

## Institutional Profile of the Ministry of Finance, Montenegro

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### 1. Basic information

Country:	Montenegro
Official name or designation of the institution:	Ministry of Finance, Government of Montenegro
Website address of the institution:	<a href="http://www.ministarstvo-finansija.vlada.cg.yu/">http://www.ministarstvo-finansija.vlada.cg.yu/</a>
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### 2. Background and Objectives of the Institution

In accordance with the Constitution of Montenegro, the Parliament establishes the conceptual organisation of the state administration, whereas the government institutes its organization and principles of work. The Government of Montenegro passed a *Decree on the Organization of and Work Procedures for Public Administration* in July 2004 (Official Gazette of the RoM, no. 54/04, 78/04, 06/05,06/06/32/06, 56/06, 60/06, 72/06, 06/07, 25/07, 32/07, 35/07, 06/07, 16/07), grounding its decision on article 94 (6) of the Constitution and article 24 of the Law on State Administration (Official Gazette of the RoM, no. 38/03).

The most recent government of Montenegro was constituted on 10 November 2006, after which the Decree on the Organization of and Work Procedures for Public Administration was amended, as well as the Decision on Amendments of Rules of Procedures of Work of Government (OG RoM, No. 71/06) and the new Rule Books on organization and systematization of ministries and other state authorities were passed.

The Ministry of Finance's main objectives are to arrange and efficiently govern: the banking system, securities, restitution, the real-estate system, public procurement, preparation/planning/creation/execution of the state budget; oversight of actualization of revenues and execution of state budget expenditures. It is also to propose guidelines and midterm macro-economic framework for budget preparation and planning, monitor settlement of expenditures, and prepare annual budget balance sheet, among others (*Decree on the Organization of and Work Procedures for Public Administration*, Official Gazette RoM, no. 54/04, 78/04, 06/05,06/06/32/06, 56/06, 60/06, 72/06, 06/07, 25/07, 32/07, 35/07, 06/07, 16/07).

The budget system reforms that began in 2006 continued in 2007 and 2008. The year 2007 saw the adoption of the Law Amending and Supplementing the Budget Law, which defines the new institutional position of state funds and regulates, among others, the adoption of the Budget, records, management, preparation and planning, and realization. Furthermore, the Law covers matters of public debt and the current Law on Borrowing and Debt Management of the Public Sector was superseded. The Budget Law of 2008 has been

adopted and it determines the total budgetary funds. Also, for the first time the revenues of state funds - Pension and Disability Insurance Fund, Health Insurance Fund, Development Fund and Employment Agency - were included in the budget.

### 3. Management and Administration

The Ministry's duties and responsibilities are carried out by organizational units, which are defined in the *Rule Book on the internal organization and systematization of the ministry of Finance* (Official Gazette RoM, no. 38/03). There are nine defined and divided units within the Ministry:

1. Minister's Office
2. Department of Budget
3. Department of State Treasury
4. Department of economy, finances, international cooperation and lottery games
5. Department of fiscal and customs systems
6. Department of internal audit
7. Department of corporate and property rights affairs
8. Department of administration, personnel and financial affairs
9. Division of public procurement

The State Budget, which is governed by the Ministry of Finance, is the financial instrument discussed in this profile.

In 2001, the "organic" Budget Law was adopted, which regulates public finance in a more qualitative manner. Consumption of any amount of funds or their use in the way different from that stipulated in the adopted annual Budget Law for the respective year is prohibited, and the use of funds above the permitted level is considered a criminal offense. The principles affecting preparation and execution of the State budget are:

1. The State Budget is prepared on an annual basis and it covers the fiscal year, which is the same as the calendar year.
2. The National Assembly adopts the Budget Law.
3. The State Budget comprises the current budget and capital budget, which presents revenues and expenditures categories by their sources.
4. Revenues are: taxes (personal income tax, corporate tax, property tax, value added tax, excise tax, tax on international trade and transactions, other state taxes); contributions (contributions for pension and disability insurance, contributions for health insurance, contributions for unemployment insurance); duties; compensations; other revenues; receipts from property sales; loans and credits; programme credits; project loans and credits.
5. Expenditures of the current budget are: current expenditures (gross salaries and contributions payable by an employer; other personal income; costs for material and services; current maintenance; interest, rent, subsidies, other expenditures); transfer for social protection; transfers to individuals, institutions, non-governmental and public sector; capital expenditures (for expenditures for the infrastructure of common interest, for expenditures of local self-government funds, for expenditures for construction objects, expenditures for equipment, expenditures for investment maintenance); loans and credits; debt repayments; reserves.

State budget planning is based on economic development and macroeconomic stability projections, as well as economic policy, laws and other regulations. The following rules are practiced in this planning and adoption process (Budget Law, Official Gazette RoM, no: 40/01, 71/05, 12/07):

- In February of the current year, the Ministry of Finance, based on the Guidelines for the preparation of the capital budget adopted by the government, issues an expert manual for drafting the capital

budget of expenditure units and local self-governments, which propose projects for following fiscal year.

- In May of the current year, the Ministry of Finance prepares and submits to the government a Report on the implementation of macroeconomic and fiscal policy for the current year and proposes objectives and guidelines of fiscal policy, on the basis of which the main categories of incomes and expenditures is planned, with estimates for three upcoming fiscal years.
- In June of the current year, the Ministry of Finance, based on the government decision on the objectives and guidelines of fiscal policy, issues an expert manual for the preparation of the budget of consumption units (Ministries, Funds, Public Institutions, etc) for the upcoming fiscal year. On the basis of the estimated revenues and submitted requests for allocation of budgetary assets, the Draft Budget Law is prepared.
- The expenditures units submit requests for allocation of resources to the Ministry of Finance until the end of August of current year.
- The requests (from expenditures units to the Ministry of Finance) contain: current budget, capital budget, programme budget, assessment of expenditures, the explanation and justification of assessed expenditures and long-term contracted obligations or long-term expenditures and sources of funds.
- Ministry of Finance prepares the Budget Law Proposal, which the government approves and sends to Parliament.

The Budget of the Republic of Montenegro contains the current and capital budget, defines the establishment and maintenance of the Consolidated Treasury Account through which all payments are made, as well as defines the use of any budgetary surplus and sources of financing of the budget deficit. It is stated that the planning of the state budget is based on the projections of economic development, macroeconomic stability, economic policy, laws and other regulations.

The Ministry of Finance prepares the Draft Law on Annual Financial Accounts of the state budget and submits it to the government. The Annual Financial Accounts contain, apart from the Report of the State Audit Institution regarding the Annual Financial Account, as well as the opening and closing position of the Consolidated Treasury Account, an overview of deviations from planned amounts, a report on the loans taken, a report on the expenditures of budget reserves and a report on guarantees.

An organizational unit for internal audit has been established in the Ministry of Finance, which should increase accountability and efficiency in the management of state funds. The system for efficient planning and management of the state debt is of key importance for the achievement of fiscal balance.

The Minister of Finance is responsible for budget execution and the budget executor is responsible for the lawful use of funds in the consumption units. Apart from the rules prescribed for redirecting funds planned in the budget up to an amount of 5%, the Minister is also responsible for the manner of use of funds from the current and permanent reserves.

The expenditures units use the allocated resources (to be spent by 31 December of the fiscal year) in accordance with the levels approved by the Ministry of Finance.

The *State Treasury*, formed within the Ministry of Finance, is charged with, among others:

- making payments based on documentation submitted by expenditures units;
- keeping main book of the Treasury;
- managing the accounting system of state receipts;
- preparing the balance sheet of the budget;
- undertaking financial control;
- monitoring the execution of expenditures.

#### 4. Spending Strategies

The main spending strategy of the Ministry of Finance is the annual State Budget. On the other hand, the government of Montenegro, having signed the Stabilization and Association Agreement with the European Union (SAA), in 2007 adopted the Montenegro Economic and Fiscal Programme (MEFP) 2007-2009, an obligation derived from the SAA and representing the medium-term strategic document for national fiscal policy.

Within this framework, the Government has identified the following three key development priorities:

- Encourage sustainable economic development through increasing economic freedoms and strengthening the role of the private sector;
- Strengthen the rule of law as a prerequisite for developing modern institutions of parliamentary democracy; and
- Improve living standards for citizens by providing better public services, through efficient education, health and social protection systems.

The main objectives of fiscal policy in the mid-term framework 2007-2009 are as follows:

- Maintain the overall public debt at a level of 35% of GDP annually – it is planned to repay foreign debt at the average level of EUR 30 million annually, with the aim to reduce it below 30% of GDP.
- Achieve and maintain average real GDP growth of 5.5%.
- Achieve and maintain average inflation rate of 3%.
- Introduce pension system reform and introduce second pillar.
- Reduce tax burden on citizens and economy – through the reduction of personal income tax, profit tax, limitation of the level of local communal fees, abolishment of capital gains tax, introduction of tax reliefs for newly employed workers, reduce contribution rate on gross salaries, etc.
- Undertake significant infrastructure investments – through the introduction of the capital budget in the Republic of Montenegro in 2007 and further increase allocations for capital investments.
- Complete full transfer from line to programme budget – basing not on expenditures, but on results and performance indicators.
- The final objective of this process is to reduce the share of consolidated current public expenditures in GDP to 35% in 2011. This will have an additional positive influence in encouraging the development of the private sector through the lower state redistribution of GDP and the reduced role of the state in the economic life of the country, which will result in a higher level of private sector competitiveness. At the end of the process, there should be an increase in the economic welfare of the population through the increase of overall employment and real wages.

#### 5. Challenges and Future Prospects

Apart from supplementing the legal framework, the implementation of the following important projects that will contribute to the better quality of public finances management in Montenegro, is underway.

- *Medium-term budgetary framework*; The basis for drafting and the application of the medium-term budgetary framework is the reform of the budget preparation and planning process and the introduction of financial ceilings for budgetary beneficiaries over a multi-year period. Budgetary appropriations for a multi-year period would be based on a strategic document of the government and some competent Ministries in accordance with the fiscal framework of total public spending. In this manner, the "bottom-up" method in the budget preparation and planning process would be introduced. The key advantage of introducing the medium-term budgetary framework is reflected in the more stable and feasible fiscal policy, larger capacity for regulation of future budgetary effects/results and improved

possibility of the government to allocate resources within programmes and organizational units, in accordance with its policy and priorities.

- *Continuation of the implementation of the Capital Budget of Montenegro*; Continuation of the implementation of the Capital Budget of the Republic of Montenegro with the introduction of necessary appropriations for two-year period in the Budget Law of the Republic of Montenegro for 2009. In the first half of 2008, the introduction of a plan for five-year capital investments of the Republic of Montenegro is envisaged, based on which a two-year Law on Capital Budget will be proposed. Creation of a database for all projects related to the budget is anticipated.
- *Continuation of the implementation of the Programme Budget*; With the implementation of the Programme Budget in Montenegro, a model of the Budget Programme is represented indicating the main activity (programme) or group of activities (sub-programmes) that are realized through spending units. The introduction of a logical programme classification for the entire budget is planned with the Reform of the Programme Budget, and preparation of the IT system for monitoring and execution of the budget according to the programme structure. In 2008, the linear budget will be changed to the Programme Budget; thus, the budget for 2009 will be prepared in the programme structure.
- *Public debt management*; The public debt of Montenegro has been significantly reduced in the past few years thanks to the successful reprogramming of inherited debt and to revenues from privatization. At the end of 2006, public debt was reduced to EUR 701 million or 32.2% of GDP, with high state deposits in banks and the Central Bank of Montenegro. New borrowing is mostly done to finance projects from international financial institutions – mostly European.

## 6. Budget plans and expenditures of spending units dealing with environmental issues

The State Budget encompasses major spending units that have programmes in relation to environmental issues:

- Ministry of Tourism and Environmental Protection (previously Ministry of Environmental Protection and Physical Planning) (<http://www.vlada.cg.yu/eng/mintur/>);
- Public Institution for National Parks (<http://www.nparkovi.cg.yu/>);
- Public Institution for Eco-toxicological Research (<http://www.ceti.cg.yu/>);
- Hydro-meteorological Research Institute (<http://www.meteo.cg.yu/>);
- Regional Waterworks Montenegro (<http://www.pewmc.com/>);

In absence of a systematic collection of information specifically referring to different environmental categories revenues and expenditures, the State Budget and the Law on Final Accounts of the Republic of Montenegro were the source of data presented in the report. Data presented are exclusive of staff gross salary, other income and remunerations of employees, non-charged transfers and welfare allowances, whereas the focus was given to expenditures for supplies and services and capital spending in the period 2002-2006. It should be noted, however, that budget planning of the abovementioned spending units in the aforementioned period, has not been programme-oriented and thus budget items are not defined at the level of specific project or activity related to environmental protection.

General remarks and comments:

- In the period of 2005-2008, the Ministry of Tourism and Environmental Protection (previously Ministry of Environmental Protection and Physical Planning) did not fully utilise the allocated budget resources for the contracted services and materials that influenced to some extent even stronger accomplishments in the protection of environment and remedying certain environmental problems in Montenegro (See Table 1).

**TABLE 1: Contracted services of spending units connected with environmental issues (data in EUR)**

Budget category 4139 – contracted services

year	Institution	Ministry of Environment and Physical Planning	Centre for Eco-Toxicological Research	Public Enterprise for Ntl Parks	Hydro-meteorological Institute	Regional Waterworks Montenegrin Coast	Total
2002	planned	1,178,527.80	0	102,259.00	31,785.00	76,694.00	1,389,265.80
	executed	945,889.98	0	102,258.38	35,790.43	0	1,083,938.79
2003	planned	546,000.00	0	25,000.00	197,000.00	5,500.00	773,500.00
	executed	360,000.00	0	25,000.00	34,000.00	0	419,000.00
2004	planned	661,164.00	0	26,787.0	158,448.00	0	846,399.00
	executed	518,667.79	0	26,787.0	50,535.08	0	595,989.87
2005	planned	2,083,637.12	0	25,684.0	210,803.00	99,125.00	2,419,249.12
	executed	1,894,705.2	0	25,684.0	119,445.4	44,432.20	2,084,266.80
2006	planned	1,868,392.11	0	0	0	0	1,868,392.11
	executed	1,351,930.14	0	0	0	0	1,351,930.14

The revenues from existing, enforced eco-taxes (car registration, polluter pays) have exhibited positive trends in the past 3 years (see data below). This trend will continue in 2008, when yearly revenues are expected to reach EUR 2.9 million:

- 2005: ca. EUR 1.3 million
- 2006: EUR 1.9 million
- 2007: EUR 2.2 million
- 2008 (expected): EUR 2.9 million

#### Annex: Abbreviations used in this profile

EUR	Euro (currency)
GDP	gross domestic product
MEFP	Montenegro Economic and Fiscal Programme
RoM	Republic of Montenegro
SAA	Stabilization and Association Agreement with the European Union