



**Parliament of Montenegro  
Parliamentary Institute  
Research Centre**

Research paper:

**MONTENEGRO: Budget transparency and accountability and the role  
of the Parliament**

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Prepared by: Research Centre – Parliamentary Institute

*\* The contents of this document do not reflect the official views of the Parliament of Montenegro.*

*\*\* All expressions used in this paper for natural persons shall refer equally to both men and women.*

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## INTRODUCTION

The planning and execution of the budget, fiscal responsibility, loans and guarantees and other issues of importance for the budget of Montenegro and budgets of local self-government units are regulated by the *Law on Budget and Fiscal Responsibility*<sup>1</sup>, which was adopted by the Parliament of Montenegro on 14 April 2014. The new Law, which replaced the old Budget Law, introduced novelties related to: fiscal policy and accountability, responsibility of budget executors as well as measures, inspections and penalty clauses.

The Law stipulates that the *fiscal strategy for Government's term of office* is proposed by the Government and adopted by the Parliament. This document defines the main fiscal targets to be achieved in the medium term and presents the basis for medium-term planning and annual policies. The new strategy is expected to be submitted in the upcoming period, for the first time. Based on the fiscal strategy, the Government shall issue guidelines for fiscal policy, upon proposal of the Ministry of Finance. The fiscal policy guidelines are adopted annually for a period of three years and include: medium-term strategic goals of economic and fiscal policy, the basic macroeconomic and fiscal indicators and projections, consumption limit, levels of gross wages and other personal income, expenditures for pension and disability insurance, and other expenditures for social protection. Also, the Law defines the institute of a budget inspector, its scope of duties and authority.

Parliamentary discussion on budget is the only public discussion taking place in front of the citizens' eyes and, therefore, parliamentary representatives need to have enough time to prepare and use the discussion during the parliamentary plenum to offer clear enough and relevant information on such an important document. The new Law introduced new deadlines for Government to submit the state budget proposal and final account of the state budget proposal to the Parliament of Montenegro, thus, allowing now parliamentarians more time to study the material and prepare better for discussion.

### **I. What is Budget transparency and accountability and why is it important?**

Decisions made regarding the use of state funds and manner of execution of budget funds have a significant impact on people's lives.

Mounting evidence shows that the best way to manage public funds efficiently and equitably is through budget systems that are transparent, inclusive, and monitored through strong, independent oversight institutions. On the other hand, lack of fiscal transparency and limited public participation and oversight can undermine fiscal discipline, increase borrowing costs, and promote opportunities for corruption and other leakages.<sup>2</sup>

The OECD in its document *OECD Best Practices for Budget Transparency*, defines transparency as "openness about policy intentions, formulation and implementation which is a key element of good governance". Furthermore, it states that the budget is "the single most important policy document of governments, where policy objectives are

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<sup>1</sup>*Law on Budget and Fiscal Responsibility* "Official Gazette of Montenegro", no. 20/14 of 25 April 2014, no. 56/14 of 24 December 2014

<sup>2</sup> *The State of Budget Transparency, Participation, and Accountability: Findings from the Open Budget Survey 2015*, the World Bank, September 10, 2015

<http://www.worldbank.org/en/events/2015/09/10/the-state-of-budget-transparency-participation-and-accountability-highlights-trends-and-challenges-findings-from-the-open-budget-survey-2015>

reconciled and implemented in concrete terms. Budget transparency is defined as the full disclosure of all relevant fiscal information in a timely and systematic manner”.<sup>3</sup>

## II. What are the current policies regarding Budget transparency?

In December 2015, the Government of Montenegro adopted a national level strategic document, the Public Finance Management Reform Program 2016-2020, together with a detailed Action Plan for the implementation of the Program.

This strategic document states that budgeting in Montenegro is based on transparent legal provisions, founded upon the Constitution, Law on Budget and Fiscal Responsibility, and/or related laws. Additionally, the current legislation covers all aspects of good budgeting practice, including definition of public funds, use of a single treasury account and the role of the Parliament.

According to this strategic document, although a satisfactory level of transparency and control has been established, there are certain issues that need to be addressed, which are mainly related to the comprehensiveness, quality, integrity and accuracy of budget information. An example given is the lack of integration of financial information and information relating to the policy, less transparency of the capital budget, the fact that only aggregate data are available in some reports on budget execution during the year and that there is no clearly articulated Public Finance Management Reform Program.

Furthermore, the possibility of implementing some small-scale activities that will aim to increase transparency by providing better visual presentation and dissemination of information on the budget will also be analyzed in the upcoming period.<sup>4</sup>

Some NGOs have been criticizing that the state budget is not citizen-friendly. Therefore, in order to increase transparency and make the state budget more citizen-friendly, the Ministry of Finance has been aiming to promote an understanding of the budget process by individual citizens and non-governmental organizations. One such initiative started by a local NGO within the project called "Promoting Financial Accountability in Montenegro", where a portal was created to provide a citizen-friendly state budget.<sup>5</sup>

*The annual state budget proposal is submitted to the Parliament in line with the Law on Budget and Fiscal Responsibility and the process of its adoption in the Parliament is very much transparent. Besides the annual budget proposal, which is posted on Parliament's website, the website also contains all proposed amendments to the budget proposal, opinions of Parliament's working bodies, as well as the adopted version of the budget. The budget debate process in the Parliament is also transparent in terms of sittings and meetings regarding the state budget being open to public, various institutions being invited to provide information, suggestions on the budget proposal.*

*In practice, working bodies (committees) organize meetings to discuss budget in relations to their field of expertise, where representatives of relevant ministry participate in the debate.*

## III. What is the level of the Budget transparency according to international standards (Open Budget Survey)?

Montenegro does not participate in the Open Budget Survey.

<sup>3</sup> OECD Best Practices for Budget Transparency, OECD, 2002, pg. 7

<sup>4</sup> Public Finance Management Reform Program 2016 – 2020, adopted by Government of Montenegro in Dec. 2015

<sup>5</sup> Portal "Gdje ide moj novac?" <http://mojinovac.me/#!/home>

#### **IV. What is the Parliamentary oversight and control of the budgetary process?**

The Government of Montenegro submits the annual Proposal of the Law on State Budget (annual state budget proposal) to the Parliament by 15 November (*Law on Budget and Fiscal Responsibility, Article 33, paragraph 1*). The proposal is accompanied with proposals of financial plans with work plans of independent regulatory bodies, for adoption.

By the end of June, the Government determines the Proposal of the Law on Final Account of the State Budget and submits it to the State Audit Institution, which submits a report on audit of the final account of the state budget to the Parliament by 15 October of the current year for the previous fiscal year. The Government submits the Proposal of the Law on Final Account of the State Budget to the Parliament by the end of September.

The Committee on Economy, Finance and Budget is the Parliament's working body in charge of reviewing the annual state budget and final account of the state budget. Other parliamentary working bodies, in line with their competencies, discuss parts of the state budget under their jurisdiction, and provide opinion to the lead Committee (Committee on Economy, Finance and Budget). The lead Committee, in accordance with Article 138 of the Rules of Procedure of the Parliament of Montenegro, considers opinions that are submitted by other committees, and provides its position and report to the Parliament based on committees' opinion. In this regard, ten parliamentary working bodies submit their opinion on the annual state budget proposal to the Committee for Economy, Finance and Budget.

When considering the annual state budget proposal, in practice, the Committee also consults with academic community, trade unions, businesses and other stakeholders. The State Audit Institution and the Central Bank of Montenegro submit to the Committee their opinion on the proposed state budget. Namely, in accordance with good practice, the Committee discusses, in a two-day meeting, the annual state budget proposal such that the first word is given to the representatives of the budget proposal and invited guests, followed by discussion involving MPs and representative of the law proposal.

At its disposal, the Parliament also has some other mechanisms for budget execution oversight, such as through the Prime Minister's Hour and MPs Questions. In line with the Parliament's Rules of Procedures, for the purpose of obtaining necessary information about certain issues concerning the Government's performance, a Member of the Parliament shall be entitled to put a parliamentary question to the Government or a responsible minister and be responded to.

Please see more details about the oversight and control function of the Parliament in the following chapter.

### ***Projects to strengthen oversight and control of the budgetary process***

The Montenegrin Parliament and Westminster Foundation for Democracy (WFD) signed, on 19 May 2016, a *Memorandum of Understanding* between the Parliament and WFD in order to form a Parliamentary Budget Office through the program "Strengthening financial oversight of the Parliament of Montenegro", funded by WFD and supported by the British Embassy in Podgorica.

The program, *inter alia*, envisages three goals:

- establishment of the Parliamentary Budget Office, which will provide expert and technical support to parliamentary committees in order to facilitate their financial oversight;
- promoting parliamentary financial oversight by strengthening financial and budgetary role of the Committee on Economy, Finance and Budget;
- in accordance with capabilities and capacities, providing comprehensive financial and technical support to staff employed in parliamentary committees, mainly related to new legislation and key policy issues.

Following a practice of the most developed parliaments, the project intends to create expertise that will allow the Parliament to significantly participate in the budget cycle, and MPs to be supported through analysis and during discussion of key budget documents and laws with significant fiscal impact.

## **V. What is the role of the State Audit Office as a mechanism of the Parliaments in providing oversight and control of the execution of the State Budget?**

The State Audit Institution (*Državna revizorska institucija*)<sup>6</sup> is a supreme organ of state audit in Montenegro and one of the most important partners of the Parliament's Committee on Economy, Finance and Budget in exercising control over public spending. It is an institution, established in 2004 through adoption of the Law on State Audit Institution<sup>7</sup>, which has made an immeasurable contribution to the strengthening of legality and effectiveness of the management of state assets and liabilities, budgets and all financial affairs of subjects whose financial resources are public or issued by using state assets, as defined in the Constitution.

The State Audit Institution (SAI) submits a Report on the audit of the final account of the state budget to the Parliament by 15 October of the current year for the previous fiscal year (*Law on budget and fiscal responsibility, Article 67, paragraph 1*).

By the end of October, according to the Law on State Audit Institution, the State Audit Institution shall also submit to the Parliament the Annual Report on performed audits and activities of SAI for the period October of the previous year - October of the current year, to include: report on the audit of the state budget; report on the implementation of the conclusions (conclusions are made based on the recommendations of SAI and Committee on Economy, Finance and Budget of the Parliament of Montenegro) on the occasion of the

<sup>6</sup>The State Audit Institution of Montenegro

[http://www.dri.co.me/1/index.php?option=com\\_content&view=article&id=75&Itemid=53&lang=en](http://www.dri.co.me/1/index.php?option=com_content&view=article&id=75&Itemid=53&lang=en)

<sup>7</sup>Law on State Audit Institution "Official Gazette of the Republic of Montenegro", no. 028/04 as of 29 April 2004, 027/06 as of 27 April 2006, 078/06 as of 22 December 2006, "Official Gazette of Montenegro", no. 017/07 as of 31 December 2007, 073/10 as of 10 December 2010, 040/11 as of 08 August 2011, 031/14 as of 24 July 2014

adoption of the final account; excerpts from reports on individual audits performed in that period, as well as the activities of SAI.

After the Parliament receives the abovementioned acts, the Committee of Economy, Finance and Budget organizes a meeting inviting relevant representatives of the Government, i.e. the Ministry of Finance, as well as representatives of the State Audit Institution, which in practice debate for two days on the Proposal of the Law on Final Account of the State Budget and SAI findings.

Special emphasis is placed on the implementation of conclusions of the Parliament adopted based on SAI recommendations and views of the Committee on Economy, Finance and Budget.

Bearing in mind the importance of fulfillment of Parliament’s conclusions and SAI recommendations, which eliminate disadvantages and aim to improve public spending, the Committee has organized special meetings at which it considered the degree of realization of aforesaid conclusions. The Committee examined information on implementation of the Action Plan for the implementation of SAI recommendations to be submitted quarterly, with the presence of the Minister of Finance, who is also president of the Coordination Team for monitoring the implementation of SAI recommendations, and members of the SAI Senate. Upon this, the Committee reported to the Parliament through Report on reviewing Proposal for a Law on final account of the state budget. For the past few years, it has been a practice that the Government quarterly inform the Parliament and SAI about realization of recommendations and conclusion of the Parliament, provided for in the SAI’s annual report.

In 2014, for the first time, in cooperation with SAI, the Committee organized control hearings (one of the mechanisms defined in the Rules of Procedure of the Parliament of Montenegro) with those audited entities that have received a negative opinion by SAI. From then on, the Committee has a practice to hold control hearing with those audited entities that received negative opinion by SAI.

**Table 1:** Number of adopted conclusions by Parliament upon debate on the Proposal of the Law on Final account of the state budget

| Debate year | Budget final account | 2010 for 2009 | 2011 for 2010 | 2012 for 2011 | 2013 for 2012 | 2014 for 2013 | 2015 for 2014 | 2016 for 2015 |
|-------------|----------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Conclusions |                      | 17            | 9             | 17            | 7             | 11            | 11            | 12            |

The Government of Montenegro submits the annual Proposal for a Law on State Budget to the Parliament by 15 November (*Law on Budget and Fiscal Responsibility, Article 33, paragraph 1*).

Article 6 of the Law on State Audit Institution states that, in the state budget adoption process, the Institution gives to the Parliament a review of its findings on the budget and assets situation, indicates the causes and consequences of any major deficiencies and irregularities and proposes measures for their elimination.

In practice, guided by good cooperation between SAI and Committee, when considering the state budget proposal, the Committee also invites representatives of SAI to attend the committee meeting and provide overview of the proposed budget.

As a result of good cooperation between the Committee and SAI, and respecting, *inter alia*, the need to strengthen financial autonomy of SAI, in 2014, an inter-agency working group

composed also of members of the Committee, submitted to the Committee on Economy, Finance and Budget a proposed text for possible amendments to the Law. The Committee suggested to the Parliament, in July 2014, to adopt the Proposal for a Law on Amendments to the Law on State Audit Institution.

*Inter alia*, the proposed amendments to the Law on SAI established a protective mechanism of financial independence of the SAI, in the event that the Government, through annual budget proposal, make changes in Institution's draft budget that is determined by competent working body of the Parliament. In this case, the Government submits to the Parliament, in the process of adoption of the state budget, a written explanation stating the reasons for effecting the changes in the amount or structure of the budget of the SAI.

The Committee has, so far, always supported the proposal of the institution and forwarded such a request to the Ministry of Finance and the Government.

## **VI. What are the challenges and needs of improving the budgetary process?**

Given the wide competence of the Committee for Economy, Finance and Budget, during the previous convocation, it has been envisaged to establish a subcommittee on the budget; however, such has not happened. In the future, this remains a possibility, as well as the possibility of dividing the Committee for Economy, Finance and Budget into two committees, when one of them would be in charge only with issues related to the budget. The Government of Montenegro has the obligation to provide information when it comes to the implementation of the budget; however, implementation of the budget execution throughout the year remains a challenge. In the past, the Parliament has been adopting conclusions, which enabled it to follow execution of the budget; however, the issue of effectively and efficiently following conclusions has to be overcome.

Proposing guidelines and medium-term macroeconomic framework for the budget preparation and planning, as outlined in the Law on Budget and Fiscal Responsibility, needs to be improved.

It is necessary to set as an obligation that state institutions must have their budgets published on their websites and, if possible, in citizen-friendly manner. In addition, institutions would be obliged to explain to citizens where their budget will be spent. There are two ways to do this: by presenting the data visually and by narrative explanation of the budget.

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