA
European Union	Power Plant	150	USD	MWh	2019	IEA
European Union	Power Plant	110	USD	MWh	2019	IEA
European Union	Power Plant	95	USD	MWh	2019	IEA
European Union	Road	6,200,000	EUR	km	2013	European Commission (2013)
European Union	Road	11,000,000	EUR	km	2013	European Commission (2013)
Kosovo	Rail	6,000,000	EUR	km	2013	World Bank (El-Hifnawi, 2015)
Kosovo	Road	214,703	EUR	km	2009	Vedat (2011)
Kosovo	Road	300,000	EUR	km	2013	World Bank (El-Hifnawi, 2015)
Mediterranean	Port	16,000,000	USD	berth	2013	MEDPRO (2013)
Mediterranean	Rail	750,000	USD	km	2013	MEDPRO (2013)
Mediterranean	Rail	1,000,000	USD	km	2013	MEDPRO (2013)
Mediterranean	Rail, Signaling	350,000	USD	km	2013	MEDPRO (2013)
Mediterranean	Road	3,500,000	USD	km	2013	MEDPRO (2013)
Mediterranean	Road	1,000,000	USD	km	2013	MEDPRO (2013)
Mediterranean	Road	150,000	USD	km	2013	MEDPRO (2013)
Montenegro	Rail	6,200,000	EUR	km	2013	World Bank (El-Hifnawi, 2015)
Montenegro	Rail	6,100,000	EUR	km	2013	World Bank (El-Hifnawi, 2015)
Montenegro	Road	360,000	EUR	km	2013	World Bank (El-Hifnawi, 2015)
North Macedonia	Rail	5,900,000	EUR	km	2013	World Bank (El-Hifnawi, 2015)

North Macedonia	Road	330,000	EUR	km	2013	World Bank (El-Hifnawi, 2015)
Serbia	Road	360,000	EUR	km	2013	World Bank (El-Hifnawi, 2015)
Unspecified	Bridge	10,000,000	USD	km	2009	World Bank (Alexeeva 2011)
Unspecified	Canal	30,000,000	USD	km	2009	World Bank (Alexeeva 2011)
Unspecified	Port	360	USD	TEU	2011	World Bank (Ruiz-Nunez, Wei)
Unspecified	Power	250	USD	person	2011	World Bank (Ruiz-Nunez, Wei)
Unspecified	Power Plant	1,400	USD	KW	2010	Banchoux (UNDP)
Unspecified	Power Plant	2,700	USD	kW	2011	World Bank (Ruiz-Nunez, Wei)
Unspecified	Power Plant	2,200	USD	KW	2010	Banchoux (UNDP)
Unspecified	Power Plant	1,800	USD	KW	2010	Banchoux (UNDP)
Unspecified	Rail	18,000,000	EUR	km	2005	Campos (2007)
Unspecified	Rail	4,370,000	USD	km	2009	World Bank (Alexeeva 2011)
Unspecified	Rail	12,140,000	USD	km	2009	World Bank (Alexeeva 2011)
Unspecified	Rail	1,200,000	USD	km	2010	Banchoux (UNDP)
Unspecified	Rail	1,200,000	USD	km	2011	World Bank (Ruiz-Nunez, Wei)
Unspecified	Road	200,000	USD	km	2010	Banchoux (UNDP)
Unspecified	Road	500,000	USD	km	2011	World Bank
Unspecified	Road	1,231,833	USD	km	2009	World Bank
Unspecified	Road	309,344	USD	km	2009	World Bank
Unspecified	Telecom	250	USD	subscription	2010	Banchoux (UNDP)
Unspecified	Telecom	200–300	USD	line	2011	World Bank (Ruiz-Nunez, Wei)

Unspecified	Telecom	90-130	USD	line	2011	World Bank (Ruiz-Nunez, Wei)
Unspecified	Telecom	160	USD	subscription	2010	Banchoux (UNDP)
Unspecified	Telecom	100	USD	subscription	2010	Banchoux (UNDP)
Unspecified	Tunnel	11,000,000	USD	km	2009	World Bank (Alexeeva 2011)

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