PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) - PERFORMANCE ASSESSMENT REPORT

MONTENEGRO

December 2019

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Acknowledgments

The World Bank, PEFA Assessment team gratefully acknowledges the extensive cooperation and assistance from officials of the Government of Montenegro. In particular the team would like to recognize the leadership exercised by the Ministry of Finance in coordinating the assessment. The Assessment team greatly appreciates the contributions of all institutions and participants that took part in assessment meetings and interviews and attended the launch and dissemination workshops. The team likewise values the guidance received from the World Bank management, and extended cooperation by the Delegation of the European Union in Montenegro.

Prepared in line with the 2016 PEFA Framework

Successive Assessment (previous PEFA assessments in 2009 and 2013)

Country's currency: Euro
Indicative exchange rate: 1 EUR = 1.145 USD (as of December 31, 2018)

Government's fiscal year: January 1 to December 31

MONTENEGRO PEFA ASSESSMENT 2019

The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the '**PEFA CHECK'**.

PEFA Secretariat
January 6, 2020

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Abbreviations and Acronyms

AV	Average
BCG	Budgetary Central Government
CA	Customs Administration
CBA	Cost-benefit Analysis
CBM	Central Bank of Montenegro
CCPP	Commission for the Control of Public Procurement
CDCIPL	Commission for Determining Capital Investment Priority List
CEBF	Committee for Economy, Budget, and Finance
CG	Central Government
CHD	Central Harmonization Directorate
CIT	Company Income Tax
COFOG	Classifications of Functions of Government
COSO	Committee of the Sponsoring Organizations of the Treadway Commission
CSO	Civil Society Organization
DCB	Decision on Capital Budget
DEU	Delegation of the European Union to Montenegro
DMS	Debt Management Strategy
DPC	Department for Payroll Calculations
EA	Economic Analysis
EBU	Extra-budgetary unit
EC	European Commission
ERP	Economic Reform Program
EU	European Union
FY	Fiscal Year
GDP	Gross Domestic Product
GFS	Government Financial Statistics
HRM	Human Resource Management
HRMA	Human Resources Management Administration
IAU	Internal Audit Unit
IDF	Investment and Development Fund
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPA	Instrument for Pre-Accession Assistance
IPPF	International Professional Practices Framework
ISA	International Standards on Auditing
ISO	International Standards Organization
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
LBFR	Law on Budget and Fiscal Responsibility
LFLSG	Law on Financing of Local Self-Governments
LSP	Law on State Property
M1(WL)	PEFA Weakest Link Scoring Methodology
M2(AV)	PEFA Average of Dimensions Scoring Methodology
MoF	Ministry of Finance
MMM	Macro-econometric Model
MTMA	Ministry of Traffic and Maritime Affairs

PAR	Public Administration Reform
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMRP	Public Financial Management Reform Program
PI	Performance Indicator
PIT	Personal Income Tax
PIC	Public Internal Control
PPA	Public Procurement Administration
PPL	Public Procurement Law
PPP	Public-private Partnership
SAFE	Strengthening Accountability and Fiduciary Environment
SAI	State Audit Institution
SDP	Strategic Development Plan
SIGMA	Support for Improvement in Government and Management
STA	Single Treasury Account
SNG	Subnational Government
TA	Tax Administration
VAT	Value Added Tax

Executive summary

Purpose and management

The purpose of this assessment was to provide the Government of Montenegro with a snapshot of the performance of the public financial management system in line with the standardized methodology as prescribed by the PEFA Framework 2016 (and accompanying tools and instructions), which assesses the public financial management (PFM) system across seven pillars and 31 indicators.[1] The purpose of the assessment report is to inform the government about the PFM's strengths and areas for improvement, in order to inform future reform plans and actions taken to build a reliable and efficient PFM system. Two PEFA assessments have been carried out in Montenegro to date, in 2009 and 2013. This is the third PEFA external assessment and the first to use the 2016 Framework, thereby both setting the baseline scores according to the most recent PEFA methodology and providing an update on performance changes using the 2011 Framework.

The assessment has been conducted by the World Bank, in collaboration with the Government of Montenegro and the Delegation of the European Union to Montenegro (DEU), with financing from the SAFE Trust Fund. The assessment team included World Bank staff, expert consultants, and a representative of the Ministry of Finance (MoF). The oversight team included the MoF, the World Bank, and the DEU. Country institutions participated in trainings on PEFA methodology,[2] provided source data and information, and gave constructive feedback to the draft assessment report. Quality assurance arrangements followed the PEFA CHECK requirements. The assessment's concept note and draft report were peer reviewed by the MoF, the World Bank, the PEFA Secretariat, and the DEU.

Scope, coverage, and timing

The assessment covers the central government (CG) of Montenegro. Central government includes budget users/spending units as defined by the Law on Budget and Fiscal Responsibility (LBFR). Spending units include first tier spending units, which comprise the ministries, state funds (organizations for mandatory social insurance), and independent spending units (government entities financed from the budget which are not part of ministries). First tier spending units can have in their responsibility certain indirect budget users, such as public institutions (schools, hospitals etc.), which are also part of the central government and in the scope of the assessment. The assessment likewise covers extra-budgetary operations of the central government. Extra-budgetary units are Investment and Development Fund and four regulatory agencies[3]. Local self-governments and public corporations are outside of the scope of the assessment, apart where linked to the performance of the central government, such as in PI-7 and PI-10.

The assessment examines the PFM system performance in fiscal years 2016, 2017, and 2018. This scope applies to all dimensions covering the last three completed fiscal years, with fiscal 2018 the "last completed fiscal year" assessed in number of dimensions. The assessment was carried out from March 2019 until September 2019, with June 30, 2019 the cut-off date for dimensions/indicators assessed "at the time of assessment."

[1] 31 indicators include 94 dimensions rated on a four-point ordinal scale: A, B, C and D, and dimension scores are aggregated for the overall indicator score based on one of the two methods: Weakest link: M1 (WL) or Average method: M2 (AV).

[2] The assessment started with the training on application of the PEFA Framework delivered on March 11 to March 12, 2019, by the PEFA Secretariat and the World Bank.

[3] Regulatory Agency for Telecommunications, the Broadcasting Regulatory Agency, the Agency for Drugs and Medical Supplies, and the Regulatory Agency for Energy.

Summary assessment of PFM performance

The assessment shows mixed performance across different PFM processes and institutions covered by the PEFA's seven pillars and 31 indicators. Fundamentals of the PFM system are in place and core functions are performing at the higher end of the assessment scores. These fundamentals and core functions relate to budget reliability, transparency of budget and fiscal information, revenue mobilization and budget execution, internal control and internal audit (IA), external audit and parliamentary scrutiny and, to certain extent, accounting and financial reporting. On the other hand, more advanced elements of PFM system demonstrate room for further improvement and continued strengthening. Preserving efficient and reliable fundamentals while developing additional capacity for advanced PFM practices can enhance the management of public finances in the long run and contribute to the country's broader goals, such as economic growth and efficient public service delivery. Areas for further improvement include the linkage between strategic plans and budget resources; medium-term perspective in planning and budgeting; management of public investments, assets, and fiscal risks; and meaningful performance measurement and evaluation.

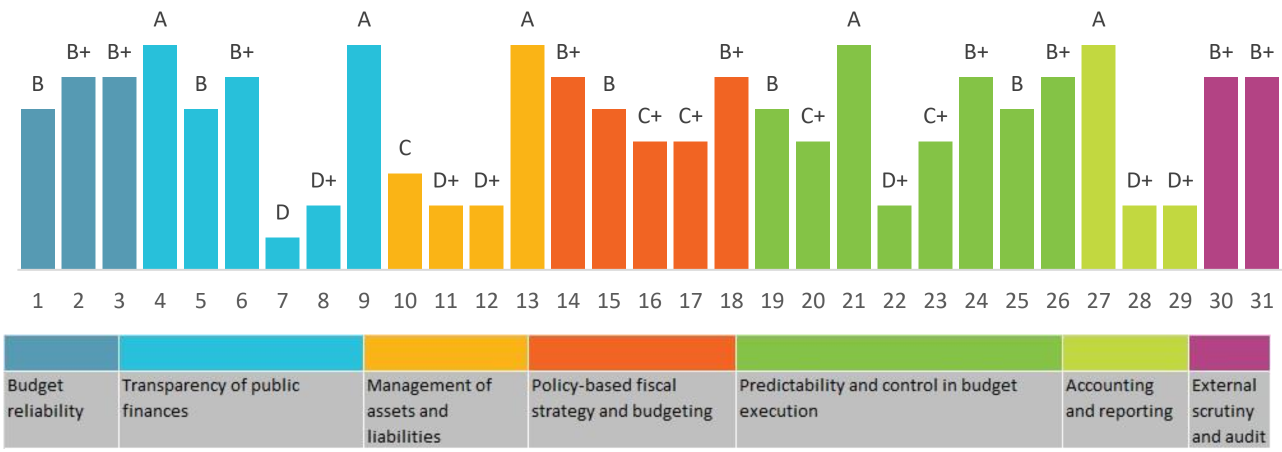
Key findings and conclusions from the integrated assessment of PFM performance are:

- The annual budget is largely reliable and credible, with deviations in revenue and expenditures outturn and composition remaining within manageable levels.
- Fiscal information is transparent and accessible to the public. The budget is comprehensive, with low extent of extra-budgetary operations, and is presented informatively, with a full array of relevant budget classifications. Lack of meaningful program budgeting is detrimental to the provision of information on performance of service delivery.
- There is no established functioning system for monitoring and managing fiscal risks that arise from the operations of state-owned enterprises, sub-national governments, public-private sector partnerships (PPPs), natural disasters, and other potential risks.
- Management of public investments is weak in all stages of the cycle. Identification, economic analysis, appraisal, selection, costing and implementation monitoring are all either deficient or not performed. The Montenegrin legislative framework (the Decision on Capital Budget (DCB)) includes provisions that, if implemented, would strengthen the system and the process, but nevertheless enforcement so far has been poor.
- The register of non-financial assets is in early stages of development, therefore there is no complete and accurate data on non-financial assets.
- The Montenegrin debt management framework and practices are adequate in terms of recording, reporting, and approving debt and guarantees.
- Strategies and medium-term plans are developed, but they are not fully operationalized through the budgeted activities, there is a weak link between strategic objectives and budget priorities and allocations.
- Revenue administration effectively focuses on promoting voluntary compliance through dissemination of comprehensive and timely information to taxpayers. Documented compliance improvement plans are in place and an increasing number of planned tax audits are carried out on the basis of structured, risk-based approaches. Despite evident improvements, tax arrears remain an area of concern.
- Performance in terms of predictability and availability of funds scored well, enabling effective and undisrupted budget execution. Spending units are allowed to commit funds up to the value of annual budget allocations and can make payments up to the value of their monthly apportionment limits.
- Compliance with payment rules and procedures is fairly high, but issues related to commitment control and concerns regarding the potential for spending units to enter contractual obligations

beyond their annual budget limits persist. Information on expenditure arrears is collected regularly and suggests a low level of arrears, although the lack of a clear definition of arrears and of centralized records to support monitoring and reporting bring the reliability of underlying data into question.

- The centralized payroll system in the MoF is functional, but it would benefit from broader coverage and better integration between personnel and payroll records.
- The Montenegrin framework for and management of procurement are relatively sound with regard to procurement monitoring, methods used, public information, and complaints mechanisms.
- Internal audit is fairly well rated in terms of its coverage, nature of individual engagements, standards applied, conduct of planned audits, and response to internal audit recommendations.
- Financial statements produced on a cash basis, are accurate, timely, and frequent. Completeness of financial reports is an issue, since they are prepared on a cash basis and do not present information on assets and liabilities (apart from the report on unsettled commitments/liabilities).
- The external audit performed by the State Audit Institution (SAI) is an area of strength. The SAI's independence is protected in the constitution and it works within a legal framework that provides a relevant remit and coverage, with ongoing efforts to ensure alignment with the relevant international standards.
- Legislative scrutiny of both budgets and audit reports, as codified in procedures and implemented in practice, is timely and largely adequate.

Chart 1. PFM Performance Indicators



Impact of PFM on budgetary and fiscal outcomes

The PEFA assessment measures the extent to which the PFM system supports the achievement of three key outcomes: aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery.

Aggregate fiscal discipline. Annual budgets are generally reliable, transparent, and presented by all relevant classifications, with little use of unreported extra-budgetary operations, which positively impacts aggregate fiscal discipline. Overall revenue administration is improving and the stock of tax arrears is being gradually reduced. The budget execution system is sound, and appropriate budgetary controls ensure that execution remains within the approved budget allocations, with limited use of contingency votes. Debt management practices are generally sound. Payroll controls, albeit highly decentralized, have mitigated the risk of an excessive total wage bill. On the downside, monitoring of expenditure arrears suffers from data reliability issues but overall arrears seem contained below five percent. Beyond the annual perspective, PFM functions required to maintain aggregate medium-to-long term fiscal discipline—including capital budgeting and medium-term perspective in budget planning, fiscal risk oversight, and management of public assets—scored on the weaker end of performance scale.

Strategic allocation of resources. An acceptable level of annual deviations in revenue and expenditure composition ensured orderly execution for the priorities and policy objectives included in the budget. On the upside, predictability of resource allocation for service delivery and the ability to track resources across a full spectrum of budget classifications contributed to stable funding for in-year priorities. Procurement management is fairly adequate, supporting the budget execution process for strategic allocations. At the same time, the approved annual budget does not necessarily reflect the policy objectives articulated in sectoral strategies, which therefore are only in some cases operationalized through concrete activities funded from the budget. Overall, the link between high level strategic and policy objectives and the annual and multi-annual budgets remains weak. Evidence of weaknesses in planning, monitoring, and reporting of service delivery limit stakeholders' perspectives on the effectiveness of spending. Better management of investment, including improved factoring into the budget process of the recurrent cost implications of investment, and more stringent economic analysis in order to generate the best return would provide a better perspective on the fiscal space available for strategic priorities.

Efficient service delivery. A reliable budget execution system ensures that budget allocations intended for service delivery are executed in an orderly manner. Overall, efficient revenue administration ensures availability of planned funds for service delivery. Level of deviations in the composition of expenditures is acceptable, hence the risk of reallocation of funds budgeted for service delivery for other purposes is low. Information on resources received by service delivery units is available for both the budget source of financing and, in general, for own source revenue. On the downside, underdeveloped performance management concept and practices, largely influenced by underdeveloped program budgeting, represent a weakness. This leads to failure in the monitoring and evaluation of results and the impact of budget programs, which is a prerequisite for further strengthening of service delivery.

Performance changes

The current assessment provides an analysis of performance changes through a comparison with the 2013 assessment.[4] Fifteen out of 28 performance indicators kept the same rating, eleven indicators registered improved scores due to improved performance, and only two indicators showed deteriorated scores. For two indicators with lower score (PI-4 Stock and monitoring of expenditure arrears and PI-18 Effectiveness of payroll controls), judgment and interpretation were applied, which resulted in registering lower scores than the previous assessment, although there was no substantive performance change. On the other hand, PI-9 Oversight of aggregate fiscal risk from other public sector entities, registered the same score due to the method (weakest link) used, but in fact the performance deteriorated.

The performance demonstrated an overall tendency of improvement. Main performance improvements were observed in (i) budget reliability, (ii) extent of unreported government operations, (iii) taxpayer registration and tax assessment, (iv) procedures for contracting and reporting debt and issuing guarantees, (v) improved procurement management, (vi) effective internal controls, and (vii) strengthened IA, external audit, and parliamentary scrutiny.

[4] Given that the 2013 assessment was conducted in line with the PEFA 2011 Framework, while the current assessment uses the PEFA 2016 Framework, the analysis of performance change in line with the PEFA Secretariat's guidance was done by assessing the indicators under the PEFA 2011 Framework with the available data for the current assessment. Details are presented in Annex 4.

Since performance changes had a tendency to show improvement, they impacted the fiscal and budgetary outcomes in a positive way. More reliable budgeting, budget execution, and revenue administration contribute directly to enhanced aggregate fiscal discipline. Those improvements ensure that resources for strategic allocations and service delivery are planned properly, made available, and executed without disruptions. Comprehensive and credible budgeting with a low level of unreported government operations also positively impacts aggregate fiscal discipline. Likewise, enhanced procedures for debt financing and reporting and a sound system for issuing guarantees ensure optimized and safeguarded use of budget funds. Oversight, control, and scrutiny exercised by the external auditors, internal auditors, and the parliament create an accountable environment and contribute to ensuring a disciplined use of public resources that are strategically allocated, thus enabling efficient service delivery. On the downside, lack of appropriate monitoring of the fiscal risks arising from local governments' operations and other sources of potential concern is detrimental to fiscal discipline, due to the incremental risk of unexpected burdens on the budget needed to respond to materialized fiscal risks.

PFM reform agenda

Montenegro is undertaking an ambitious PFM Reform Program (PFMRP) covering the period 2016–20, with institutionalized structures for implementation, coordination, and monitoring. PFMRP is a sub-set of a broader Public Administration Reform (PAR) Strategy, and represents an overarching strategic framework that aims to ensure sound PFM and fiscal sustainability in line with European Union (EU) accession priorities. MoF is the lead implementing agency, with critical roles assigned to the revenue collecting agencies and external auditors and on the understanding that the implementation is linked with all budget users in the public sector. PFMRP objectives are defined and grouped under the following PFM areas: (i) sustainable fiscal framework, public expenditures planning, and budgeting; (ii) budget execution; (iii) development of public internal financial control; (iv) transparent financial reporting and accounting; and (v) the strengthening of external audit capacities.

Despite delays and moderate implementation rates of the PFMRP overall, 2018 and 2019 progress reports indicate that important results have been accomplished in some areas. In 2017-18, the government reported an implementation rate against performance indicators and an activity level at 50 percent on average. Reported results note progress across a number of areas, including improvements in the legal framework for capital budget planning, the macroeconomic model, efficiency in TA operations and revenue collection, collections by the CA, capacity for public internal financial control, debt management, and the external audit function. Some of the corresponding performance improvements are shown in higher scores at dimension and indicator levels in Section 3, while other reforms are yet to materialize. At the same time, civil society organizations' and non-public third-parties' assessments have been critical of the pace and scope of the government's efforts, in particular the failure to implement the electronic registry of state assets, strengthen the preconditions for meaningful program budgeting, introduce a more accurate overview of capital budgeting projects, and address the delays in the establishment of an electronic public procurement system.

Reform actions address PFM elements that were identified as areas for improvement by the PEFA assessment. Specific measures under the five priority areas listed above aim to address some of the areas of weakness recognized in the PEFA report. The LBFR introduced amendments that prescribe the introduction of a medium-term, three-year budget starting from 2020. The new DCB, which was adopted in 2018, brought an improved framework for capital budgeting and public investment management, expected to be enforced during 2020. Efforts also are underway to strengthen program budgeting by developing clear objectives and performance indicators and by establishing a system for measuring results, but the establishment of a full-fledged system for performance management still appears to be in a distant future. Reform and transition to accrual accounting is also underway, with the law that provides Montenegro a framework for transition expected to be adopted by the end of 2019. Considerable support to implementation of the above reforms is available from externally-financed technical assistance projects. At the time of the assessment, implementation was underway for seven EU-funded PFM projects in the above areas, among others. Development of the register for non-financial assets that is intended to improve management of public assets is planned to start in 2019, but the results of this reform can be expected in the medium-term, at the earliest. Currently, there is no specific plan to develop the function of fiscal risks monitoring and management.

Overview of the scores of the PEFA indicators

PFM performance indicator		Scoring method	Dimension score				Overall score
			i.	ii.	iii.	iv.	
I. Budget reliability							
PI-1	Aggregate expenditure outturn	M1	B				B
PI-2	Expenditure composition outturn	M1	B	B	A		B+
PI-3	Revenue outturn	M2	A	B			B+
II. Transparency of public finances							
PI-4	Budget classification	M1	A				A
PI-5	Budget documentation	M1	B				B
PI-6	Central government operations outside financial reports	M2	A	A	C		B+
PI-7	Transfers to subnational governments (SNGs)	M2	D	D			D
PI-8	Performance information for service delivery	M2	D	D	A	D	D+
PI-9	Public access to fiscal information	M1	A				A
III. Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	C	B	D		C
PI-11	Public investment management	M2	D	D	D	B	D+
PI-12	Public asset management	M2	C	D	C		D+
PI-13	Debt management	M2	A	A	B		A
IV. Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	B	B	A		B+
PI-15	Fiscal strategy	M2	A	A	D		B
PI-16	Medium-term perspective in expenditure budgeting	M2	C	A	C	D	C+
PI-17	Budget preparation process	M2	C	A	D		C+
PI-18	Legislative scrutiny of budgets	M1	A	B	A	A	B+
V. Predictability and control in budget execution							
PI-19	Revenue administration	M2	A	B	A	D	B
PI-20	Accounting for revenue	M1	A	A	C		C+
PI-21	Predictability of in-year resource allocation	M2	A	A	A	A	A
PI-22	Expenditure arrears	M1	D*	C			D+
PI-23	Payroll controls	M1	B	A	C	C	C+
PI-24	Procurement management	M2	B	B	A	B	B+
PI-25	Internal controls on non-salary expenditure	M2	A	C	B		B
PI-26	Internal audit	M1	A	B	A	B	B+
VI. Accounting and reporting							
PI-27	Financial data integrity	M2	A	N/A	A	A	A
PI-28	In-year budget reports	M1	D	B	A		D+
PI-29	Annual financial reports	M1	C	B	D		D+
VII. External scrutiny and audit							
PI-30	External audit	M1	B	B	B	A	B+
PI-31	Legislative scrutiny of audit reports	M2	A	C	A	A	B+

1. Introduction

1.1 Rationale and purpose

The purpose of the assessment is to provide the Government of Montenegro with an objective assessment of the performance of the public financial management system, to identify those areas in which further attention is needed to strengthen the system, and to move to a higher standard in terms of international good practices. Two PEFA assessments have been carried out in Montenegro to date, in 2009 and 2013. This is the third PEFA external assessment and the first to use the 2016 Framework, thereby setting the baseline scores according to the most recent PEFA methodology and providing an update on performance changes using the 2011 Framework. Given the changes in the PEFA Framework between the two assessments, the report follows the guidance issued by the PEFA Secretariat on tracking PFM system performance changes between the two assessments.

The MoF of Montenegro has requested technical support from the World Bank in conducting the PEFA assessment to take stock of the status of the PFM system and to measure progress since the previous PEFA assessment, published in 2013. The assessment is timed to measure the results of the PFM Reform Program and individual reforms undertaken. With the previous assessment completed in 2013, both the time period that has elapsed between the two assessments and the significant number and scope of the reforms initiated or implemented in the meantime justify the timing for the assessment.

The findings of the report are intended to inform the government's PFM reform and strategic documents. The government adopted a PFM Reform Program for 2016-20, which describes planned reform actions and objectives across the PFM system. There are additional strategies and action plans that serve as subsets of the PFM Reform Program, target specific areas in more detail, and/or complement the framework for future reforms. Such strategies define continued development of the public internal financial control (PIFC) system, transition to accrual financial reporting, enhancement of the quality of external audit, alignment with the European System of National and Regional Accounts reporting requirements, and corporate strategies of specific PFM institutions.

1.2 Assessment management and quality assurance

The assessment has been conducted by the World Bank, in collaboration with the country institutions and the DEU, and financed by the SAFE Trust Fund.[5] The government acted as the primary source of data for the assessment, and government officials participated in the oversight and assessment teams. Training in PEFA methodology has been provided to 35 government counterparts from the relevant country institutions in order to streamline data collection and communication with the government staff during the assessment. Primary government counterparts included the MoF, State Audit Institution, Tax Administration, Customs Administration, Property Administration, parliamentary committees, and spending units. The DEU has participated on the oversight team, joined the assessment missions, and provided comments during preparation of the PEFA report.

The assessment has followed PEFA CHECK[6] requirements to assure quality and to manage the assessment. In terms of quality assurance, apart from the regular internal review procedures within the World Bank, the Concept Note and the final draft were subject to peer review that involved experts from MOF, the PEFA

[5] SAFE (Strengthening Accountability and Fiduciary Environment) is a trust fund financed by the European Commission and the Swiss government. It is administered by the World Bank.

[6] PEFA CHECK is a process quality endorsement issued by the PEFA Secretariat in 2012 to indicate compliance with good practices in the process of undertaking a PEFA assessment.

Secretariat, the World Bank, and the DEU. The Concept Note and final PEFA report have considered the peer review comments, and final versions were shared with the peer reviewers, together with the matrix of consolidated peer review comments.

The assessment and oversight teams managed the assessment. The assessment team was comprised of World Bank staff, international and local experts, and MoF staff. The assessment team facilitated the PEFA Secretariat-led training in PEFA methodology, carried out the data collection mission, drafted the PEFA report, and held two follow-up missions to discuss the draft report and disseminate the report. The oversight team included representatives of the MoF, the World Bank, and DEU. The oversight team directed, coordinated, and monitored the implementation of the assessment, and its members were consulted on any significant matters arising from the conduct of the assessment.

Box 1: Assessment management and quality assurance arrangements

PEFA assessment management organization

- Oversight Team: Nina Vujosevic (State Secretary, MoF), Emanuel Salinas (Country Manager, World Bank), Eleonora Formagnana (Program Manager, Delegation of the EU in Montenegro)
- Assessment Manager: Roby Senderowitsch, Governance Practice Manager, World Bank
- Assessment Team Leader and Team Members: Aleksandar Crnomarkovic (Team Leader, Senior Financial Management Specialist, World Bank), Mediha Agar (Senior Public Sector Specialist, World Bank), Nihad Nakas (Consultant), Milos Markovic (Consultant), Milena Milovic (Head of Department for Fiscal Analysis and Projections, MoF), Milan Lakicevic (Economist, World Bank), Oxana Druta (Financial Management Specialist, World Bank), Sidy Diop (Senior Procurement Specialist, World Bank), Boba Vukoslavovic (Team Assistant).

Review of Concept Note

- Date of reviewed draft Concept Note: July 9, 2018
- Invited reviewers: Ana Krsmanovic (Director, MoF), Holy-Tiana Rame (Senior Public Finance Specialist, PEFA Secretariat), Sanja Madzarevic-Sujster (Senior Economist, World Bank), Eleonora Formagnana (Program Manager, Delegation of the EU in Montenegro)
- Reviewers who provided comments: Ana Krsmanovic (Director, MoF, comments on July 23, 2018), Holy-Tiana Rame (Senior Public Finance Specialist, PEFA Secretariat, comments on July 18, 2018), Sanja Madzarevic-Sujster (Senior Economist, World Bank, comments on July 24, 2018), Eleonora Formagnana (Program Manager, Delegation of the EU in Montenegro, comments on July 13, 2018)
- Date of the final Concept Note: August 10, 2018

Review of the assessment report

- Date(s) of reviewed draft report(s): October 11, 2019
- Invited reviewers: Ana Krsmanovic (Director, MoF), Holy-Tiana Rame (Senior Public Finance Specialist, PEFA Secretariat), Marc Schiffbauer (Senior Economist, World Bank), Eleonora Formagnana (Program Manager, Delegation of the EU in Montenegro)
- Reviewers who provided comments: Ana Krsmanovic (Director, MoF), Jens Kromann Kristensen (Head, PEFA Secretariat; on behalf of the secretariat), Marc Schiffbauer (Senior Economist, World Bank), Eleonora Formagnana (Program Manager, Delegation of the EU in Montenegro)

1.3 Assessment methodology

The assessment was conducted in line with the PEFA 2016 Framework as developed by the PEFA Secretariat. The assessment team also used other methodological guidance and practice tools developed by the PEFA Secretariat. These included: the PEFA Handbook (volumes 1 to 3), PEFA assessment templates and instructions, and guidance on tracking change in performance for assessments performed using previous versions of the PEFA framework, as well as other guidance from the PEFA Secretariat. The indicators are scored on a four-point ordinal scale: A, B, C, and D. Some indicators have multiple dimensions, and for such indicators the dimensions were combined to create overall indicator scores using either the weakest link method (M1(WL)) or the averaging method (M2(AV)).[7]

1. Scope and coverage of the assessment

The assessment covers the central government of Montenegro, which is consistent with the coverage of previous PEFA assessments in 2009 and 2013. Central government includes budget users/spending units as defined by the LBFR. Spending units include first tier spending units, which comprise the ministries, state funds (organizations of mandatory social insurance included), and independent spending units (government entities financed from the budget which are not part of ministries). First tier spending units can have in their responsibility certain indirect budget users, such as public institutions (schools, hospitals and so on), which are also part of the central government and in the scope of the assessment. State funds are the Fund for Pension and Disability Insurance, the Health Insurance Fund, the Employment Fund, and the Restitution Fund, as provided for in the LBFR. The assessment likewise covers extra-budgetary operations of the central government. Extra-budgetary units are Investment and Development Fund and four regulatory agencies.[8]

The assessment does not cover the sub-national government level and public corporations, apart from the related indicators under the PEFA Framework, such as assessing fiscal risks arising from operations of sub-national governments and public enterprises, or transfers to the sub-national level (in PI-10 and PI-7, respectively). The LBFR defines state-owned enterprises with majority government ownership as part of the central state; however, these are, in effect, stand-alone legal entities that operate under the legislation prescribed for corporations and are neither included in the central government budget nor consolidated in the central government annual financial statements. Local governments, including municipal state-owned enterprises dealing with areas of public interest, represent the local level of the state. The central and local levels together constitute the general level of state.

2. When performance is assessed

The assessment examined the PFM system performance in fiscal years 2016, 2017, and 2018. This scope applies to all dimensions that cover the last three completed fiscal years, with 2018 taken as the last completed fiscal year for assessment in number of dimensions. The assessment was carried out in the period March 2019 to July 2019, with a cut-off date of June 30, 2019 for dimensions/indicators assessed at the time of assessment. The fiscal year is equal to the calendar year.

3. Sources of information

The process of data collection primarily relied on (i) interviews with staff from competent country institutions and (ii) review and analysis of relevant documentation, such as public reports, analytical data, and any other documents prepared by the government that are relevant for assessing PEFA indicators. The documents reviewed include the relevant legislation, Fiscal Strategy, Guidelines of Macroeconomic and Fiscal Policy, SAI reports, MoF's Central Harmonization Directorate (CHD) reports, and other regular and ad-hoc reports produced by government institutions.

The main counterpart and source of information during the assessment was the MoF and its various directorates, followed by the SAI; TA; CA; Commission for Control of Public Procurement (CCPP); the

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[7] For further information on each of these methods, see PEFA Secretariat, *PEFA Framework for assessing public financial management* (Washington: PEFA, 2016).

[8] Regulatory Agency for Telecommunications, the Broadcasting Regulatory Agency, the Agency for Drugs and Medical Supplies, and the Regulatory Agency for Energy.

parliamentary Committee for Economy, Budget, and Finance (CEBF); Property Administration; Administrations for Traffic and for Public Works; Ministry of Traffic and Maritime Affairs (MTMA); and the Central Bank of Montenegro (CBM).

The assessment team consulted various diagnostic reports prepared by the international organizations. This includes Inception Reports from EU-funded technical assistance projects in multiple PFM areas (2019), Support for Improvement in Government and Management (SIGMA) assessments (2015, 2017, and 2019), Public Finance Review conducted by the World Bank (2019), and so on. These reports analyzed the progress made in key areas of public financial management as part of ongoing efforts and suggested a menu of policy reforms. Finally, the team consulted available reports concerning Montenegro's PFM performance from civil society organizations (CSOs). A full list of source documents for each of the indicators and the list of counterparts met is available in Annex 3.

4. Other methodological issues for the preparation of the report

All 31 indicators of the PEFA Framework are applicable for the assessment and have been rated. All 31 PEFA indicators have been assessed. Only one out of 94 dimensions was not applicable. This was dimension 2 under PI-27, since there are no suspense accounts held by the government. Guidance from the PEFA Secretariat was followed for assessing changes from the previous assessment, given the change in methodology from the PEFA 2011 to the PEFA 2016 framework. A summary of scores and performance changes since the 2013 assessment using the PEFA 2011 framework is presented in Annex 4.

The PEFA report is a stand-alone output; however, findings of the report are communicated to the government and will serve as an input to continued PFM dialogue. It is expected that such dialogue will lead to PEFA findings being analyzed and a linkage made to the government's PFM Reform Program. The dialogue, with regard to PEFA findings, is expected to inform both the government's priorities in PFM areas and the design of future PFM reform projects.

2. Country background information

2.1 Country economic situation

The economy of Montenegro is open and service-based, characterized by a narrow production base and a high import content of consumption and investment, which results in a large structural deficit on the trade balance for goods. Montenegro is a small, Western Balkan country with a population of 0.6 million. By unilaterally adopting the euro, the country abandoned an independent monetary policy. All these factors make the economy highly vulnerable to shocks from the external environment. During the economic transformation after the country's independence in 2006 and the consequent start of the EU accession negotiations, gross domestic product (GDP) per capita more than doubled, from €3,528 in 2006 to €7,494 in 2018. However, during this period, the economy experienced significant boom and bust episodes, while inflation was low or moderate, averaging 2.5 percent. The percentage of people living below the poverty line of US$5.50 per day (2011 PPP) declined from 8.7 percent in 2012 to an estimated 4.4 percent in 2018.

Prior to the global financial crisis, Montenegro was among the fastest-growing economies in the region, growing by 7.5 percent on average during 2006-08. This boom period was a consequence of a comprehensive reform program that included privatization, lowering of taxes, and an improving business environment, which then opened space to massive capital inflows in tourism, real estate, and banking. Consequently, employment and disposable income increased as well. However, much of growth was credit-fueled and the crisis that came from outside revealed the weaknesses of such a growth model.

The global financial crisis took a toll on the Montenegro economy as its GDP contracted by 5.8 percent in 2009 alone, and capital inflows, on which the country heavily relied in the preceding period, collapsed. Both external and domestic demand contracted sharply, leading to a narrowing of the current account deficit as imports shrunk more than exports. The most affected sectors were the metal industry, construction, and financial activities. Fiscal policy played a counter-cyclical role, but revenues declined more than discretionary spending. After a brief recovery in 2010-11, Montenegro faced a second recession in 2012 (GDP contracted by 2.7 percent), triggered by the sovereign debt crisis in the euro area.

In 2013-14, economic recovery was modest as GDP growth averaged 2.7 percent per annum, driven by consumption. In 2015, the government embarked on a large public investment project for construction of the Bar-Boljare highway (valued at 23 percent of GDP), largely financed from credit with the Chinese Exim Bank. The Law on Highways, enacted by the parliament, allows for a full tax exemption on civil works, labor, and highway-related imports, further increasing the cost. The highway project, together with the pro-cyclical government policy in the preceding period, led to a surge in public and publicly guaranteed debt from 32.3 percent of GDP in 2008 to 75.4 percent of GDP in 2018.

Largely supported by capital spending and consumption, GDP grew 4 percent on average in the period 2015-18, with GDP growth reaching 5.1 percent in 2018 alone. Consumption was supported by increased lending activity and employment growth, investment in highway construction, and private investments in the energy and tourism sectors. Given increased consumption and the import-dependent nature of investments, the current account deficit widened to 17 percent of GDP in 2018. Very strong growth in service exports, led by tourism, could not compensate for an increase in trade deficit. The chronically high merchandise trade deficit continued to deteriorate, reaching 44 percent in 2018, its largest since 2007. Around half of the current account deficit has been financed by foreign direct investment, and the rest by debt-creating capital inflows, leading to an increase in external debt to above 165 percent of GDP in 2018.

Banking sector health has improved significantly since the offset of the global financial crisis, which saw the ratio of non-performing loans (NPLs) peaking above 25 percent in 2011 and credit contracting for four

consecutive years up to 2012. Today's financial sector remains bank-centric, with 13 banks operating on the market. The banking sector remains liquid, well-capitalized, and profitable, yet the profitability level remains relatively low and is unevenly distributed among banks. Deposits grew without interruption from February 2012 to May 2019, when liquidation of two non-systemic banks caused a reduction of the deposit stocks. On the other hand, the high share of NPLs has hampered banks' ability to lend for a prolonged period, as lending contracted throughout 2009-17, except in 2013, when it briefly recovered. Since January 2017, however, lending has grown strongly, at almost 9 percent year-over-year. The credit to deposit ratio declined from its peak of 167 percent in April 2009 to 89 percent in May 2019. The level of NPLs is being reduced consistently, and by the end of March 2019 it stood at 5.9 percent of total loans.

The EU accession process has been an important anchor for reform momentum. The accession negotiations between the EU and Montenegro were opened in June 2012, and 32 out of 33 negotiating chapters have been opened so for. The EU has grounded the overall negotiation process in the three key criteria: political, economic, and the rule of law. Within the economic criterion, a special focus is given to wider public administration reform, of which public financial management is a part. The EU has provided substantial financial and technical assistance to Montenegro to support its ambitious Public Administration Reform 2016-20 and Public Financial Management Reform 2016-20 strategies. Moreover, under Chapter 32: Financial Control, Montenegro is required to enhance the national governance system through strong managerial accountability, sound financial management of income and expenditures, and external audit of public funds.

Table 2.1: Selected economic indicators

	2016	2017	2018
Real economy			
GDP (current €, million)	3,954	4,299	4,663
GDP per capita (current €, million)	6,354	6,908	7,494
Real GDP growth (percent)	2.9	4.7	5.1
Consumption (percent of GDP)	96.4	93.2	91.9
Gross fixed capital formation (percent of GDP)	24.7	26.9	29.2
Exports of goods and services (percent of GDP)	40.6	41.1	42.9
Imports of goods and services (percent of GDP)	63.1	64.5	66.7
Unemployment rate (ILO definition), percent	17.7	16.1	15.2
Activity rate, percent	54.5	54.7	56.0
Consumer price index (annual average change)	-0.3	2.4	2.6
Fiscal Accounts (General Government)			
Revenues, including grants (percent of GDP)	42.5	41.4	42.0
Expenditures and net lending (percent of GDP)	45.3	47.0	46.1
Overall fiscal balance (percent of GDP)	-2.8	-5.7	-4.1
Primary fiscal balance (percent of GDP)	-0.7	-3.3	-1.9
General government debt, including guarantees (percent of GDP)	70.4	69.1	74.1
- external (percent of GDP)	58.4	57.9	64.55
External Accounts			
Current account balance (percent of GDP)	-16.2	-16.1	-17.0
Foreign direct investment (percent of GDP)	9.4	11.3	6.9
Total external debt (percent of GDP)	162.5	160.5	163.9
Gross official reserves (months of imports)	3.9	3.9	4.2
Terms of trade (annual percentage change)	0.7	5.5	3.2

Source: Statistical Office, MoF, CBM, and World Bank calculations.

2.2 Fiscal and budgetary trends

By unilaterally adopting the euro, Montenegro has put the entire burden of achieving policy stabilization mechanism onto fiscal policy and structural reforms. Pro-cyclical fiscal policy before the bust in 2009 and the counter-cyclical policy in the crisis' aftermath depleted Montenegro's fiscal buffers. While the government embarked twice on fiscal consolidation, in 2011 and 2013-14, the fiscal deficit averaged 4.6 percent of GDP per year during 2009-2014. This led to a doubling of public and publicly guaranteed debt, from 32.3 percent in 2008 to 68 percent in 2014. In 2014, the government signed the financing contract for the construction of the 41-kilometer section of the motorway, worth €687 million (denominated in U.S. dollars). The construction works on this, the largest investment project in Montenegro's history, started in 2015, and pushed public and publicly guaranteed debt to 78 percent of GDP in 2015. This, together with an increase in discretionary spending in 2016, threatened to jeopardize country's macro-fiscal stability.

To contain the public debt and return it to the sustainable levels, the government adopted a package of fiscal consolidation measures in 2016 and 2017 to bolster revenues, while restraining expenditures. A fiscal consolidation package included the following revenue and spending reform measures:

- On the revenue side: (i) a rise in excise taxes on oil, tobacco, sugary drinks, and alcohol; (ii) an introduction of a new excise tax on coal; (iii) a reduction of VAT exemptions; (iv) an increase in the VAT rate from 19 to 21 percent; and (v) collection of tax arrears.
- On the expenditure side: (i) initially a 25 percent reduction benefits for mothers, but then an abolishment of the benefit with a 20 percent rise in means-tested child benefits; (ii) an 8 percent and then additional 6 percent reduction in wages of public sector officials; (iii) a reduction of public sector wage bonuses; and (iv) the introduction of the centralized procurement.

The fiscal consolidation program has led to a reduction of the general government deficit from 7.3 percent of GDP in 2015 to an average of 4.2 percent of GDP during 2016-18. This is still higher than the 3 percent fiscal rule, but is explained mainly by the surge in capital spending on motorway construction. Public and publicly guaranteed debt reached its peak of 74.1 percent of GDP in 2018 and is set to decline after 2019.

In the period 2016-18, revenues increased as consequence of stronger economic activity and employment growth and an increase in the VAT tax rate and excises. The general government revenues accounted for 42 percent of GDP in 2018, with majority of revenues being collected at the central government level. The VAT receipts are the main source of revenues at over 13 percent of GDP in 2018, followed by social contributions (11 percent of GDP in 2018). Tax revenues (excluding contributions) account for 62 percent of total revenues.

An increase in expenditures has largely been driven by spending on the construction of the priority section of the motorway. Over the 2016-18 period, expenditures averaged 46 percent of GDP, with capital spending reaching 8.6 percent of GDP in 2018. The planned completion date of the construction of the priority section of the motorway has been postponed until September 2020 from the initially planned completion in May 2019, mainly due to delays during 2016. These delays are reflected in the deferment until 2021 of the Fiscal Strategy's objective of reaching a balanced budget. After frontloading a major fiscal adjustment (with the Budget Deficit and Public Reform Recovery Plan adopted at the end of 2016, the 2017 Fiscal Strategy, and the 2018 Public Debt Strategy), fiscal policy now relies on a gradual decrease in the capital expenditure-to-GDP ratio to an overall budget surplus of over 1 percent and a primary surplus of over 3 percent in 2021.

Table 2.2: Aggregate Fiscal Data

Central government actuals (in percent of GDP)			
	2016	**2017**	**2018**
Total revenues (incl. grants)	**37.5**	**36.3**	**37.2**
-Tax revenues and contributions	34.1	34.1	34.2
-Non-tax revenues	3.1	1.6	2.4
-Grants	0.3	0.6	0.6
Total expenditures	**40.6**	**42.1**	**40.9**
-non-interest expenditure	38.5	39.8	38.8
-interest expenditure	2.1	2.3	2.1
Aggregate deficit (incl. grants)	**3.1**	**5.8**	**3.7**
Primary deficit	1.0	3.5	1.67
Financing requirements	3.1	5.8	3.7
Net external financing	0.6	5.1	9.6
Disbursements	8.4	8.2	19.5
Amortization	-7.8	-3.1	-9.9
Net domestic financing	2.5	0.7	-5.9
Privatization proceeds	0.1	0.1	-1.1
All other domestic	2.4	0.6	-4.7

Source: MoF (Final Accounts 2016, 2017, and 2018).
Note: The table shows the overall totals for the central government sector, including the net increase in arrears.

The structure of resource allocation has changed in recent years due to heavy capital spending. After underperforming in 2016, capital spending resumed in 2017 and 2018, which resulted in an increase of expenditures on economic activity. During the same period, spending on social protection, which accounts for almost a third of total government spending, declined as socially and fiscally unsustainable mothers' benefits, introduced in 2016, were abolished in 2017. Health spending has averaged around 13 percent over the last three years, while spending on education has remained flat at 10 percent of total government spending. After the country joined NATO in 2017, the share of spending for defense has risen. General public services have remained a significant share of public spending, as public administration reform aimed to optimize the number of employees in the public sector has been delayed. Table 2.3 shows the budget allocations for the central government.

Table 2.3: Central government budget allocations by function (percentage of total expenditures)

Actual budgetary allocations by sectors			
	2016	**2017**	**2018**
General public services	15.1	13.5	13.9
Defense	2.6	2.5	3.7
Public order and safety	9.8	8.6	8.8
Economic affairs	10.2	21.1	19.2
Environmental protection	0.2	0.3	0.4
Housing and community amenities	0.4	0.3	0.3
Health	14.5	11.3	12.8
Recreation, culture	2.6	2.3	2.4
Education	10.9	9.9	9.9
Social protection	33.7	30.2	28.5

Source: MoF (Final Accounts 2016, 2017, and 2018).

Table 2.4 presents the central budget allocation by economic classification. It shows a surge in capital spending and a reduction in the share of current expenditures in 2017 and 2018, which are the result of the construction of the motorway priority section and the fiscal consolidation program of the government. Current transfers constitute the major part of central government expenditures, although they have been declining as a share of total expenditures in the given period.

Table 2.4: Actual budget allocations by economic classification (percentage of total expenditures)

	2016	2017	2018
Current expenditures	90.0	81.3	82.0
Compensation of employees	27.0	25.2	24.8
Goods and services	10.9	10.1	11.0
Interest	5.1	5.5	5.1
Subsidies	1.7	1.5	1.6
Current transfers	45.3	39.0	39.5
- for health	7.2	5.4	7.0
- for pensions	24.4	22.2	21.7
- for social assistance	7.2	5.6	4.4
Capital expenditures	6.6	15.9	16.9
Repayment of arrears	4.3	2.2	1.2
Net increase in arrears	-0.8	0.7	0.3

Source: MoF and World Bank.

2.3 Legal and regulatory arrangements for PFM

Legislative framework for PFM

The country's highest legal act is the Constitution of Montenegro, which defines the mandates of the key institutions. The Constitution[9] recognizes legislative, executive, and judiciary power exercised by the parliament, the government, and courts, respectively. It defines local self-government, which represents the basis for founding municipalities as the primary form of local self-government. Related to PFM, the Constitutional provisions cover preparation and adoption of the budget and annual financial statements, which are the government's and the parliament's principal responsibilities, respectively. It also defines the SAI as an independent supreme institution responsible for auditing public funds, assets, and liabilities.

The LBFR is the organic budget act that provides the framework for a number of PFM elements, with additional thematic laws and by-laws further regulating specific areas. The law provides principal guidance with regard to (i) fiscal strategy and guidelines for macroeconomic and fiscal policy, (ii) budget preparation, (iii) budget execution, (iv) public debt, and (v) financial reporting. Specific laws and by-laws[10] provide more detailed guidance in these and other areas of PFM. Areas regulated by dedicated laws include external audit, revenue administration, financial management and control, IA, and public procurement. Secondary legislation regulates accounting and reporting, capital budgeting and public investment management, and program budgeting. The Annual Law on Budget includes budget allocations for the whole central government and for first-tier spending units under all relevant budget classification (see Section 3, PI-4).

Revenue administration in Montenegro is subject to a comprehensive legal framework that specifies the roles and responsibilities of the revenue collecting entities and payers. Separate legislation is in place on tax administration, customs administration, administrative procedures, and audit, as is dedicated legislation for all major tax revenues streams. Since the last assessment, tax and customs legislation has been progressively amended to align with the EU accession requirements. The collection of public revenues in Montenegro is carried out in accordance with the MoF's Order on Manner of Payment of Public Revenues (2018).

[9] The Constitution of Montenegro (Official Gazette 1/2007, amended 38/2013).

[10] A Decree is a higher-level by-law that is adopted by the government, while Rulebooks are passed by ministers in charge of respective sectors to closer define additional areas regulated in higher legislative acts, such as laws and decrees. Other than that, government Decisions also regulate certain areas.

The Law on SAI governs the external audit within the public sector. The Constitution includes general provisions regarding the role of the SAI, while the Law on the SAI stipulates further provisions about its mandate and the scope, organization, and nature of audits. The SAI reports to the parliament.

The Law on Public Sector Accounting, which will initiate the transition to accrual accounting, is in preparation. The draft law had been submitted to the legislature at the time of the assessment, and it is expected to be adopted by the end of 2019. The law prescribes accrual accounting and financial reporting for government institutions; further acts and by-laws will provide additional guidance for implementation.

Additional laws regulate some areas covered by the assessment. The Public Procurement Law (PPL) prescribes requirements and procedures related to procurement within the public sector. The LSP[11] and by-laws governs the use, management, and disposal of assets that belong to the central state and local self-governments. The financing of SNGs in Montenegro is regulated by the Law on Financing of Local Self-Governments.

Strategies and guidelines accompany legislation and provide Montenegro the framework for PFM objectives and actions. Most notably the Fiscal Strategy, which covers the four-year period, and annual Macroeconomic and Fiscal Policy Guidelines, which include medium-term expenditure ceilings, provide framework guidance for PFM. Additional strategies that define the reform path in specific areas include the strategies on transition to accrual accounting, public internal financial control, external audit, and debt management. Macroeconomic and Fiscal Policy Guidelines 2018-2021 provided bases for drafting the Program of Economic Reforms for Montenegro 2019-2021.[12]

Table 2.5: Relevant legislative acts

Act	Key areas regulated
LBFR (Official Gazette 20/2014, last amended 4/18)	Fiscal policy, budget preparation and management, budget execution, accounting and reporting, debt, and guarantees
Law on Supreme Audit Institution (Official Gazette 28/04, last amended 70/17)	Operations and tasks (including audit remit), organization and bodies, publicizing of the audit results, financing of the SAI
Law on Management and Internal Controls in Public Sector (Official Gazette 75/18)	Internal controls, IA organization and standards, irregularity and fraud management, managerial accountability and delegation of responsibilities
Law on Excises (Official Gazette 65/01, last amended 55/2018)	Payer registration, excise products, calculation and collection, excise audit procedures
Law on Customs Service (Official Gazette 3/16)	Organization, operations and authorities of the customs service and its officers
Law on Investment and Development Fund (last amended in Official Gazette 40/10)	Financial reporting, consolidation
Law on Financing of Local Self-Governments (LFLSG) (Official Gazette 3/19)	Transfers to subnational governments, sub-national government financing
Law on Spatial Planning and Construction (last amended in Official Gazette 11/19)	Public investment projects preparation/selection/costing
Law on State Property (Official gazette 21/09, dated 20 March 2009)	Use, management and disposal of state property
DCB (Official Gazette 53/09), DCB and Setting and Evaluation of Criteria for Selection of Capital Projects (last amended in Official Gazette 42/18)	Capital budgeting/public investment management
Decision on the Manner of Preparation and Content of the Program Budget of the Spending Units (last amended in Official Gazette 70/17)	Program budgeting procedures

[11] The LSP 21/09 dated March 20, 2009.
[12] The Macroeconomic and Fiscal Policy Guideline prepared by the MoF was published on July 7, 2018 on the government webpage.

Decision on Structure, Conditions, and Manner of Opening and Closing Transactional Accounts (last amended in Official Gazette 42/18)	Opening of accounts, transaction handling
Decisions on Final Accounts of Municipalities	Fiscal risks, transfers to SNGs, reporting
Rulebook on Distribution and Use of Equalization Fund (last amended in Official Gazette 50/12)	Annual transfers to SNGs
Decision on Distribution of Equalization Fund (Official Gazette 02/18, Official Gazette 12/19)	Annual transfers to SNGs
Decree on the Modalities and Procedure of Drafting, Alignment and Monitoring of the Implementation of Strategy Documents (last amended in Official Gazette 13/18)	Strategic planning, performance measurement, service delivery
Rulebook on Design and Submission of Financial Reports of Independent Regulatory Bodies, Legal Entities, Joint Stock Companies, and Other Companies in Which the State of Local Self-Governments Hold Majority Stake (last amended in Official Gazette 35/10)	Financial reporting of state-owned enterprises (SoEs) and other legal entities with majority stake owned by government
Decision on Borrowing of Montenegro (Official Gazette 18/18)	Borrowing procedures and planned new portfolio items
Mid-term Debt Management Strategy (2018-2020)	Debt management framework and strategic objectives/targets
2017-2020 Fiscal Strategy of Montenegro	Fiscal policy objectives for the stated period
Regulation on Keeping Records on Movable and Immovable Property and Listing of State-Owned Assets (Official Gazette 3/10 dated 4 February 2010)	Recording of and reporting on state property
Regulation on the Sale or Lease of State Assets (Official gazette 44/10, dated 30 July 2010)	Manner, procedures, and conditions for sale and lease of state property
Rulebook on the Method for Preparation and Filing of Financial Statements for Budget Spending Units, State Funds, and Local Authorities (Official Gazette 20/14)	Manner of submitting quarterly and annual financial reports
The Internal Instruction of the Treasury (Official Gazette 53/14; 72/15)	Procedures for payments
Parliament of Montenegro, Rules of Procedures (consolidated text, last amended Official Gazette 52/2017)	Organization and work of the parliament of Montenegro, rights and duties of the members of parliament, procedures in the parliament, relationship between the parliament and other bodies
State Treasury Instruction (Official Gazette 53/14, last amended 72/15)	Budget execution, control of financial transactions, revenue collection, Single Treasury Account (STA) liquidity, domestic and foreign debt management and Treasury Main Ledger templates
Rulebook on Single Classification of Accounts for the Budget of Montenegro and Municipality Budgets (Official Gazette 20/14 and 56/14)	Chart of Accounts for Economic and Functional Classification
Order on Payment of Public Revenues (Official Gazette 30/2018)	CG and SNG revenue accounts, revenue transfers and reporting

Source: World Bank.

Internal control framework

The principal requirements for the internal control framework in the public sector of Montenegro are set out in the Law on Management and Internal Controls (2018). It includes provisions related to (i) managerial accountability, (ii) management and the system of internal controls, (iii) IA, (iv) prevention and mitigation of risks of irregularities and fraud, and (v) harmonization and coordination of the system of internal controls.

Specific implementing modalities are elaborated in number of MoF-issued by-laws, methodologies, and manuals. The new Law retains continuity with the former Law on Financial Management and Control (2012) in terms of coverage, while introducing more specific requirements for accountability and safeguarding of resources. Earlier provisions on IA and central harmonization and coordination have been refined to account for the cumulative implementation experience to date. An internal control framework is being developed in the context of country's ongoing effort to fulfill PFM and PAR reform objectives, which are based in Montenegro's EU accession agenda.

The purpose of management and internal control, as defined in the law, corresponds with the definition in the relevant international standards.[13] The purpose of the internal control framework in Montenegro are: (i) Improved decision making in the implementation of the entity's business objectives; (ii) orderly, ethical, economical, efficient, and effective operation; (iii) compliance with applicable laws and internal acts; (iv) accountability for results; (v) reliable, complete, and timely financial and other reporting; and (vi) safeguarding of resources against mismanagement, misuse, and other irregularities and fraud.[14]

An effective internal control system plays a vital role across the PFM cycle in addressing risks and providing reasonable assurance that operations meet the control objectives. Implementation is envisaged through five interrelated components based on the underlying Committee of the Sponsoring Organizations of the Treadway Commission (COSO) framework, i.e. control environment, risk assessment, control activities, information and communication, and monitoring.[15] Other PFM legislation prepared by the competent MoF directorates (such as revenue administration, accounting, procurement, and so on) increasingly reflects the required internal control principles and standards. Legislation in areas outside of PFM (such as strategic planning, human resource management (HRM), ethics, and integrity) that influence the internal control effectiveness are progressively aligned with EU Administrative Space principles and enable full implementation of public internal control.

Roles in internal control framework policy formulation and implementation are clearly assigned and institutional structure to support implementation are in place. MoF's CHD retains overall responsibility for formulation, coordination and monitoring of the public internal control framework policy. Day-to-day implementation of the internal control framework rests with the heads of public sector institutions who are accountable for establishing and developing cost-effective and proportionate internal controls that ensure compliance and performance of operations, including achievement of the institution's objectives. Functioning of governance, risk management and internal control arrangements is subject to review by independent, de-centralized internal audit (IA) function which is required to follow the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (IIA). MoF's CHD reports on the progress with implementation of the internal control framework annually, based on self-assessment by the institutions charged with implementing the Law on Management and Internal Controls. Details on internal control framework effectiveness, based on findings documented in Section 3 of the Report, are further elaborated in Section 4.2 and Annex 2 below.

2.4 Institutional arrangements for PFM

The LBFR primarily defines the composition of the public sector. It recognizes the central and local level of the state, which together constitutes the general government. The central level includes budgetary spending units (first tier and indirect users under a respective first-tier unit), state funds (organizations of mandatory social insurance included), and independent entities founded and financed by the government. As mentioned

[13] INTOSAI GOV 9100. International Organization of Supreme Audit Institutions, *Guidelines for Internal Control Standards for the Public Sector*. (Vienna: INTOSAI General Secretariat, 1992).
[14] Article 10 (1) of the Law on Management and Internal Control (2018).
[15] Article 12 (1) of the Law on Management and Internal Control (2018).

in Section 1.3, public corporations operate as stand-alone legal entities and are not in the scope of the assessment. The municipality is the primary form of the local self-government, but the local level includes also public corporations founded by the local self-governments. Sub-national governments are autonomous in execution of their budgets. They are financed by their own revenue, revenue designated by law, the Equalization Fund, and the state budget.

Table 2.6. Structure of the public sector (number of entities) 2018

	Public sector				
	Government subsector		**Social security funds**[16]	**Public corporation subsector**	
	Budgetary unit	**Extrabudgetary units**		**Nonfinancial public corporations**	**Financial public corporations**[17]
Central[18]	477[19]	4[21]	SSFs are defined by the LBFR and make part of Central Government	32[22]	5[23]
Lower tier(s) of subnational – local level	24[20]	No data		195	0

Source: World Bank.

Table 2.7. Financial structure of central government—budget estimates 2018 (€, million)

Year	**Central government**			
	Budgetary unit	**Extrabudgetary units (with IDF)**	**Social security funds**	**Total aggregated**
Revenue	1,026.9	15.9	691.3	1,734.1
Expenditure	1,244.6	9.8	691.3	1,945.7
Transfers to (-) and from (+) other units of general government's	- 5.6	n/a	n/a	- 5.6
Liabilities[24]				
Financial assets[25]	n/a	n/a	n/a	n/a
Non-financial assets[26]	n/a	n/a	n/a	n/a
	n/a	n/a	n/a	n/a

Source: Annual Budget Law, Financial plans of regulatory agencies and social security funds.

[16] Depending on management control and funding arrangements, a social security fund is a public-sector entity that may form part of a particular level of government or may be classified as a separate sub-sector of the government sector (GFS 2014, paragraph 2.78).

[17] The Investment-Development Fund is established as a financial public corporation, but falls under the definition of an extra-budgetary unit under GFSM 2014 and is considered as such for the purposes of Tables 2.7, 2.8 and PI-6.

[18] "Budgetary central government" comprises all central government entities included in the central government budget.

[19] Includes first tier spending units, education public institutions, health public institutions, and public institutions under the Ministry of Labor.

[20] There are 24 local self-governments (PI 10.2).

[21] Regulatory agencies are the Regulatory Agency for Telecommunications, the Broadcasting Regulatory Agency, the Agency for Drugs and Medical Supplies, and the Regulatory Agency for Energy.

[22] 13 are fully owned by central government, while 19 entities have a majority stake held by central government.

[23] The Central Bank, Investment-Development Fund, Insurance Supervision Agency, Securities Commission, and Central Depository Agency.

[24] Due to accounting on a cash basis, liabilities are not included in the budget, while the report on unsettled commitments is included in the final account (financial statements).

[25] Due to accounting on a cash basis, financial assets are not included in the budget or reported in the final account.

[26] Due to accounting on a cash basis, non-financial assets are not included in the budget or reported in the final account.

Table 2.8. Financial structure of central government – actual expenditure 2018 (€, million)

Year	Central government			
	Budgetary unit	Extrabudgetary units (with IDF)	Social security funds	Total aggregated
Revenue	1,017.9	15.9	690.1	1,723.9
Expenditure	1,241.1	9.8	690.1	1,941.0
Transfers to (-) and from (+) other units of general government'	- 5.6	n/a	n/a	- 5.6
Liabilities	82.1[27]	225.0[28]	n/a[29]	307.1
Financial assets	n/a	n/a	n/a	n/a
Non-financial assets	n/a	n/a	n/a	n/a

Source: Draft Law on the Final Account, Financial Statements of regulatory agencies and social security funds.

The institutional set-up for the management of public finances assigns the central role for public financial management functions to the MoF. The MoF is organized to include eleven Directorates as the highest-level organizational unit, which are responsible for key thematic areas. The Directors lead the directorates and report to State Secretaries (three at the time of assessment) and to the Minister. There are additional sections/units assigned with support functions. The directorate responsibilities for some of the key PFM functions are described below.

- *Budget Directorate* is in charge of the budget preparation process, in coordination with the spending units (budget users). It issues the budget circular, undertakes analyses and provides feedback on the budgets proposed by the spending units in order to prepare the final proposal of the annual budget law. The Directorate includes the unit that is responsible for the legislative framework and implementation monitoring related to capital investments. The Directorate prepares and issues the Macroeconomic and Fiscal Policy Guidelines, which include medium-term expenditure ceilings for the budget year and two following years. In 2019, it also assumed the function of revenue planning, which was previously with the Directorate for Economic and Development Policy.
- *Treasury Directorate* is assigned with the tasks of cash management, budget execution, accounting, financial reporting, and debt management. Budget execution is done through the Single Treasury Account and the Directorate uses the SAP system as its financial management information system (FMIS). It leads the preparation of the Debt Management Strategy.
- *Directorate for Tax and Customs System* is in charge of preparing legislation and other regulatory acts related to revenue administration and revenue policy making and of conducting second-level proceedings based on taxpayers' appeals.
- *CHD* is responsible for the preparation of legislation; development of methodological guidance, standards, and manuals; preparation and delivery of training programs (including certification and continuous professional development); carrying out quality reviews; coordination; cooperation with professional organizations; development of the necessary registries for financial management and control (FMC) and IA. In addition to the legislative and methodological framework, the Directorate also produces a Policy Paper on Public Internal Financial Control, which was under preparation at the time of the assessment.

[27] As Montenegro follows cash-based accounting practices, liabilities are approximated through the aggregate arrears figure of the CG, as reported in the Draft Law on Final Account for the 2018 Budget. This figure includes €34.5 million of unpaid December 2018 pensions that are due in January 2019.
[28] This figure includes long-term and short-term liabilities of the Investment and Development Fund. Other extrabudgetary units keep their accounting records on a cash-basis.
[29] Arrears are reported as a gross figure broken down to type of expenditure without reference to specific institutions (that is, to parts of central government).

- *Directorate for Economic and Development Policy* analyzes macroeconomic parameters and proposes economic and development policy measures. Forecasts related to key macroeconomic indicators are built in the annual budget documentation, the Fiscal Strategy, and Guidelines for Economic and Fiscal Policy. Revenue planning within the scope of the budget preparation process was also one of the functions within the Directorate's responsibility during previous years; however, it was moved to the Budget Directorate during 2019.
- *Directorate for Public Procurement Policy* is responsible for procurement policy and alignment of legislation with EU law, implementation of the procurement system, education in public procurement, managing the public procurement portal, and publishing procurement plans of budget users. The Directorate has recently been established in this form and it inherited the functions of the Public Procurement Administration (PPA), which ceased to exist in January 2019. There is also an independent Commission for Control of Public Procurement, which handles complaints in the public procurement process.
- *Directorate for Contracting and Financing and EU Funds* (CFCU) is part of the decentralized system for implementation of the EU pre-accession funds. MoF carries out a number of additional functions under the accredited indirect management system for implementation of the EU pre-accession assistance (such as National Authorizing Officer, National Fund, Anti-fraud Coordination Service) and there is also a dedicated Unit for EU Integration within the ministry.
- *Directorate for Local Governments and State-owned Enterprises* participates in policy making related to local governments and state-owned enterprises and analyzes spending at the level of the local government and performance of the state-owned enterprises.
- *Directorate for Property and Legal Affairs* is a policy maker, among other responsibilities, for the state property and non-financial assets. The Property Administration, which is a separate entity, under supervision of the MoF, is responsible for developing the register of non-financial assets, which is still in early phases of implementation.
- *Directorate for Financial System* is in charge of the creation of an adequate legal and operational environment for development of the financial sector.

The SAI is mandated with the external audit function over the use of public funds by the Constitution and the law. The SAI has the remit to carry out compliance, financial, and performance audits of entities that are financed from the budget or with other means of state support and to manage state assets that were founded or are majority owned by the state. This includes both the central and local level of the state, as well as state-owned enterprises. The SAI also conducts an expert review of attainment of the fiscal targets. Organized on a collegiate model, the SAI is led by a five-member Senate. The President of the Senate is elected from those five members by the parliament for a nine-year, non-renewable term, while other members of the Senate are elected for an indefinite term.

The focal point for harmonization and coordination of public internal control reform is the MoF's CHD. Beyond the MoF's CHD and the SAI, additional stakeholders in the overall accountability framework include parliamentary oversight, other MoF directorates (primarily Budget and Treasury), the Anti-corruption Agency (on ethics and integrity), the General Government Secretariat (on policy and strategy formulation), and the Human Resource Management Agency (HRMA) (on human capacity development).

While the MoF retains a monitoring and coordinating role in the development of the internal control framework, the heads of entities bear the responsibility to establish and effectively manage the framework in day-to-day operations. An analogous decentralized model was followed in setting up the IA function in the general government. At the same time, important control activities in the budget execution stage are built into the MoF's FMIS and remain centralized with the MoF Treasury Directorate. Effectiveness of the overall internal control framework in Montenegro, based on evidenced findings from Section 3, is assessed in Section 4.2 of this Report.

Spending units preserve an active role in the PFM cycle. The Budget Directorate of the MoF provides instructions for the preparation of budget proposals by spending units, which include expenditure limits/ceilings. Spending units prepare and deliver budget proposals to the MoF, which then, based on the submitted proposals, finalizes the preparation of the Law on Budget. The capital budget is processed separately from the current budget. Spending units identify and propose capital investment projects for the capital budget. In terms of budget execution, the spending units retain the responsibility for committing the authorized expenditure, verification, and filling of payment requests. Spending units are responsible for execution of their respective budgets within their budget allocations. First level spending units collect and consolidate both budget proposals and budget execution reports from institutions under their authority.

Responsibility for execution of the capital budget lies with the Administration for Traffic and Administration for Public Works. The line ministries identify and propose projects in collaborations with the Administrations, which are then submitted to the Commission for Selection of Capital Projects. According to legislation, the Commission should rank and select capital projects, which are implemented by the Directorates. The Directorates report on project implementation at least quarterly to the government, the MoF, and respective line ministries.

Overall revenue policy is managed by the MoF's Directorate for Tax and Customs System while the TA and the CA administer and collect all principal tax revenues. This includes VAT, company income tax (CIT), personal income tax (PIT), mandatory social and health insurance contributions, customs, and excises. Together, the two revenue collecting agencies account for over 90 percent of CG revenues collected, including tax revenues and mandatory social security contributions. A limited number of other entities have the mandate to raise most of the non-tax revenues that are collected in the form of charges and fees.

Table 2.9: Assignment of key PFM functions and processes

PFM function/process	*Responsible entities*
Budget preparation (including medium-term budgetary framework and fiscal strategy)	MoF Budget Directorate with inputs from spending units
Budget execution (including budgetary controls)	Spending units manage authorized budgets, MoF Treasury Directorate operates the budget execution system. MoF CHD prescribes the requirements and spending units implement and develop the internal control framework
Fiscal risk monitoring	MoF Directorate for Local Governments and SOEs
Public investment management	TA, Administration for Public Works, spending units, MoF Budget Directorate (policy)
Public assets management	Spending units, Property Administration, MoF Directorate for Property and Legal Affairs (policy)
Debt management	MoF Treasury Directorate
Revenue administration	TA and CA (revenue administration), MoF Directorate for Tax and Custom Policy (revenue policy and second-instance appeals)
Payroll management	MoF Budget Directorate for those included in centralized system, individual spending units for the staff financed from the CG budget
Public procurement	MoF Directorate for Public Procurement Policy, spending units, CCPP
Internal audit	Spending units, MoF CHD (policy and methodology)
Accounting and Financial reporting	Spending units, MoF Treasury Directorate (for consolidated government reports)
External audit	SAI
Oversight and Scrutiny	CEBF and the parliament

Source: World Bank.

2.5 Other key features of PFM and its operating environment

Montenegro has a moderately centralized PFM system, with MoF as the focal point. The MoF leads the budget preparation process, medium-term planning, and development of fiscal policy, with inputs and proposals by spending units. The budget execution system is centralized in the MoF's Treasury, while spending units have access to the budget execution system and manage their respective budgets. The budget is executed through a well-functioning Single Treasury Account (STA), held at the CBM. The STA consolidates budget funds and it is the cornerstone of the budget execution system in terms of flow of funds. All revenues are collected through the STA, apart from own-source revenue generated by specific spending units. There are no established mechanism or legislative provisions for public participation in the budget management and the proposal of the annual Budget Law is not subject to mandatory public consultations process, which is otherwise mandatory for all proposals of laws.

Spending units are responsible for execution in line with the authorized budget. Direct budget beneficiaries (that is, first tier spending units) have had access to the Treasury operated system for budget execution since 2014; this is not yet the case with indirect beneficiaries (such as public institutions). The Treasury prepares the central government's consolidated financial statements, with inputs collected through reporting of the spending units.

State Funds are fully integrated in the CG budget, and the extent of extra-budgetary operations remains low. State funds are the Fund for Pension and Disability Insurance, the Health Insurance Fund, the Employment Fund, and the Restitution Fund as provided for in the LBFR, as well as any additional funds that might be established. The Investment and Development Fund and four regulatory agencies (see Section 3, PI-6) are off the state budget, although they are managed and partly financed by the government, and therefore represent extra-budgetary units. Beyond social security contributions, there are no earmarked revenues that would be designated or predetermined for specific purpose and use.

There are functioning mechanisms for external oversight and control. The SAI is the primary institution that examines ex-post the accuracy of financial and budget reports, compliance with the legislation and, to a limited extent, the performance of the government institutions. Parliamentary scrutiny is exercised by the CEBF and the parliament.

A number of ongoing PFM reforms are driven by Montenegro's candidate status for joining the EU and actively seek alignment with the EU's *acquis communautaire* and best practice standards. Relevant negotiation chapters with direct impact on the PFM include Chapter 5: Public Procurement, Chapter 16: Taxation, Chapter 17: Economic and Monetary Policy, Chapter 29: Customs Union, Chapter 32: Financial Control, and Chapter 33: Financial and Budgetary Provisions.[30] The EU accession agenda likewise drove public administration reform to align with the European Administrative Space principles and requirements. In support of accession-related reforms, the country was eligible for a funding allocation of €279.1 million under the Instrument for Pre-accession (IPA) II for the period 2014-2020 across eight priority sectors. Under the decentralized management system for IPA, the MoF carries out a number of vital functions for implementation of the EU's assistance (see also Section 2.4 above) and these operations are audited by the Audit Authority, the system-independent external auditor accountable to the European Commission.

[30] Out of 35 membership negotiation chapters, the EU and Montenegro have opened 33 (and provisionally closed three) chapters as of May 2019. Negotiations are underway for all five indicated chapters, including Chapter 5, which is the last one to be opened in the period under assessment (2018).

3. Assessment of PFM performance

3.1 PILLAR ONE: Budget reliability

PI-1 Aggregate expenditure outturn

This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports (see tables below). Coverage is Budgetary Central Government (BCG). The assessment is based on the budget and actual expenditure for fiscal years 2016, 2017, and 2018. Detailed calculations are presented in Annex 4.

Summary of scores and performance table PI-1

Indicator/Dimension	Score 2019	Brief justification for score
PI-1 Aggregate expenditure outturn	**B**	
1.1. Aggregate expenditure outturn	B	Aggregate expenditure outturn was 93.6 percent in 2016, 101 percent in 2017 and 105.1 percent in 2018.

Source: World Bank.

Dimension 1.1. Aggregate expenditure outturn

Aggregate expenditure outturn 2016-2018

Total budget and actual expenditure (€, million)			
	2016	**2017**	**2018**
Budget	1,732.4	1,785.4	1,822.4
Actual	1,622.0	1,803.1	1,914.9
Deviation (percent)	-6.4	1	5.1
Outturn (percent)	93.6	101	105.1

Source: Annual Budget Laws (2016-18), audited draft Law on Final Account (2016-17), and unaudited draft Law on Final Account for 2018.

Absolute deviation of the actual budget expenditures compared to the approved expenditure in the last three completed fiscal years (2016, 2017, and 2018) was between 1 percent and 6.4 percent. This translates into a budget outturn for those years in the range of 93.6 percent to 105.1 percent.

Based on the analysis and supporting evidence, the rating for this dimension is B.

PI-2 Expenditure composition outturn

This indicator measures the extent to which reallocations during execution between the main budget categories have contributed to variance in expenditure composition. The coverage is BCG. The assessment period relates to the fiscal years 2016, 2017, and 2018. Data and calculations for this indicator are included in Annex 5.

Summary of scores and performance table PI-2

Indicator/Dimension	Score 2019	Brief justification for score
PI-2 Expenditure composition outturn	**B+**	Scoring method M1 (WL)
2.1. Expenditure composition outturn by function	B	Variance in expenditure composition by function was below 10 percent in two of the last three years: 27.3 percent in 2016, 4.3 percent in 2017, and 7 percent in 2018
2.2. Expenditure composition outturn by economic type	B	Variance in expenditure composition by economic classification was below 10 percent in two of the last three years: 13.8 percent in 2016, 5.9 percent in 2017. And 4.3 percent in 2018
2.3. Expenditure from contingency reserve	A	Actual expenditure charged to contingency vote (that is, the budget reserve) was on average 1.2 percent over the last three completed fiscal years (2016-18)

Source: World Bank.

Dimension 2.1. Expenditure composition outturn by function

This dimension measures the difference during the last three years between the originally approved budget and end-of-year outturn in expenditure composition, excluding contingency items and interest on debt, by functional classification.

Expenditure composition variance by function 2016-2018 (percent)

	2016	2017	2018
Composition variance	27.3	4.3	7.0

Source: Annual Budget Laws (2016-18), audited draft Law on Final Account (2016-17), and unaudited draft Law on Final Account for 2018.

Variance of expenditure composition outturn by function was 4.3 percent and 7 percent in fiscal 2017 and fiscal 2018. Variance in 2016 was much higher at 27.3 percent. This was largely attributable to the variance within functional group 4 (Economic Affairs) or, more precisely, the difference between the budgeted and actual expenditure for the Bar-Boljare highway construction project, which is budgeted under this function. The expenditure budgeted for 2016 materialized during 2017. This is the largest capital investment project in Montenegro's history. The estimated value of the highway section under construction at the time of assessment (section Smokovac-Uvac-Matesevo) is €809.6 million. Another large source of variance in 2016 was the functional category of Health, with over €65 million (or 38 percent) absolute deviation in that year.

Based on the analysis and supporting evidence, the rating for this dimension is B.

Dimension 2.2. Expenditure composition outturn by economic type

This dimension measures the difference during the last three years between the original approved budget and end-of-year outturn in expenditure composition by economic classification, including interest on debt but excluding contingency items.

Expenditure composition variance by economic type (percent)

	2016	2017	2018
Composition variance	13.8	5.9	4.3

Source: Annual Budget Laws (2016-18), audited draft Law on Final Account (2016-17), and unaudited draft Law on Final Account for 2018.

The variance in expenditure composition by economic classification[31] was 13.8 percent in 2016, 5.9 percent in 2017 and 4.3 percent in 2018. Similar to PI-2.1, the large variance measured in 2016 was because of the discrepancy between the budgeted and actual expenditure for capital investment projects, in particular, the Bar-Boljare highway construction project, which contributed nearly 50 percent of the overall variance.

On average, "Grants" and "Subsidies" experienced the highest variance throughout the 2016-2018 period, particularly in 2016 when variance was highest. However, as the absolute outturn deviation in these classifications was not large, it did not reflect adversely on the overall variance.

Based on the analysis and supporting evidence, the rating for this dimension is B.

Dimension 2.3. Expenditure from contingency reserve

This dimension measures the average amount of expenditure charged to a contingency vote over the last three completed fiscal years.

Contingency share of the actual expenditure (percent)

	2016	2017	2018
Contingency share (annual)	1.1	1.1	1.3
Contingency share (average)		1.2	

Source: Annual Budget Laws (2016-18), audited draft Law on Final Account (2016-17), and unaudited draft Law on Final Account for 2018.

The LBFR recognizes the current and permanent budget reserve (contingency reserve). The funds budgeted under each of those categories are spent upon the decision of MoF, with approval from GoM. The Law prescribes that the current reserve can be used for insufficiently funded budget items, while the main purpose of permanent reserve is to fund urgent and unforeseen expenses. The permanent reserve was not budgeted in fiscal years of 2016 and 2017, while in 2018 it was €0.6 million. Expenditures made against the current budget reserve were, on average, €20.8 million in the 2016-18 period.

Based on the analysis and supporting evidence, the rating for this dimension is A.

[31] Economic and functional classification for the budget of central and local governments in Montenegro are prescribed by the Rulebook on Standardized Classification of Accounts for the Budgets of Montenegro and Local Governments (Official Gazette, 72/16).

PI-3 Revenue outturn

This indicator measures the change in revenue between the original approved budget and end-of year outturn. The assessment is based on the budget and actual revenue from fiscal years 2016, 2017, and 2018. The coverage is BCG. Calculations and data for this indicator are included in Annex 5.

Summary of scores and performance table PI-3

Indicator/Dimension	Score 2019	Brief justification for score
PI-3 Revenue outturn	**B+**	Scoring method M2 (AV)
3.1. Aggregate revenue outturn	A	Actual revenue was in the range of 100.9 percent and 102.2 percent over the last three completed fiscal years.
3.2. Revenue composition outturn	B	The variance in revenue composition was 10.7 percent in 2016, 3.7 percent in 2017 and 5.8 percent in 2018.

Source: World Bank.

Dimension 3.1. Aggregate revenue outturn

This dimension measures the extent to which revenue outturns deviate from the originally approved budget.

Total revenue deviation by year 2016-2018 (percent)

	2016	2017	2018
Revenue deviation	102.0	100.9	102.2

Source: Annual Budget Laws (2016-18), audited draft Law on Final Account (2016-17), and unaudited draft Law on Final Account for 2018.

Total actual revenue deviated from the revenue foreseen by the annual Budget Laws by 2 percent in 2016, 0.9 percent in 2017, and 2.2 percent in 2018. The largest contributors to the variance included minor revenue items such as grants and property taxes.

Based on the analysis and supporting evidence, the rating for this dimension is A.

Dimension 3.2. Revenue composition outturn

This dimension measures the variance in revenue composition during the last three completed fiscal years. This dimension attempts to capture the accuracy of forecasts for the revenue structure and the ability of the government to collect the amounts of each category of revenue as intended.

Revenue composition variance 2016-2018 (percent)

	2016	2017	2018
Composition variance	10.7	3.7	5.8

Source: Annual Budget Laws (2016-18), audited draft Law on Final Account (2016-17), and unaudited draft Law on Final Account for 2018.

The variance in revenue composition was 10.7 percent in 2016, 3.7 percent in 2017, and 5.8 percent in 2018. The reason for the large deviation in 2016 was that the combined value of receipts under the "taxes on goods and services" category was larger than that planned by the Budget Law. Their absolute deviation was around €55 million, which largely increased the overall variance for the year. Deviation of receipts from the "taxes on goods and services" compared to those planned by the Budget Law (€46.4 million) was also the underlying reason for revenue variance outside the 5 percent limit in 2018.

Based on the analysis and supporting evidence, the rating for this dimension is B.

3.2 PILLAR TWO: Transparency of public finances

PI-4 Budget classification

This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. The time period is the last completed fiscal year. The coverage is BCG.

Summary of scores and performance table PI-4

Indicator/Dimension	Score 2019	Brief justification for score
PI-4 Budget classification	**A**	
4.1. Budget classification	A	Budget formulation, execution, and reporting are based on organizational, economic, functional, program, and project-based classifications using a prescribed Chart of Accounts, which can produce information comparable to government financial statistics (GFS)/classification of functions of government (COFOG) standards

Source: World Bank.

Dimension 4.1. Budget classification

Budget accounting in Montenegro uses a cash basis, which means that receipts and payments are recorded when they are incurred. Additional information on assets and liabilities is limited, and only the report on unsettled commitments is prepared to provide insight. Under the LBFR and the Rulebook on Uniform Classification of the Budget, Extra-budgetary Funds and Municipal Accounts, budget planning, execution, and reporting is done according to organizational, economic, functional, program, and project-based classifications. The classification of budget receipts and expenditures is, for the most part, aligned with the GFS 2014, given that the data are collected on a cash basis, and with the COFOG classification. All spending units have had a programmatic breakdown since 2011, which corresponds to COFOG sub-functions.

The 2019 Budget Law and the 2018 draft Law on the Final Account (annual government financial statements) give a breakdown of the budget according to organizational, economic, functional (in line with COFOG), and program-based classifications, given that current expenditures are split according to the program structures of all budget users, while the capital budget is planned and executed according to a project-based classification. Revenue collection and execution of payments are done via the Single Treasury Account and recorded in the SAP system in line with the defined classification. Hence, it may be noted that the budget planning, execution, and reporting is done in line with the uniform set of classifications stipulated in the law and described above.

The economic classification differs from the GFS in the following aspects: (i) assets sale proceeds are recorded as financing, not total revenues, and (ii) proceeds from loan repayment and carry-overs from previous years are recorded as revenues, not as adjustments, when balancing expenditures and net loans. In conclusion, there is overall alignment with COFOG standards and in most parts with GFS 2014, therefore classifications used are either aligned with GFS/COFOG standards or produce documentation comparable with those.

Based on the analysis and supporting evidence, budget formulation, execution, and reporting produced documentation comparable to GFS/COFOG standards, and the rating for this dimension is A.

PI-5 Budget documentation

This indicator assesses the comprehensiveness of the information provided in the annual budget documentation (the executive's budget proposals for the next fiscal year, with supporting documents) submitted to the legislature for scrutiny and approval. The time period for this indicator is the last budget submitted to the legislature (2019) and the coverage is BCG. The set of documents provided by the executive should allow a complete picture of central government fiscal forecasts, budget proposals, and outturn for the current and previous fiscal years. The assessment includes four basic elements of fiscal information that are considered the most important to enable the legislature and other budget decision makers to understand the government's fiscal position. Eight additional elements of budget documentation are considered to be good practice.

Summary of scores and performance table PI-5

Indicator/Dimension	Score 2019	Brief justification for score
PI-5 Budget documentation	**B**	
5.1. Budget documentation	B	8 out of the 12 elements required by this indicator are fulfilled, including four basic elements.

Source: World Bank.

Elements included in budget documentation for 2019

Elements	Included (Yes/No)	Explanation
Basic elements		
1. Forecast of the fiscal deficit or surplus or accrual operating result	Yes	The 2019 Budget Law (the mandatory part) contains the planned deficit for the given year, as well as provisions for its financing. The Explanation accompanying the Budget Law, provided to the parliament as an integral part of the budget documentation, features the estimated budget deficit in the current year, the plan for the coming fiscal year, and the deficit projections in both budget years. As explained under PI–4, the deficit/surplus is planned on a cash basis, and is adjusted in the outturn for the net change of liabilities constituting the difference between the arrears at the beginning and at the end of the given period.
2. Previous year's budget outturn, presented in the same format as the budget proposal	Yes	The previous year's budget outturn is shown in the Explanation accompanying the Budget Law, not at all levels of classification as presented in the mandatory part of the Budget, but rather in aggregate form, following the main economic classification categories. However, detailed breakdown is available from the Law on the Final Account (the government's annual financial statements), which precedes the consideration of the annual Budget Law and allows the parliament comparisons with the previous year's budget outturn in the same format and the same level of detail as the corresponding draft Budget.
3. Current fiscal year's budget presented in the same format as the budget proposal	Yes	The draft Budget Law provided to the parliament follows all levels of budget classification (see PI-4). The current year budget is presented in the Explanation section of the Draft Budget Law, following all main categories of economic classification. In case of any revisions during the current year, the supplementary/revised Budget Law is sent to the parliament for deliberation and adoption following the same procedure and in the same format as the original Budget Law. Given that the supplementary/revised Budget Law for the current year is adopted by parliament in the same

Elements	Included (Yes/No)	Explanation
		format as the Draft Budget Law for the upcoming year, and that the Explanation, as an integral part of annual budget law, includes the current year's budget under all main categories of the economic classification, this element is considered fulfilled.
4. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used is provided, including data for the current and previous year, with a detailed breakdown of revenue and expenditure estimates.	Yes	As already noted, the budget documentation provided to the parliament when deliberating the Draft Budget Law for the coming year includes the allocations for the budget year, and the forecasts for the coming two years, according to main categories of economic classification. Current year data is available (see element 3 above). The detailed elaboration of the budget outturn of the previous year, at all levels of budget classification, is an integral part of the Law on the Final Account adopted by the parliament before the budget for the coming year is enacted. Aggregate budget data, following organizational and functional classification, are not included in the budget documentation; however, comparison to the 2018 budget in the same format and level of detail as the 2019 budget proposal is available through the 2018 Law on the Final Account, adopted prior to the 2019 budget, so this element is considered met.
Additional elements		
5. Deficit financing, describing its anticipated composition	Yes	The LBFR stipulates that the annual Budget Law is to define the use of the budget surplus, as well as the sources of funding for the budget deficit. In this respect, the 2019 Draft Budget contains the information on the funds needed to bridge the deficit and for debt servicing, as well as the sources of these funds. In addition, the Borrowing Decision for the coming fiscal year is also adopted by the parliament after adopting the Budget Law.
6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate	No	The macroeconomic framework is an integral part of the Explanation to the Budget Law and contains the data on macroeconomic trends in the previous and the current year, as well as the basic scenario for the budget year and the following two years. The basic scenario includes projections of nominal and real GDP growth and inflation There are no projections with regard to exchange rate movements, although there are significant amounts of debt in U.S. dollars (US$1 billion loan for the highway construction) that pose a currency risk. With regard to interest rates, as a euro economy, Montenegro does not perform the issuance function, and thus does not set the reference interest rate. Projected market interest rates are not included in the macroeconomic assumptions.
7. Debt stock, including details at least for the beginning of the current fiscal year, presented in accordance with GFS or other comparable standards	Yes	The central government debt stock data are published quarterly, while the public debt data for the previous year are prepared and published within 90 days of the end of the fiscal year. Public debt data is available to the parliament prior to consideration of the annual Budget Law through the draft Law on Final Account, of which it is an integral part.
8. Financial assets, including details at least for the beginning of the current fiscal year, presented in accordance with GFS or other comparable standards	No	In line with the methodology, this element requires minimum details regarding financial assets for the beginning of 2018 to be available when considering the 2019 budget. Given that the budget documentation provided to the parliament for consideration of the draft Budget Law for the coming year does not contain such information, this element is considered not fulfilled.
9. Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structured financing	No	Information on fiscal risks in achieving fiscal forecasts is presented in the Guidelines for Macroeconomic and Fiscal Policy, adopted each year by the government, and in the Economic Reform Program, as the principal document in the dialogue with the EU, which is submitted to the parliament and covers the three-year period. They feature an overview of economic and political risks believed to have the potential to impact public

Elements	Included (Yes/No)	Explanation
instruments such as PPP contracts, and so on		finance projections over the coming period. Given that the information on fiscal risks and contingent liabilities, except for guarantees to be issued in the given budget year, are not included in the documentation considered by the parliament when deliberating the budget for the following year, this element is considered not fulfilled.
10. Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of ***all*** major revenue policy changes and/or changes to expenditure programs	Yes	The LBFR stipulates that any proponent of a law or other piece of legislation is obliged to assess the fiscal impact of the given piece of legislation, with regard to both revenues and expenditures. If during the year, the planned receipts or expenditures increase or decrease, the budget is revised and such revisions are adopted by parliament following the same process stipulated for budget adoption, with detailed explanation of the proposed revision in total revenues and expenditures. In addition, Article 21 stipulates that should the deficit level go above 3 percent or the public debt rise above 60 percent of GDP during the year, the government must propose recovery measures to parliament. In this respect, together with the 2017 Budget Law, the Budget Deficit and Public Debt Recovery Plan adopted contained the first package of fiscal consolidation measures, subsequently amended with additional measures approved under the Fiscal Strategy adopted by the parliament in July 2017. These documents provide detailed explanations of all measures aimed at increasing revenues and decreasing expenditures, including the detailed quantification of all measures in the medium term. As a result, due to changes in the excise policy and the need to adjust expenditures, in 2018 there were two supplementary budgets.
11. Documentation on the medium-term fiscal forecasts	Yes	The Explanation to the Budget Law contains the medium-term budget framework which gives an overview of revenues, expenditures, budget deficit/surplus, debt servicing, and budget financing for a three-year period for the central government, local governments, and consolidated public finance, at the level of economic classification.
12. Quantification of tax expenditures	No	In Montenegro, the tax expenditures report was prepared for the first time in 2019 and it contains an overview of tax expenditures and their quantification in line with the set methodology. The report was prepared with technical support provided by the IMF and is intended for adoption by the government each year. Given that this report was not a part of the budget documentation available to the parliament when considering the 2019 Budget Law, this element is regarded as not met.

Source: World Bank.

Given that 8 out of the 12 elements required by this indicator are fulfilled, including 4 basic elements, the score for this dimension is B.

PI-6 Central government operations outside financial reports

This indicator measures the extent to which government revenue and expenditure are reported outside central government financial reports. The assessment of this indicator is based on the latest information and reports available, which are related to fiscal year 2018. The coverage is the CG.

Summary of scores and performance table PI-6

Indicator/Dimension	Score 2019	Brief justification for score
PI-6 Central government operations outside financial reports	**B+**	Scoring method M2 (AV)
6.1. Expenditure outside financial reports	A	The amount of expenditures of budgetary and extrabudgetary units unreported in the annual financial report (the Final Account) for 2018 was 0.55 percent of the total budget expenditures.
6.2. Revenue outside financial reports	A	The amount of revenues of budgetary and extrabudgetary units unreported in the annual financial report (the Final Account) for 2018 was 1 percent of the total budget revenues.
6.3. Financial reports of extrabudgetary units	C	Financial reports of the majority of extra-budgetary units are submitted to the government within nine months of the year-end.

Source: World Bank.

Dimension 6.1. Expenditure outside financial reports

This dimension assesses expenditures incurred by budgetary and extrabudgetary units that are excluded from the government's financial reports. Extra-budgetary units include the Investment and Development Fund, regulatory agencies, and parts of the budgets of educational, healthcare, and cultural institutions of Montenegro (the latter related to own source revenue and consequent expenditures). All social security funds (such as Pension, Health and Employment) are included in annual Budget Law. They are part of both in-year and year-end GoM financial reports, that is the final account.

The Investment and Development Fund was established by the GoM in 2009 by a special Law[32] (Official Gazette 04/10) with an initial capital of €97.2 million drawn from privatization receipts. Its main purpose was to carry out a specific function, to finance market segments not covered fully by commercial lending using the government's own capital from its revolving existing loan portfolio and using subsidized financing sources from IFIs.[33] This fund falls under the definition of an extrabudgetary unit as specified in the GFS 2014 manual (see paragraphs 2.41, 2.80, and 2.162). The Fund reports annually to the GoM and the parliament and, as a joint stock company, it publishes its quarterly and annual[34] financial reports on the website of the Securities Commission, as well as on the website of the TA, as do all other business entities. The total amount of the Fund's operating expenditures in 2018 was €2.8 million.

In addition, there are four regulatory agencies in Montenegro with financial operations that are conducted independently from that of the central government. These are the Regulatory Agency for

[32] Available at http://www.srp.gov.me/ResourceManager/FileDownload.aspx?rid=188118&rType=2&file=Zakon%20o%20investiciono-razvojnom%20fondu%20Crne%20Gore.docx.

[33] The Fund's debt-to-equity ratio was 2.1 at the end of 2018.

[34] Annual reports are audited in line with the Law on Accounting and Audit (LAA).

Telecommunications, the Broadcasting Regulatory Agency, the Agency for Drugs and Medical Supplies, and the Regulatory Agency for Energy. The domestic legal setup dictates that their budgets are approved by the parliament independently of the Budget Law (although usually at the same session), while their budget outturn is not part of the Final Account of the central government. The total expenditures by these regulatory agencies in 2018, according to their financial reports, were €7 million.

Finally, the parts of the budgets of educational, healthcare, and cultural institutions of Montenegro[35] financed from their own source revenues realized by rendering additional services (such as collecting various student fees, renting gyms, or providing healthcare service to foreign citizens) are also reported at the outturn stage (that is, they are part of the Final Account but not shown in the annual Budget Law). The total amount of expenditures not covered by the annual Budget Law is estimated at €40 million, however these expenditures are reported at the budget outturn stage and make part of the draft Law on Final Account.

The total estimated volume of expenditures of budgetary and extrabudgetary units not reported in the annual Budget Law for 2018 is €49.8 million. Given that the expenditures of educational, healthcare, and cultural institutions are reported in the draft Law on Final Account, the expenditures which are not included in the Law on the Final Account (the central government's annual financial statements) for 2018 consist of expenditures of the Investment and Development Fund and those of the regulatory agencies. The combined value of these expenditures was €9.8 million, which is 0.55 percent of total budget expenditure in that year.

Based on the analysis and supporting evidence, the rating for this dimension is A.

Dimension 6.2. Revenue outside financial reports

This dimension assesses the magnitude of revenues received by budgetary and extrabudgetary units (including social security funds) that are not reported in the government's financial reports.

Fiscal operations of the GoM include three major items that are not reported in the budget formulation stage. These are the Investment and Development Fund and parts of the budgets of educational, healthcare, and cultural institutions, as well as the financial operations of regulatory agencies of Montenegro. However, the parts of the budgets relating to educational, healthcare, and cultural institutions are reported at the budget outturn stage. Relevant for this dimension are the revenues incurred by these funds that are not reported in the budget outturn stage (that is, are not part of the Law on Final Account). Estimated total revenues for all extra-budgetary operations mentioned above for the fiscal year 2018 are €55.8 million, while those not shown in the Law on Final Account for 2018 include only the operating revenues of the Investment and Development Fund and of the regulatory agencies, which were €15.9 million. This represents 1 percent of total central government revenues in 2018. The figures are extracted from the 2018 financial reports of the Investment and Development Fund and the regulatory agencies.

Based on the analysis and supporting evidence, the rating for this dimension is A.

Dimension 6.3. Financial reports of extrabudgetary funds

This dimension assesses the extent to which ex-post financial reports of extrabudgetary units are provided to the central government and are sufficiently detailed and timely to yield a full picture of government financial operations when combined with the financial reports for budgetary central government. The assessment covered the fiscal year of 2018. Extra-budgetary units are Investment and Development Fund and four regulatory agencies.

[35] Other institutions include for example the Tourism Promotion Agency and the Diving Center of Montenegro.

The Investment and Development Fund is obliged to provide a detailed report on its operations, including financial operations, to the GoM by the end of March for the previous fiscal year, according to article 15 of the law on its establishment. Financial statements of the Fund are compiled according to the regular procedure for all business entities in Montenegro, according to the Law on Accounting and Audit. The financial statements are to be prepared by the end of end-March and submitted to the TA. As a joint stock company, the Fund is obliged to submit their financial statements to the Securities Commission as well. The officially stated date of submission of annual financial statement of the Fund for 2018 is March 28, 2019, as written in the registry of financial statements administered by the TA. At the same time, its financial statements were made public on the website of the Securities Commission on April 2, 2019. The report was made available to the GoM in April 2019.

Financial reports of regulatory agencies bypass the central government and are submitted directly to the parliament. Depending on legal arrangements, the agencies are obliged to submit their reports to the parliament after the end of fiscal year, whereas the parliament usually discusses the financial reports in one session. Financial reports for 2018 were made accessible and publicly discussed on the session which began on 22nd of July, 2019. The only exception is the Regulatory Agency for Telecommunications, which submitted their financial report directly to the GoM within six months of the year-end in 2019. GoM discussed the financial report on 30th of May, 2019.

Total expenditure of extrabudgetary units in 2018 was €9.84 million, of which the combined value of expenditures of the Investment and Development Fund and the Regulatory Agency for Telecommunication was €6.58 million, or 66.9 percent.

Based on the analysis and supporting evidence, the rating for this dimension is C.

PI-7 Transfers to subnational governments

This indicator assesses the transparency and timeliness of transfers from central government to SNGs with direct financial relationships to it, therefore the coverage is CG and subnational governments, ie. local self-governments. It considers the basis for transfers from central government and whether SNGs receive information on their allocations in time to facilitate budget planning. The time period assessed is the last completed fiscal year, 2018.

Summary of scores and performance table PI-7

Indicator/Dimension	Score 2019	Brief justification for score
PI-7 Transfers to SNGs	**D**	Scoring method M2 (AV)
7.1. System for allocating transfers	D	Although the established system for most of transfers is transparent and rule-based, it was not applied in the last completed fiscal year (2018).
7.2. Timeliness of information on transfers	D	Information on transfers to municipalities was not available in the last completed fiscal year (2018) before they were required to submit draft budgets to local parliaments.

Source: World Bank.

Dimension 7.1. System for allocating transfers

This dimension assesses the extent to which transparent, rule-based systems are applied to budgeting and the actual allocation of conditional and unconditional transfers.

Financing of SNGs of Montenegro is regulated by the Law on Financing of Local Self-Governments (Official Gazette 042/03, amended subsequently). Changes over the past three fiscal years include those from January

2017, May 2017, December 2017, and December 2018. This indicator refers to the last completed fiscal year (2018), so the version of the Law used for the assessment under this dimension is the version of the Law that was valid at the end of 2017. The Law prescribes that local government in Montenegro is financed from the following four sources: own revenues, conceded revenues, and two types of transfers.

The list of own revenues includes real estate tax, local communal and administrative charges, construction fees, fees for the use of roads and environmental protection, and revenues from concessions.[36] In addition, municipalities are allowed to introduce a surtax of up to 13 percent on personal income tax. This percentage can go up to 15 percent in the case of Podgorica or Cetinje.

Conceded revenues include five items: i) personal income tax (12 percent of total revenues collected on the local government (LG) territory, with 13 percent in Podgorica and 16 percent in Cetinje); ii) real estate transfer tax (80 percent of taxes collected on LG territory); iii) concession from the use of natural resources (70 percent, except for concessions for the use of ports and sea resources, in which 20 percent goes to SNGs); iv) charges for the registration of motor vehicles (30 percent); and v) fees for usage of motor vehicles (ecological tax).[37] It is important to note that the central government does not withhold funds accruing from these sources. The transfer of funds to the account of municipalities happens immediately: funds are split between the central and local governments at the moment when the above taxes are paid and the charges are processed within the payment system.

The two additional funding sources for local governments are unconditional transfers (for instance, the Equalization Fund) and conditional grants. The assessment under this indicator focuses on these two sources of financing.

The conditional grants were budgeted as a separate budget line in 2018. Their purpose is to co-finance public investments at local level. These grants can be used to co-finance up to 50 percent of investment projects financed from donations. As prescribed by the LFLSG, the exact share of financing is decided by MoF based on the per capita revenue level of the SNG relative to the average of the country. Municipalities apply by September of the current year for financing in the following fiscal year. Applications are submitted to the MoF, while the approvals are granted by the GoM. The aggregate amount of conditional grants in the 2018 budget was only €198,000, and the entire amount was granted to the only applicant for 2018, the municipality of Danilovgrad. The Law defines eligibility criteria, including the existence of a multi-year investment plan, but does not prescribe how to prioritize financing requests from municipalities. The conditional grants were completely abandoned under the January 2019 changes in the LFLSG.

Unconditional grants consist of the Equalization Fund and the funds transferred to the old royal capital, Cetinje, in line with a separate Law on the Old Royal Capital, which defines the amount of financing. The funds transferred to Cetinje stood at €3.6 million in 2018. The Equalization Fund is the local governments' financing source created to overcome disparities between municipalities by compensating the less developed ones in proportion to the difference between their development level and the national average. It is financed by a mix of different tax and non-tax revenues accruing to the CG, excluding conceded revenues. The financing mix includes: 11 percent of the total income tax collected; 10 percent of the real estate transfer tax collected; 100 percent of the taxes for the use of motor vehicles, ships, and aircrafts; and 40 percent of concession fees on games of chance. The Fund is not budgeted in the Central Government Budget Law. Instead, the transfers are made twice each month (that is, on the 15th and on the last working day of the month) directly to the

[36] The latest (December 2018) changes of the LFLSG introduced two additional items on the list of own revenues: city rent and construction land arrangement fee.
[37] This item was excluded in the December 2018 version of the LFLSG.

municipalities. The Equalization Fund circulated around €30 million over the past three fiscal years (€28.9 million in 2016, €34.2 million in 2017, and €34.7 million in 2018.)

The right to use the Equalization Fund is granted to the municipalities with a development level below the average for the country and with a fiscal capacity below the national average for the past three years. Fiscal capacity is determined based on the Rulebook on Distribution and Use of Equalization Fund (Official Gazette 50/11, amended subsequently), while the development level is determined based on the Rulebook on Determining the Development Level of Local Governments, which is published every three years by the Ministry of Economy as part of a Rulebook based on the Law on Regional Development (Official Gazette 50/11, amended subsequently). The LFLSG defines that 60 percent of the Fund is distributed based on fiscal capacity, while 40 percent is distributed based on budgetary needs. Similar to fiscal capacity, the budgetary needs of municipalities are determined based on a set of rules outlined in the Rulebook on Distribution and Use of Equalization Fund. Over the past three years, 16 out of 24 of Montenegrin municipalities were eligible to benefit from the Fund.

Eligibility of municipalities to receive transfers from the Fund, their fiscal capacity, and their budgetary needs are calculated based on the data provided directly by municipalities. Depending on the category, these data either refer to the last three completed fiscal years or, in case of the running fiscal year, to the period from January until September, with estimates for the remaining part of the year. The LFLSG prescribes that MoF process these data and calculate and circulate the indicative distribution for the Equalization Fund by the end of October. Once the remaining data for the fiscal year comes in, the MoF calculates and circulates the final distribution of the Equalization Fund. The deadline prescribed for the final distribution is March of the next year. 90 percent of the fund is distributed in this way, while 10 percent is kept for the purpose of short term borrowing by municipalities to boost their liquidity throughout the year, and these funds are also distributed to municipalities at the year-end through the same mechanism.

The SAI performed an external audit of the distribution of the Equalization Fund in the 2016 fiscal year. The report was published on April 16, 2018. The central finding and key area for improvement of the system related to the inaccuracy of the fiscal data provided by the municipalities, on which the distribution is determined. During 2017, this happened both to the benefit of municipalities (for instance, Podgorica and Cetinje) and to the detriment (such as in the case of Bijelo Polje). MoF was advised to enhance the process of data verification and design accurate instructions, in addition to those provided in the Rulebook, as to what type of data is needed and how it should be provided. MoF was also advised to develop software to support the administration of the Equalization Fund. Another set of findings focused on liquidity loans granted to municipalities, and specifically on issues related to the lack of a comprehensive set of rules to determine which loans are granted and to incomplete documentation regarding the loans extended to municipalities.

Communication of the preliminary findings of SAI audit report raised doubts about the quality and consistency of data submitted by SNGs in the process of determining the distribution for 2018. Because of this, the transfers for the last completed fiscal year (2018) were made based on the distribution from 2017.

The system for allocating transfers from the Equalization Fund to SNGs is complex. It is based on various criteria that are applied using data from numerous sources delivered under different timeframes and without opportunity for verification of consistency and accuracy. The system was assessed to be transparent and rule-based, but its complexity is, reflected in the difficulties MoF encounters in its application. After serious doubts were raised about the accuracy of fiscal data received by municipalities, in 2017 MoF decided to base the split of the Equalization Fund for 2018 on the 2017 figures. This was primarily inspired by the findings of the SAI audit report on the system of transfers to SNGs. In addition, 10 percent of the Fund is used to grant short-term liquidity loans to municipalities without a rule-based framework. Finally, the distribution of the conditional grant used for public investments is based on a system that could be more transparent in terms of prioritization.

In summary, 90 percent of the Equalization Fund is normally distributed based on a set of comprehensive rules, but there is no transparent, rule-based system for distribution of 10 percent of the Equalization Fund and the conditional transfers. Although there are issues with its implementation that have to do with a lack of data reliability, the distributions in the years prior to 2018 were made based on this system. 90 percent of the Equalization Fund amounts to €31.2 million, which qualifies as most of the transfers to SNGs (76 percent). However, in 2018, the reference year for the dimension, this system was not applied due to the above described circumstances.

Based on the analysis and supporting evidence, the rating for this dimension is D.

Dimension 7.2. Timeliness of information on transfers

This dimension assesses the timeliness of reliable information provided to SNGs on their allocations from CG for the coming year.

The legislation that was in force when the 2018 budget was prepared (the December 2017 version of the LFLSG), prescribes that municipalities have to prepare their draft budgets and submit them to their local parliaments for discussion and approval by the end of November. As a necessary part of the budget documentation submitted to the local parliaments, municipalities are required to obtain relevant approvals on their draft budgets from the MoF.

Applications for conditional grants are submitted by the end of September. The Law on Financing of Local Self-Governments authorizes the GoM to decide on these applications; however, it does not specify a deadline for those decisions. In the case of the unconditional grants, the LFLSG prescribes that the MoF circulates the indicative distribution of the Equalization Fund by the end of October, which allows four to five weeks before the deadline for submission of the draft budget decision by municipalities.

In practice, however, this provision is not strictly followed. Although the indicative distribution of the Equalization Fund that should have been the basis for municipalities' 2018 budget preparation was to have been distributed by the end of October 2017, MoF published the distribution only on January 10, 2018,[38] well after the beginning of the fiscal year. This happened after MoF attempted to verify and correct the inconsistencies in the data submitted by municipalities identified earlier, as a result of the SAI audit report on the Equalization Fund distribution.

In December 2017, under article 76h of the LFLSG, the MoF was granted special permission to delay publishing the indicative distribution of the Fund for 2018 until the end of June 2018. This was done to overcome the legal issues around the regular provision, which mandates that the distribution be published by the end of October of the previous year.

Judging from the contents of article 76 of the LFLSG, it seems that the indicative distribution had been published late in other years prior to fiscal 2018. The version of the LFLSG from the end of 2017 contains all previous modifications of the article 76 that contain provisions allowing MoF to distribute the plan later than the date set out by article 34. This was the case in fiscal years 2015, 2016, and 2017.

Based on the analysis and supporting evidence, the rating for this dimension is D.

[38] Official Gazette of Montenegro 002/18.

PI-8 Performance information for service delivery

This indicator examines the service delivery performance information in the executive's budget proposal or its supporting documentation in year-end reports. It determines whether performance audits or evaluations are carried out and assesses the extent to which information on resources received by service delivery units is collected and recorded. The time period covered for Dimension 8.1 performance indicators and planned outputs and outcomes is the next fiscal year, and for Dimension 8.2 outputs and outcomes is the last completed fiscal year, which was 2018. For Dimension 8.3 and Dimension 8.4 the last three completed fiscal years, 2016-18, were used. Coverage of the indicator refers to the Central Government of Montenegro, as there are no services managed by other tiers of government that are significantly financed by CG.

Summary of scores and performance table PI-8

Indicator/Dimension	Score 2019	Brief justification for score
PI-8 Performance information for service delivery	**D+**	Scoring method M2 (AV)
8.1. Performance plans for service delivery	D	No policy or program objectives, related performance indicators, outputs, and outcomes were formulated for budget programs.
8.2. Performance achieved for service delivery	D	Reports on performance results for outputs and outcomes were not produced.
8.3. Resources received by service delivery units	A	Information on resource received was available for at least two large ministries and reported annually.
8.4. Performance evaluation for service delivery	D	There were no internal performance evaluations for service delivery units. SAI performed 10 performance audits in the past three years. However, the subject and comprehensiveness of this report was insufficient for a C score.

Source: World Bank.

Dimension 8.1. Performance plans for service delivery

This indicator assesses the extent to which key performance indicators for the planned outputs and outcomes of programs or services that are financed through the budget are included in the executive's budget proposal or related documentation at the function, program, or entity level.

This performance dimension, as well as the remaining three dimensions under PI-8, are closely linked with the degree of program budgeting implementation.

The importance of the program budget for the outcomes of the PFM system was recognized as early as 2008. The guidelines for its implementation were contained in the 2008 Decision on the Manner of Preparation and Content of the Program Budget of the Spending Units adopted by GoM. The decision obliged budget users to develop their annual budgets in line with principles of program budgeting, including typical elements such as program definition, objectives, goals, and performance indicators, as well as to adopt a quarterly reporting schedule. In fact, implementation of the Decision has not gone further than supplementing existing budget classifications (economic and functional) with program classification, starting from the 2009 budget.

In November 2017, GoM introduced a new Decision on the Manner of Preparation and Content of the Program Budget of the Spending Units. However, the assessment of the Budget Law for 2019 and the accompanying documentation, together with the budget circular and the forms that budget users submitted in formulating their annual budget requests, showed that there was very limited practical implementation of the new Decision. There is no information published on planned activities and/or objectives and indicators to be achieved by government policies/programs at the government or line ministry level. With regard to performance indicators for service delivery, Article 9 of the Decision foresees that they will be introduced starting only from fiscal 2020. **Based on the analysis and supporting evidence, the rating for this dimension is D.**

Dimension 8.2. Performance achieved for service delivery

This dimension examines the extent to which performance results for outputs and outcomes are presented either in the executive's budget proposal or in an annual report or other public document, in a format and at a level that is comparable to the plans previously adopted within the annual or medium-term budget presented separately by each ministry.

MoF does carry out, but not publish, performance-based expenditure reviews. Regular budget execution reporting takes place on monthly, quarterly, and annual basis. However, these reports do not refer to service delivery performance indicators and/or objectives, as these are not formulated prior to budget formulation.

Based on the analysis and supporting evidence, the rating for this dimension is D.

Dimension 8.3. Resources received by service delivery units

This dimension measures the extent to which a system is in place to monitor the level of resources actually received by service delivery units over the last three fiscal years.

There is consistent and regular upward flow of financial information from service delivery units (such as schools and medical institutions) to the accountable institutions (such as the Ministry of Education or the Health Insurance Fund). Detailed data (broken down by sources) are retrieved monthly from each institution and MoF is notified in the form of a monthly consolidated report. A detailed report containing revenues and expenditures of each service delivery institution, broken down by source of funding, is provided to MoF annually. **Based on the analysis and supporting evidence, the rating for this dimension is A.**

Dimension 8.4. Performance evaluation for service delivery

This dimension assesses the extent to which the design, efficiency, and effectiveness of service delivery programs is assessed in a systematic manner through independent performance evaluations.

The SAI is the only institution that performs performance audits. The SAI does so in accordance with its annual audit plan. As the table shows below, there were four performance audits in 2016 and 2018, and three in 2017. From June 2017, SAI introduced a methodology for performance audits, which serves as a guideline document for implementing the assessments.

The table below lists the specific performance audit for the years under coverage. As their titles suggest, they were focused and in-depth performance audits dealing with specific functions of only several service providers. As suggested by the insufficient coverage of performance audits done over the three-year period, performance under this dimension is less than required for a C score.

Subjects of performance audit reports by SAI, 2016-18

Performance audit reports in 2018 (subjects)
Efficiency of billing and collection of revenues from the use of forests
Management of projects for construction and reconstruction of educational and science buildings
Efficiency of the tax debt collection system for tax payers in bankruptcy and liquidation
Efficiency of CA in implementing measures for customs debt collection

Performance audit reports in 2017 (subjects)
Energy efficiency in public sector institutions
Efficiency of IA in public sector
Planning of public procurement of medical equipment
Performance audit reports in 2016 (subjects)
Efficiency of collection of tax liabilities from the property of tax payers
Budgetary expenditures for labor disputes
Activities of the Council for improving business environment, regulatory and structural reforms
Efficiency of the tax debt collection system

Source: SAI annual activity reports.

Based on the analysis and supporting evidence, the rating for this dimension is D.

PI-9 Public access to fiscal information

This indicator assesses the comprehensiveness of fiscal information available to the public, based on specified elements of information to which public access is considered critical. The time period is the last completed fiscal year and the coverage is BCG.

Summary of scores and performance table PI-9

Indicator/Dimension	Score 2019	Brief justification for score
PI-9 Public access to fiscal information	**A**	
9.1. Public access to fiscal information	A	All five basic and three out of four additional elements are made available to the public.

Source: World Bank.

Dimension 9.1. Public access to fiscal information

Public access to fiscal information

Basic Elements	Available (Y/N)	Comments
1. Annual executive budget proposal documentation	Y	The annual budget proposal documentation for 2019 was submitted by the GoM to the parliament on December 7, 2018. The complete documentation was published on the website of the parliament on the same day.[39]
2. Enacted budget	Y	The Budget Law for 2019 was adopted on December 28, 2018. The Law was published on December 31, 2018 in the Official Gazette 87/2018.[40]
3. In-year budget execution reports	Y	In-year budget execution reports are made available on the website of the MoF with approximately a one-month lag. The report includes a brief narrative on the trajectory of revenues and expenditures as well as a detailed spreadsheet containing budget execution breakdown by economic classification.[41]
4. Annual budget execution report	Y	The annual budget execution report for 2018 was published on the MoF website at the beginning of March 2019. The report contains two parts. One is a narrative providing a basic overview of main fiscal aggregates, including at the local government level. Another is a spreadsheet with

[39] Available at http://zakoni.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/610/1902-11387-33-18-7.pdf.
[40] Available at http://www.sluzbenilist.me/pregled-dokumenta/?id={04377CE7-F6F1-4422-8AB0-7715EBFC3C3C}.
[41] Available at http://www.mif.gov.me/organizacija/sektor-za-ekonomsku-politiku-i-razvoj/197779/Saopstenje-Izvrsenje-budzeta-Crne-Gore-u-periodu-januar-februar-2019-.

		budgetary data broken down by economic classification.[42] In addition to this initial report, which is made available to the public, the draft Law on the Final Account is also made publicly available within six months of the government's adoption (for example, on June 7, 2019 for the 2018 final account).
5. Audited annual financial report, incorporating or accompanied by the external auditor's report	Y	The external audit of the Law on Final Account (government annual financial statements) for 2018 was published on the website of SAI on October 15, 2018. The draft Law on Final Account was adopted and published in July 2018.[43]
Additional Elements	**Available (Y/N)**	**Comments**
6. Pre-budget Statement	Y	MoF prepares annual Macroeconomic and Fiscal Policy Guidelines for a three-year period. The Instructions contain a detailed background assessment and projections of fiscal revenues, expenditure, and debt. During the last completed fiscal year (2018), the Guidelines were adopted on July 26 and published on the website of the GoM on the following day.[44]
7. Other external audit reports	Y	Other SAI reports covering CG operations are made publicly available on the SAI website as soon as they are prepared and within six months of submission.[45]
8. Summary of the budget proposal	N	GoM regularly issues a follow-up statement after adoption of the Budget Law. The statement contains key elements of interest to the general public. However, the language should be adjusted to accommodate the level of understanding of a non-budget expert.[46]
9. Macroeconomic forecasts	Y	The Macroeconomic and Fiscal Policy Guidelines contain forecasts of GDP and inflation, as well as discussion about the underlying assumptions made with regard to the remaining macroeconomic aggregates (for example, exports, imports, unemployment, consumption, investments, and so on). It is prepared for a three-year period but updated annually. It was endorsed by the GoM on July, 26 2018 and published on the following day.[47]

Source: World Bank.

Key fiscal documents are available to the public in an appropriate and timely manner, as presented above. It should be noted that the non-governmental sector has been quite vocal about the availability of some auxiliary fiscal information and has held that the amount of information classified as confidential has increased, including for example that related to the highway construction, the largest investment in Montenegro's history. Efforts envisioned to further enhance transparency include forming an independent Fiscal Council that would report to the parliament and would have a mandate to independently analyze and report on fiscal policy, fiscal responsibility and transparency, and compliance with fiscal rules.

In terms of PEFA Framework requirements, five basic and three additional elements are made available to the public, therefore the rating for this dimension is A.

[42] Available at http://www.mif.gov.me/organizacija/sektor-za-ekonomsku-politiku-i-razvoj/196979/Analita-javnih-finansija-za-2018-godinu.html.
[43] Available at http://www.dri.co.me/1/doc/Izvje%C5%A1taj%20o%20reviziji%20Predloga%20zakona%20o%20zavr%C5%A1nom%20ra%C4%8Dunu%20bud%C5%BEeta%20Crne%.
[44] Available at http://www.gov.me/ResourceManager/FileDownload.aspx?rId=325611&rType=2.
[45] Available at http://www.dri.co.me/1/index.php?option=com_content&view=article&id=126&Itemid=125&lang=sr.
[46] Available at http://www.gov.me/vijesti/194484/Vlada-utvrdila-predlog-budzeta-za-2019-vise-novca-za-razvoj-zdravstvo-skolstvo-infrastrukturu-i-poljoprivredu-bez-dodatnih-mjera.html.
[47] Available at http://www.gov.me/ResourceManager/FileDownload.aspx?rId=325611&rType=2.

3.3 PILLAR THREE: Management of assets and liabilities

PI-10 Fiscal risk reporting

This indicator measures the extent to which fiscal risks to the central government are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of SNGs or public corporations, and contingent liabilities from the central government's own programs and activities, including extrabudgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters. The assessment is based on the information available for the most recent fiscal year, 2018. Coverage for Dimension 10.1 is CG-controlled public corporations. For Dimension 10.2, coverage is subnational government entities that have direct fiscal relations with the CG, and for Dimension 10.3 it is the CG.

Summary of scores and performance table PI-10

Indicator/Dimension	Score 2019	Brief justification for score
PI-10 Fiscal risk reporting	**C**	Scoring method M2 (AV)
10.1. Monitoring of public corporations	C	MoF as the monitoring agency of public corporations receives financial reports of most public corporations within nine months of the fiscal year end. No consolidated fiscal risk report is being prepared.
10.2. Monitoring of SNGs	B	During the last completed fiscal year, MoF received audited financial statements from 17 out of 23 municipalities within nine months of the end of previous fiscal year.
10.3. Contingent liabilities and other fiscal risks	D	Certain sources of contingent liabilities (such as guarantees) are reported within various documents prepared and published by either GoM or MoF, but the associated risks are not quantified.

Source: World Bank.

Dimension 10.1. Monitoring of public corporations

The list of public corporations in Montenegro includes 32 business entities. Thirteen are fully owned and nineteen are majority owned by the state. Monitoring of these entities is the responsibility of the MoF's Directorate for Local Governments and State-owned Enterprises. The LLAA, together with the LBFR, prescribes that public corporations are obliged to submit their financial statements both to the MoF, under the articles of the LBFR, and to the TA, under the LLAA. In both cases, submission of the statement of financial operations for the previous year has to take place no later than March 31. In addition, the joint stock companies (20 out 32) are obliged to submit both financial statements and audit reports to the Securities Commission of Montenegro (SEC).

Depending on an entity's form of incorporation and size, public corporations are obliged to perform external audit of their financial statements and the full report, together with the opinion of the auditor, is to be submitted to the TA and published on its website. Joint stock companies also report to the SEC. An assessment of audit report availability made on the fifteen largest (by asset size) public corporations showed mixed results. Audit reports for six companies were not available on the websites of the TA, the SEC, or the company. Out of the nine companies that published their audit reports for 2017, five had their audit reports drafted within the six-month period after the end of previous fiscal year, in line with the LAA, but only one (Monteput) managed to publish it before the end of June 2018, and only on its own website.

List of major public corporations and availability of audited financial statements for 2017

Public Corporation	Audit date	Date of publishing	Availability	Total Assets (€, million)
JP Regionalni Vodovod Crnogorsko Primorje	—	—	—	95.1
JP ZA Upravljanje Morskim Dobrom Crne Gore	—	—	—	1.6
Elektroprivreda Crne Gore Ad Nikšić	July 19, 2018	August 7, 2018	SEC, website	891.6
Aerodromi Crne Gore Ad Podgorica	—	—	—	93.4
Monteput Doo Podgorica	April 30, 2018	May 2018	website	17.9
Plantaže 13. Jul Ad Podgorica	—	—	—	70.6
Luka Bar Ad Bar	June, 18	August 8, 2018	SEC	67.2
Montenegro Airlines Ad Podgorica	June 29, 2018	August 8, 2018	SEC	36.9
Hotelska Grupa Budvanska Rivijera Ad Budva	February 21, 2018	August 7, 2018	SEC	179.8
Crnogorski Elektroprenosni Sistem Ad Podgorica	May 25, 2018	August 7, 2018	SEC	213.0
Pošta Crne Gore Ad Podgorica	April 2018	August 8, 2018	SEC	29.9
Željeznička Infrastruktura Crne Gore Ad Podgorica	—	—	—	584.7
Željeznički Prevoz Crne Gore Ad Podgorica	March 2018	August 8, 2018	SEC	30.7
Montecargo Ad Podgorica	—	—	—	17.9
Radio Televizija Crne Gore	June 26, 2018	July 2018	website	28.1
Total assets of the sample public corporations				**2,358.4**

Source: SEC, enterprises' websites.

MoF was in possession of financial statements of all fifteen of the largest public corporations (measured by the size of their assets) within the timeframe envisaged by the LAA, which is the 31st of March. MoF collects performance indicators of all public corporations along with their financial statements.[48]

MoF performs basic assessment of the financial figures submitted by the companies, but does not publish a consolidated report on their performance. MoF does not receive audited financial statements of public corporations, since such obligation is not enshrined by the legislation. When such reports become publicly available, an assessment of potential adverse financial implications (risks) on the central government budget is not performed.

Based on the assessment performed and supporting evidence, the score for this dimension is C.

Dimension 10.2. Monitoring of subnational governments

The LFLSG[49] defines that municipalities of Montenegro are obliged to submit their annual final budget accounts, together with the external auditor report, to local parliaments no later than the end of May. Article 56 of LFLSG mandates that the local parliaments' decisions on the final accounts should be made available to

[48] This is in line with the Rulebook on Design and Submission of Financial Reports of Independent Regulatory Bodies, Legal Entities, Joint Stock Companies, and other Companies in Which the State or Local Self-Governments Hold Majority Stake (last amended in Official Gazette 35/10).

[49] The version of the Law that was effective during 2018, when municipalities were submitting their financial statements for fiscal 2017.

MoF 30 days after the decision has been taken. In addition, municipalities have to submit extracts from financial statements of local public enterprises.

Unaudited financial reports are submitted quarterly to the MoF.[50] These reports contain data on revenues, expenditures, arrears, public debt, and guarantees. Based on those reports, the MoF prepares a consolidated budget execution report as an input for a quarterly budget execution report of the general government. These reports are not published as stand-alone documents and do not contain analytical discussion of fiscal risks.

MoF receives the decisions made on the final accounts of municipalities that contain external auditor reports, after they are adopted. These decisions are, by definition, made public at the time of adoption.[51]

The table below shows the dates of adoption of decisions on final accounts for each municipality during 2018, and an indication of whether the final account was adopted within nine months of the end of fiscal 2017. The table reveals that 15 out of 23 municipalities had their final accounts (that is, audited financial reports) adopted within the 9-month period after the end of 2017. The combined value of the expenditures of municipalities that adopted and published their final accounts was €201.3 million in 2017, which is 75 percent of the total subnational government expenditure of €268.3 reported by municipalities for fiscal year 2017. Scoring under this dimension is determined based on the materiality (that is, the share) of expenditures of local governments being audited and published within nine months from the end of the fiscal year. As the share of Montenegro local governments expenditure for 2017 was 75 percent for municipalities that adopted and published their final accounts, this implies that "most" of the expenditure was audited and published within the prescribed period.

Dates of decision on final account of LGs, during 2018 (for fiscal 2017)

Municipality	Date of decision on final account by local parliament	Adopted within 9 months of the end of fiscal year (Y/N)
Andrijevica	June 29, 2018	Y
Bar	September 10, 2018	Y
Berane	July 16, 2018	Y
Bijelo Polje	December 11, 2018	N
Budva	July 17, 2018	Y
Cetinje	June 6, 2018	Y
Danilovgrad	May 16, 2018	Y
Gusinje	May 11, 2018	Y
Herceg Novi	July 24, 2018	Y
Kolašin	not adopted	N
Kotor	not adopted	N
Mojkovac	July 31, 2018	Y
Nikšić	July 11, 2018	Y
Petnjica	June 1, 2018	Y
Plav	November 22, 2018	N

[50] The current version of the LFLSG (Official Gazette 03/2019) prescribes that municipalities are obliged to do this and this obligation was largely fulfilled during 2019. Apart from the purpose of fiscal risk monitoring, the modifications of the LFLSG have to do with the data inconsistencies found by the audit of the transfer system performed by SAI (as described in the PI-7).

[51] The current version of the LFLSG explicitly obliges municipalities to publish their decisions on final accounts within 15 days of adoption.

Plužine	October 29, 2018	N
Pljevlja	May 3, 2018	Y
Podgorica	September 12, 2018	Y
Rožaje	September 27, 2018	Y
Šavnik	March 30, 2018	Y
Tivat	June 12, 2018	Y
Tuzi	—	—
Ulcinj	October 22, 2018	N
Žabljak	July 17, 2018	Y

Source: Local governments' data.

Based on the assessment performed and supporting evidence, the score for this dimension is B.

Dimension 10.3. Contingent liabilities and other fiscal risks

In order to assess the performance under this dimension, the following potential sources of information on fiscal risks were suggested by MoF and consulted during the assessment procedure:

a) the annual Macroeconomic and Fiscal Policy Guidelines (MFPG). The document contains a brief narrative on the main political risks, (for instance, in relation to NATO membership or EU accession) and economic risks (such as fiscal consolidation, public debt policy, and budget system reforms) that could have bearing on the fiscal position of Montenegro. However, this discussion is rather brief and does not properly address the associated fiscal implications.

b) the 2019-2021 Economic Reform Program (ERP). The ERP builds on some of the risks laid out in the MFPG (for example, the implication of their potential materialization on the tourism sector) to develop an alternative fiscal scenario. The ERP also contains a very detailed report on CG guarantees; however, the report lacks a discussion of the probability of their activation and quantification of potential spillover effects on the CG budget.

c) the Public Debt Report for 2018. This document also contains a thorough discussion on the stock of guarantees, but it does not reference the fiscal risks implied.

d) financial reports of budgetary units (that is, users) and consolidated government financial statements. These do not contain estimates of contingent liabilities, as none of the prescribed forms includes this category. The other sources of explicit contingent liabilities such as PPPs, insurance schemes (for example, deposit insurance), or ongoing litigations are not reported.

Based on the assessment performed and supporting evidence, the score for this dimension is D.

PI-11 Public investment management

This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the government, with an emphasis on the largest and most significant projects. The assessment is based on the fiscal year 2018[52] and covers CG.

[52] Given that framework requirements relate to major capital investment projects, and in 2018 there were only three major projects under implementation as per the framework criteria, and none in the pipeline, for the purposes of 11.1 and 11.2, the three major projects in the portfolio were specifically observed, plus any changes applied in 2018.

Summary of scores and performance table PI-11

Indicator/Dimension	Score 2019	Brief justification for score
PI-11 Public investment management	**D+**	Scoring method M2 (AV)
11.1. Economic analysis of investment projects	D	There are no national guidelines for performing economic analysis (EA) of investment projects. The process of external review is not well established. EA was done for one out of three major investment projects; however, the quality of the assessment could not be assessed, as it is classified as internal and was not available to the assessment team.
11.2. Investment project selection	D	Criteria for investment project selection and prioritization exist and are improved by the new DCB; however, there is no formal evidence to support the application during the capital budget preparation process.
11.3. Investment project costing	D	Costing of all major investment projects is done within the financing request going to MoF. The costing does not include projections that go beyond the fiscal year for which financing is requested.
11.4. Investment project monitoring	B	Physical and financial implementation reports on major investment projects are prepared and made public annually. The reports are prepared by the implementing government unit.

Source: World Bank.

This indicator defines major investment projects as project satisfying both of the following criteria:

- The total cost of the project amounts to 1 percent or more of total annual budget expenditure;
- The project is among the largest 10 projects (by investment cost) for each of the five largest central government units, measured by the units' investment project expenditure.

Total budget expenditure in fiscal 2018 was €1.91 billion, hence the threshold for total project value under the above criteria is €19.1 million. Only three projects satisfied the above criteria in the last completed fiscal year (2018). They are shown in the table below.

Investment projects that qualify as major in fiscal 2018 (€, million)

Project title	Total value
Reconstruction of Berane-Kolasin road, section Lubnice-Jezerine	34.7
Rozaje bypass, second phase	19.8
Bar-Boljare highway, section Smokovac-Uvac-Matesevo	809.6

Source: World Bank.

Dimension 11.1. Economic analysis of investment projects

During 2010, GoM adopted the DCB, which is in essence a guideline document that refers to all stages of public investment life-cycle (that is, from preparation and selection to implementation and monitoring).[53] According to the LBFR, the capital budgeting process runs in parallel to the current budget preparation process. Instructions for its preparation are sent before the overall budget circular is distributed in January. Estimates are that 60 percent of budget users send their capital budget proposals separately, while the rest submit their requests for financing at the same time as for the current (that is, non-capital) budget. The DCB provides

[53] During 2018, GoM adopted a new DCB; however, these guidelines will be applied only during 2019, for preparation of the 2020 capital budget. The decision is available at http://www.gov.me/ResourceManager/FileDownload.aspx?rId=325833&rType=2.

additional details on the format of the application for financing, elements of investment project proposals, criteria for selection, process of prioritization, and implementation reporting. The public investment management framework prescribed by these two pieces of legislation dictates that capital budget proposals are prepared by budget users, then sent to and compiled by MoF, while GoM makes the decision on their prioritization and selection for financing. Capital project implementation lies with the Administration for Traffic for transport projects, while capital investment projects from other sectors are implemented by the Administration for Public Works. Exceptionally, the Bar-Boljare highway construction project implementation is managed by the MTMA and Monteput, the state-owned enterprise that also manages the 4.2-kilometer-long Sozina tunnel, which connects Podgorica and Bar.

Article 6 of the DCB mandates that a cost-benefit analysis (CBA) be conducted as part of feasibility studies for all capital projects that exceed €5 million in total value. The Decision does not envisage external review of the document.[54] This provision was not implemented in the preparation of two out of three major investment projects that were part of the 2018 budget. The investment project for construction of the Bar-Boljare highway included the preparation of several feasibility studies, among them a CBA. Two such studies were performed in 2009 and 2012, but their scope did not match that of the project being implemented. The feasibility study prepared specifically for the current project (that is, a feasibility study that matched the current project's scope) was prepared by the company implementing the project. This study is classified as internal and was not made available to the assessment team, thus it was impossible to judge the appropriateness of its format and quality. The study was not reviewed as part of an official procedure. Based on the narrative assessment of the MTMA, conveyed over the course of the assessment, the study was brief and done in accordance with the methodology of the investor. As of March 2019, through an EU-funded regional Infrastructure Project Facility initiative, MTMA has commissioned a company to perform a full-fledge feasibility study, including a CBA, in line with EU guidelines. The study is expected to be delivered by March 2020. Finally, it is important to highlight that the size of the Bar-Boljare highway project is such that its budget comprises more 25 percent of Montenegro's GDP and carries a significant amount of financial risk that could spill over to the GoM.[55] The framework proposed under this dimension, and the PI-11 as a whole, serves as a precautionary mechanism within which project ideas are developed, costed, and thoroughly assessed in a formal procedure that aims to mitigate risks and to ensure the most effective use of public funds.

According to local authorities, the bases (including the economic basis) for the decisions on whether to pursue two other major investment projects were embedded in the annual Plan for Regular and Capital Maintenance, Reconstruction, and Construction of State Roads of Montenegro for 2018 and in the Strategy for Development and Maintenance of the State Roads of Montenegro. The quality of economic assessment in these documents cannot be deemed sufficient to satisfy the dimension's requirements.

National guidelines for conducting a CBA do not exist. One of the reasons national guidelines do not exist is a weak incentive from the local legal framework. The Law on Spatial Planning and Construction (Official Gazette 11/2019) does not require any type of economic assessment in order to acquire a building permit for large public investment projects. With regard to the requirements for this dimension, the new DCB from 2018 has not introduced material changes comparing to the previous DCB.

Based on the assessment performed and supporting evidence, the score for this dimension is D.

[54] An exception to this is the Bar-Boljare highway construction project, for which a commission for review of technical documentation was established by a separate GoM decision; however, the review does not encompass economic assessments.
[55] Please refer to PI-10 above for a detailed performance assessment regarding fiscal risks reporting.

Dimension 11.2. Investment project selection

The DCB defines the framework for investment project selection and prioritization. There are several criteria that need to be fulfilled before a project proposal is formulated. These include an analysis of the project's strategic relevance, the availability of appropriate planning documentation, an assessment of the project's current budget, and, for large projects, a CBA. Who undertakes the review of project proposals against these criteria—and whether there is any review at all in practice—remains unclear. The Decision mandates that the prioritization process in carried out by the Commission for Determining Capital Investment Priority List (Article 10) (CDCIPL). The CDCIPL is envisaged as a high-level body, headed by the Prime Minister and including Deputy Prime Ministers as members. The criteria for project prioritization are described in article 7 of the Decision. These criteria are qualitative and include a set of main criteria (for example, whether the project contributes to the elimination of security risks, whether the project is financed from donations, and whether budget co-financing is necessary for project implementation) and additional criteria (for example, whether the project contributes to balanced regional development).

The CDCIPL was not established by a formal act of the government. Its function is performed by a formal body that already existed, the composition of which matches the one of the CDCIPL. There are no formal procedures regulating its work nor is there evidence to document the prioritization performed in 2018. The capital budget is formulated as part of the budget preparation procedure defined by the LBFR.

MoF formulates the instruction for the capital budget and distributes it by the end of January to all budget users; budget users are obliged to send their capital budget proposals by the 15th of March. In practice, however, capital budget proposals are sent together with the current budget proposal in July. A preliminary draft Budget Law is formulated by MoF, which aggregates individual budget requests and aligns them within the framework laid out in the Macroeconomic and Fiscal Policy Guidelines. The draft Budget Law is discussed as a whole (that is, the capital budget is not formally separately discussed) and adopted by the GoM by mid-November.[56]

The 2018 DCB introduced a set of very detailed, quantitative prioritization criteria. They are clear and measurable and include items such as: whether there are any legal (such as ownership) disputes, an overall project design, a contribution to balanced regional development, a link to existing investment projects, and a positive effect on environment. The criteria do not include references to the economic or financial viability of an investment project. The DCB lays out a scoring matrix, under which a number of points from five to 20 is attached to each prioritization criteria. The maximum number of points is 100. These criteria refer to and favor investment projects that are ready for implementation. The 2018 DCB does not specify the pre-selection phase of the public investment cycle, which assesses projects at their inception (that is, at the project idea stage). The pre-selection or pre-screening process framework must be in place in order to assure that only economically and socially valuable projects enter the phase of project preparation that sometimes requires significant budget outlays.

The latest DCB passed in 2018 contains key elements needed to establish a capital investment selection and prioritization framework. However, as discussed, the implementation in practice will need to be monitored and the time period for this assessment does not capture the enforcement of that act.

Based on the assessment performed and supporting evidence, the score for this dimension is D.

[56] Please refer to PI-17 for details of the budget preparation process.

Dimension 11.3. Investment project costing

The Explanation to the 2018 Budget Law contains a list of all investment projects to be implemented during the year. The total cost is presented in a table in which each and every project is discussed under the relevant program, in varying degrees of detail.

Other than the Bar-Boljare highway construction, the two major capital investments are managed by the Directorate for Traffic. Their budgets are located under the section of capital budget managed by this institution. The Budget Law for 2018 contains only the aggregate planned capital costs for these projects, without reference to other costs to be incurred in this or in following fiscal years.

The budget for the Bar-Boljare highway construction project is discussed in more detail in the Explanation. It contains a breakdown of the total costs into capital costs, implementation supervision costs, project management costs, associated costs incurred by the Commission for review of technical documentation, and environmental impact assessment costs. The cost breakdown discussed therein refers only to the year 2018. The Budget Law does not contain any reference to the capital or recurrent costs to be incurred in the forthcoming years. The budget or the Bar-Boljare highway is also shown under the section for Administration for Traffic, although the project is managed directly by the MTMA through Monteput.

The budget request (that is, the request for financing) for fiscal 2018 of the Directorate for Traffic, formulated and sent to the MoF as part of the budget preparation procedure, contained more details on the Bar-Boljare highway construction project. The total required financing was broken down by highway sub-sections and contained substantial description of the associated capital and current costs. The budget request referred only to fiscal 2018 and did not include estimates of the recurrent costs. The budget request for the other two major investment projects (the Rozaje bypass and the reconstruction of the Lubnice-Jezerine section of the Berane-Kolasin road) included information on the sources of financing, period of implementation, and total project costs, although not broken down by year. The budget request referred only to 2018, the fiscal year for which the budget was prepared, and did not contain reference to recurrent costs.

Based on the assessment performed and supporting evidence, the score for this dimension is D.

Dimension 11.4. Investment project monitoring

The implementation monitoring and reporting framework of investment projects is defined by the DCB (Article 15). The DCB prescribes that the Administration for Traffic and the Administration for Public Works report at least quarterly on investment implementation to MoF in a standardized format.

In practice, however, the Administrations did not report to MoF directly during fiscal 2018. Montenegro's public investment monitoring framework does not recognize a unit designated for public investment monitoring, nor is there a specialized software solution (a monitoring system) designed to support this process. Financial and physical progress of investment projects is monitored closely by the implementing agencies (administrations). Financial reports of the Administrations showing the financial implementation of capital projects were submitted quarterly to the MoF Treasury Directorate, as for any other spending unit. The financial execution of the capital budget was shown on aggregate level as part of in-year (quarterly) budget execution. The reporting on investment project implementation is not done in a standardized format customized to fit the needs of a public investment monitoring framework.

While financial implementation reporting is done in the manner and frequency described above, the physical implementation reports are prepared and submitted to GoM on annual basis. Both Administrations prepared their annual reports, which encompassed both the financial and physical implementation of projects, in 2018 and submitted them for approval to the GoM. All three major investment projects identified were part of the

Report on Implementation of the Plan for Regular and Capital Maintenance, Reconstruction and Construction of State Roads for 2018. The report was submitted to and approved by GoM in March 2019.

Based on the assessment performed and supporting evidence, the score for this dimension is B.

PI-12 Public asset management

This indicator assesses the management and monitoring of government assets and the transparency of asset disposal. The assessment is based on the last completed fiscal year, 2018. The coverage is CG for financial assets (12.1 and related part of 12.3) and BCG for non-financial assets (12.2 and related part of 12.3).

Summary of scores and performance table PI-12

Indicator/Dimension	Score 2019	Brief justification for score
PI-12 Public asset management	**D+**	Scoring method M2 (AV)
12.1. Financial asset monitoring	C	Cash held on accounts and tax arrears are the main categories of financial assets, and records on those items are available. The GoM has low level investments in available cash and other categories were assessed as representing a minor part of overall assets, but consolidated information on the performance of the financial assets portfolio is not available.
12.2. Nonfinancial asset monitoring	D	The government maintains a very basic register of movable and immovable assets. This is incomplete and captures only aggregate data.
12.3. Transparency of asset disposal	C	Regulations are in place that prescribe rules for the transfer or disposal of assets; however, complete information on transfers and disposals is not available.

Source: World Bank.

Dimension 12.1. Financial asset monitoring

Best practices indicate that the government should keep a record of its financial assets, with such assets recognized at market value that is consistent with international accounting standards. Similarly, information on the performance of such assets should be published each year.

The main categories of financial assets held by the central government are cash on the government's accounts and tax arrears. Data on those categories is available in the government's draft Law on Final Account (financial statements) and TA reports, respectively. The SAI noted concerns about tax arrears data, but these records have improved over the past three years (see also PI-19.4).

Other categories of financial assets are not represented in material amounts. Securitization of funds is limited and the government does not invest excess cash in securities or other holdings frequently or in material amounts. Receivables other than tax arrears, as well as loans given, are likewise assessed as low and do not represent a major category of financial assets. Because accrual-based accounting principles are not used, data on some categories of financial assets is limited or not available in terms of the amount or method of valuation.

Some fragmented analysis of individual classes of assets is available through separate reports, but consolidated information on the performance of financial assets is not published.

Based on the analysis and supporting evidence, the score for the present dimension is C.

Dimension 12.2. Nonfinancial asset monitoring

The Law on State Property (LSP) [57] and its by-laws govern the use, management, and disposal of assets that belong to the GoM and local self-governments. State authorities, in accordance with Article 50 of the LSP, are required to submit data on movable and immovable property for the previous year to the Property Administration by the end of February of the current year. The LSP defines as immovable assets buildings, business premises, garages, apartments for official needs, and other construction objects used by the authorities for exercising their functions. The movable property includes equipment, means of transport, and other movable assets, as defined by the LSP and not otherwise covered under another definition.

Pursuant to Article 33c of the LSP, the Property Administration is an independent body that performs tasks related to keeping unique record of state property in accordance with international accounting standards, keeping the register of state property, ensuring the purposeful use of state property, keeping records of concluded contracts on acquisition and disposal of immovable and movable property and other goods of greater value in state ownership, and other related functions.

Nonfinancial assets are recorded in the software kept by the Property Administration, based on the information provided by direct budget holders (spending units). The data is kept in an aggregate format by groups of assets, and no information on the value, usage, or age of individual assets is provided. In addition, not all spending units comply with the legislative requirement to submit data on movable and immovable property; therefore, the data included in the register is not complete. There are no enforcement measures in place to improve compliance.

Non-financial assets

Categories	Subcategories	Where captured	Comments
Movable assets	Equipment, means of transport, and so on	The data are stored in software under "Fixed Assets by Institution." Entries are made in full, upon receipt.	The assets are held by the state of Montenegro and managed by the government. Under current rules, information is collected and updated annually.
Immovable assets	Buildings, business premises, garages, apartments for official needs, and so on.	The data are stored in software under "Fixed Assets by Institution." Entries are made in full, upon receipt.	The assets are held by the state of Montenegro and managed by the government. Under current rules, information is collected and updated annually.

Source: World Bank.

Based on the analysis and supporting evidence, the score for the present dimension is D.

Dimension 12.3. Transparency of asset disposal

This dimension assesses whether procedures for transfer and disposal of assets are established through legislation, regulation, or approved procedures.

Rules on asset disposals are specified in the LSP and the Regulation on Sale and Lease of Public Property.[58] The LSP describes general rules regarding the disposal of state property regarding the competent authorities,

[57] LSP 21/09 dated March 20, 2009.
[58] Official Gazette 44/10 from July 30, 2010.

disposal of small value assets, exchange of assets between the authorities, lease conditions, public auction, and so forth. According to the LSP, the parliament of Montenegro, at the proposal of the government, decides on disposition of physical assets and other goods in state ownership in value exceeding €150 million.

The Regulation provides detailed procedures for the sale and lease of immovable and movable property by public auction or collection of bids. Such sales or leases could be initiated by the spending unit that uses and manages the assets, but an opinion should be sought from the MoF as well. Immovable assets subject to this regulation are land, forests and forest land, buildings, special parts of buildings, and other structures built on land owned by the state. The movable property includes equipment and vehicles.

The Property Administration keeps records of concluded contracts on acquisition and disposal of immovable and movable property and other goods of greater value in state property, and of fixed and movable assets with an individual value in excess of €3,000. Partial information about the sale and leasing of state property is provided in the annual report prepared by the Property Administration. Receipts and value from the sale of assets are included in the State Treasury General Ledger and reported in the draft Law on the Final Account. Nevertheless, complete information (original cost, disposal value, date of acquisition, and date of disposal) on transfers and disposals is not available.

The Privatization and Capital Investment Council was established by the Law on Privatization of the Economy for the purpose of managing, controlling, and ensuring the implementation of the privatization process, and for coordination of activities in the implementation of capital projects in Montenegro. Each year, the Council prepares a privatization plan based on the proposals submitted by the ministries, state funds, or tender commissions of the Council. The plan is approved by the government and made public. For all privatization processes, the Privatization Council announced public calls for participation in the public tenders for the privatization of public companies and sale of state shares on its website and in the daily newspapers. The Council publishes its annual activity reports on its website.

Based on the analysis and supporting evidence, the score for the present dimension is C.

PI–13 Debt management

This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements. The indicator covers CG, while the time period assessed is “at the time of assessment” for dimension 13.1, last completed fiscal year for dimension 13.2, and “at the time of assessment” with reference to the last three completed fiscal years for dimension 13.3.

Summary of scores and performance table PI-13

Indicator/Dimension	Score 2019	Brief justification for score
PI-13 Debt Management	**A**	Scoring method M2 (AV)
13.1. Recording and reporting of debt and guarantees	A	All central government debt and guarantee transactions are accurate, updated, and reconciled monthly. Central government debt reports are published quarterly. Comprehensive reports, including those on guarantees and local government debt, are produced annually.
13.2. Approval of debt and guarantees	A	Public debt is governed by the LBFR, the annual Budget Law and the annual Decision on Borrowing. These three legislative pieces authorize MoF to manage and undertake all debt related

		operations. Annual borrowing is approved as part of the annual Budget Law and related GoM Decision.
13.3. Debt management strategy (DMS)	B	A DMS is prepared for a period of three years, every third year. It includes quantified target ranges for key risk parameters. There is no reporting on DMS implementation.

Source: World Bank.

Dimension 13.1. Recording and reporting of debt and guarantees

Total debt obligations of Montenegro General Government were €3,269 million at the end of 2018, of which 96.46 percent was CG debt.[59] The share of debt originated from external sources (foreign debt) was 84.44 percent. The largest items in the debt portfolio were U.S. dollar denominated Eurobonds, as well as an external loan taken from China's EXIM bank for construction of the highway.

Debt transactions are recorded in a SAP module that was customized to fit the needs of the MoF. All public debt related payment requests are generated in the budget execution module of SAP. The module records public debt transactions and provides basic analytical and reporting features. The transactions generated in SAP flow to the general ledger of the Treasury on the same day. As there is no interoperability between the debt module and SAP, the transactions are recorded in the module either on the same day or the day after.

Most of the funds from international loans used to finance various projects are kept on accounts held at commercial banks. Loan funds are disbursed directly from the relevant financial institution to these accounts during project implementation. When payments related to the project are due, the public institution that implements the project sends a request to the MoF Treasury Directorate to approve the payment. Once approved, the funds are transferred to the STA. At that point, the institution (that is, the budget user) formulates a payment request in SAP that is normally executed on the same day. The outflows from these accounts, kept in commercial banks, are reconciled regularly through the general ledger, either on the same day or the day after. The MoF is notified daily about all transactions taking place in the accounts held at commercial banks for the purpose of financing the projects.

Central government debt is reported quarterly on the website of the MoF.[60] The report contains details on all domestic and external (foreign) debt items, including a description of the trajectory since the beginning of year as well as a brief description of currency and interest rate structures. The quarterly report does not include information on guarantees. MoF reports annually on public (that is, general government) debt.[61] This report is more elaborative and includes information on guarantees and local government debt as well.

The MoF Treasury Directorate is in possession of complete, accurate, and updated information on all debt transactions on a daily level. The MoF reports quarterly on central government debt, excluding guarantees, while general government debt (in the local terminology, "public debt") is reported on at an annual level. Both reports are sufficiently detailed to enable fully comprehend the level and all aspects of this debt.

Based on the assessment performed and supporting evidence, the score for this dimension is A.

Dimension 13.2. Approval of debt and guarantees

The LBFR specifies that all new debt and guarantee can be issued only in line with the annual Budget Law (article 50), which specifies each new item and provides brief description containing the amount, purpose, and

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[59] The local definition of central government debt includes what is traditionally considered central government and state-owned enterprises as well. The Generic Budget Law (Article 2) uses the term "debt" when referring to central government debt, while general government debt is referred to as "public debt."

[60] Available at http://www.mif.gov.me/ResourceManager/FileDownload.aspx?rId=357820&rType=2.

[61] Available at http://www.mif.gov.me/ResourceManager/FileDownload.aspx?rId=359011&rType=2.

creditor, in the case of the project loans. The LBFR states that new borrowing (article 51) and guarantees (article 56) are signed off by the Minister of Finance as the "single debt management entity" responsible for debt management. Also, the LBFR (articles 56 and 59) specifies that MoF is authorized to monitor and maintain records of all debt and guarantees related transactions. In practice, operational matters are handled by the Debt Management Unit of the Treasury Directorate of the MoF.

For deficit financing, the budget specifies the financing needs and potential funding sources. After the adoption of the annual Budget Law, the government adopts the annual Decision on Borrowing,[62] which reiterates the items already specified in the Budget Law and is the basis for initiating the process of issuing new debt and guarantees. Articles 6 and 7 of the Decision for 2018 directly authorizes the MoF to carry out the procedure for issuing debt and guarantees, and assigns the responsibility for signing the related legal documents to the Minister of Finance of Montenegro. This framework is followed closely for each new debt and guarantee issued by Montenegro.

Based on the assessment performed and supporting evidence, the score for this dimension is A.

Dimension 13.3. Debt management strategy

The MoF produces a DMS in accordance with the LBFR. The strategy is prepared for a three-year period every third year. It is adopted by the government in consultation with CBM.

At the time of assessment, the ongoing DMS was brought in in March 2018, covering the period 2018-2020. It was published on the website of the MoF on April 7, 2018.[63] The DMS contains a thorough assessment of the existing debt portfolio including items outside of the central government, such as debts of SOEs and local governments. It also refers to the cost structure as well to as the interest rate profile and currency mix of the portfolio.

The document provides a solid, risk-based framework for determining future policy formulation. It considers developments in government debt level over the reference period as the baseline scenario. From there, it considers four alternative scenarios by varying parameters, such as the maturity of external debt and increases in the share of domestic debt. The strategy considers the quantitative parameters implied by each scenario (such as the average time to maturity of the external and domestic portfolio, percentage of debt maturing in one year, average time to re-fixing in years, debt re-fixing in one year, or non-euro debt share) and considers the cost-effectiveness under different interest rate and exchange rate assumptions. Finally, the DMS makes an explicit decision on the strategy to pursue. The chosen strategy contains a string of quantitative parameters attached to it (such as interest payments as a share of GDP, average time to maturity, debt refixing in one year, fixed rate debt, and so on).

There is no explicit reporting on the implementation of the DMS. The annual report on public debt is adopted by the government and is submitted as part of the Final Account for a fiscal year to the parliament. However, the annual report on public debt for 2018 did not make any reference to quantitative targets and instead qualitatively stated objectives for the 2018-20 DMS.

Based on the assessment performed and supporting evidence, the score for this dimension is B.

[62] Available at http://zakoni.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/392/1678-10434-00-72-18-8.pdf.
[63] Available at http://www.mf.gov.me/rubrike/drzavni-dug/183655/Srednjorocna-strategija-upravljanja-dugom-2018-2020.html.

3.4 PILLAR FOUR: Policy-based fiscal strategy and budgeting

PI-14 Macroeconomic and fiscal forecasting

This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial for developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances. The time period is the last three completed fiscal years. The coverage for Dimension 14.1 is the whole economy and for Dimensions 14.2 and 14.3 it is the CG.

Summary of scores and performance table PI-14

Indicator/Dimension	Score 2019	Brief justification for score
PI-14 Macroeconomic and fiscal forecasting	**B+**	Scoring method M2 (AV)
14.1. Macroeconomic forecasts	B	The government prepares forecasts of key macroeconomic indicators, which are revised annually. The forecasts cover the budget year and the two following fiscal years.
14.2. Fiscal forecasts	B	The government prepares forecasts of the main fiscal indicators, including revenues by type, expenditure by type, and the budget balance, for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions, are included in budget documentation submitted to legislature.
14.3. Macro-fiscal sensitivity analysis	A	The government prepares a range of fiscal forecasts based on alternative macroeconomic assumptions, and these scenarios are published, together with its central forecast.

Source: World Bank.

Dimension 14.1. Macroeconomic forecasts

As part of this medium-term forecasting process, the Directorate for Economic Policy and Development of the MoF prepares the macroeconomic projections covering the budget year and the two following fiscal years. The forecasts are conducted annually and are updated at least once per year as part of the budget preparation process. The Macroeconomic and Fiscal Policy Guidelines prepared by the MoF provide overall macro and fiscal projections for the medium term. The preparation of the Guidelines is required under the LBFR, and the Guidelines were adopted in all of the last three completed fiscal years. The 2018-2021 Macroeconomic and Fiscal Policy Guidelines adopted by the MoF in July 2018[64] provided the fiscal bases for drafting the 2019 Budget Law and the Economic Reform Program for Montenegro 2019-21. The document provided economic and fiscal policy objectives and medium-term macroeconomic and fiscal framework for the three-year period. Based on this, spending ceilings are determined by economic classification and first level spending units that are binding for the budget year, and indicative for the next two years.

Further on, the baseline forecasts of nominal and real GDP growth and inflation are part of budget documentation submitted to the parliament.[65] The Explanation of the Law on Budget, which is an integral part of the law, includes relevant medium-term forecasts of key macroeconomic aggregates described above. Since Montenegro adopted and uses the euro as the legal tender, and thus does not exercise monetary policy, the forecasts do not include interest rates and exchange rates.

[64] 2019-2022 Macroeconomic and Fiscal Policy Guidelines were adopted by the MoF in July 2019.
[65] Available at http://zakoni.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/610/1902-11387-33-18-7.pdf.

The annual budget preparation process runs in parallel with the preparation of the Economic Reform Program (ERP). The ERP contains medium-term macroeconomic projections (including for GDP growth, inflation, trade balance, and capital flows), budgetary plans for the next three years, and a structural reform agenda. The ERP is prepared on an annual basis and covers a three-year horizon, with the last ERP covering the period 2019-2021. During the ERP preparation phase, representatives of the Directorate for Economic Policy and Development share the macroeconomic and fiscal forecast with the EC, which *de facto* reviews them. The EC then reviews the final ERP document and publishes an assessment[66] of the ERP, which includes the assessment of the economic outlook and risks. The timing of those reviews does not allow the government to integrate the review into the medium-term fiscal framework and such external review, while a positive step in the sense of the quality assurance, does not represent an independent review embedded in the country's system and institutions as a formal requirement for a review.

Based on the analysis and supporting evidence, the score for this dimension is B.

Dimension 14.2. Fiscal forecasts

Based on macroeconomic projections explained in Dimension 14.1, the Directorate for Budget in the MoF prepares the fiscal projections for the planning year and the next two years. These projections are included in the Macroeconomic and Fiscal Policy Guidelines that are issued on an annual basis as part of the budget preparation process. The Guidelines were issued in all of the last three completed fiscal years. The projections include details of revenue, expenditure, and primary and overall balances, and financing forecasts for central, local, and consolidated general government accounts. The projections also reflect government-approved expenditure and revenue policy setting.

The revenue and expenditure projections are presented as part of the Explanation to the Budget Law, which is an integral part of documentation of the annual Budget Law.[67] The revenue projections are presented by revenue type (direct and indirect tax revenues by type, non-tax revenues by type, and grants), and the expenditure projections are presented by expenditure type (economic classification for all three years and functional classification for the planning year), based on the following year estimates of the preceding approved budget, adjusted to take into account the budget and medium-term fiscal impact of any post-budget expenditure policy decisions.

Even though the budget documentation includes fiscal forecasts for the budget year and two following years, with a brief explanation of deviations from the planned and previous years' executed budgets, variations from the fiscal forecasts from the previous year's budget are not described, explained, or published as part of the annual budget process.

Based on the analysis and supporting evidence, the score for this dimension is B.

Dimension 14.3. Macro-fiscal sensitivity analysis

As part of upgrading the macro-fiscal analysis capacity, a macro-econometric model (MMM), which enabled simulation analysis and assessment of the impact of structural reform measures (including the policies proposed in the ERP) was developed by the MoF's Directorate for Economic and Development Policy. The

[66] Available at https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/montenegro_2019-2021_erp.pdf.
[67] The 2019 Budget Document is available at http://zakoni.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/610/1902-11387-33-18-7.pdf.

establishment of the MMM provided an assessment of the impact of the Economic Reform Programs for 2018-20 and 2019-21.

The ERP discusses the baseline and the alternative scenarios for sensitivity analysis. The alternative scenario assumes the realization of a set of negative risks. The ERP 2019-21 considers an increase in the price of oil and a drop in investment activity, which has been the main driving force behind strong growth in recent years. The overall net effect of the assumed negative risks is then quantified and ultimately translates into weaker real economic growth. Hence, the alternative scenario is based on weaker economic growth assumption for a three-year horizon. Assuming lower growth, the ERP presents the alternative fiscal scenario with lower revenues, higher expenditures, and thus higher fiscal deficits as a share of GDP compared to the baseline scenario. Finally, the ERP also discusses the implications of slower growth in the public debt trajectory in the medium term, as higher needs for deficit financing would be covered by higher external borrowing. A similar analysis has been conducted in the two preceding ERPs.

Based on the analysis and supporting evidence, the score for this dimension is A.

PI-15 Fiscal strategy

This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals. The time period for Dimension 15.1 is the last three completed fiscal years and for Dimension 15.2 and Dimension 15.3 it is the last completed fiscal year. The coverage is CG.

Summary of scores and performance table PI-15

Indicator/Dimension	Score 2019	Brief justification for score
PI-15 Fiscal strategy	**B**	Scoring method M2 (AV)
15.1. Fiscal Impact of policy proposals	A	The government prepares estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year and the following two fiscal years, which are submitted to the legislature.
15.2. Fiscal strategy adoption	A	The government has adopted, submitted to the legislature, and published a current year fiscal strategy that includes explicit, time-based, quantitative fiscal goals and targets together with qualitative objectives for at least the budget year and the following two years.
15.3. Reporting on fiscal outcomes	D	The budget documentation, including medium-term fiscal strategy and guidelines, does not provide any information on deviation from fiscal targets or on progress against their strategy.

Source: World Bank.

Dimension 15.1. Fiscal Impact of Policy Proposals

The Fiscal Strategy 2017-2020 includes a detailed explanation of all significant revenue and expenditure policy measures, including their fiscal impact for each of the years covered by the Fiscal Strategy. The explanation includes estimation of the additional revenue, expenditures, and impact on the fiscal result for each measure. The Strategy was adopted by the parliament in July 2017. Generally, the annual Budget Law includes a breakdown of revenues and expenditures by economic classification for the planning year and the next two years. Each time when a supplementary budget is passed, the MoF prepares a detailed explanation of the rationale for the supplementary budget, with quantitative assessment of deviation from the original targets. Both the 2017 and 2018 budgets were amended twice.

The ERP also provides a medium-term perspective of the fiscal impact of the proposed structural measures, since it covers the three-year period and it is updated annually. In the 2019-21 ERP, the government explained the fiscal implications on revenue and expenditures for 19 policy reform measures for the period covered by the ERP, with a brief description of the measure, its implementation timetable (for the next three years), its potential impact on growth and competitiveness, and risks associated with the measure, as well as its estimated quantification and budgetary impact. After providing these details for individual polices, a consolidated breakdown was provided for the 2019-21 period by source of funds (donations, credit, and budget). The annual breakdown of the expenditure measures is also provided according to four main economic classification (wages, goods and services, subsidies and transfers, and capital expenditures including recurrent cost.) **Based on the analysis and supporting evidence, the score for this dimension is A.**

Dimension 15.2. Fiscal Strategy Adoption

The LBFR[68] (article 17) stipulates that the parliament adopts a fiscal strategy prepared by the government, covering the period of the term of the government (four years), which is not updated during this term. The government prepares a strategy and submits it to the parliament, together with the opinion from the CBM. The CBM is obliged to provide its opinion within 30 days as of the day of submission. In July 2017, the parliament adopted the Fiscal Strategy for the period 2017-20,[69] which is the valid strategy for the entire period, including the last completed fiscal year. The Strategy includes time-bound quantified fiscal goals and targets, with qualitative objectives and narratives, for the period it covers.

The Fiscal Strategy serves as the basis for the preparation of the annual Macroeconomic and Fiscal Policy Guidelines, which provide three-year macroeconomic and fiscal policy objectives and a three-year macroeconomic and fiscal framework based on which it determines the spending ceiling for spending units. The spending ceilings are obligatory for the budget year, and indicative for the next two years. The 2018-2021 Guidelines served as the basis for preparation of the 2019 Budget Law and Economic Reform Program 2019-2021. Both the 2019 budget documentation submitted to the parliament and the ERP adopted by the government include the three-year macroeconomic and fiscal frameworks. The fiscal framework includes the revenue and expenditure projections by their type, the levels of fiscal balance, and the financing needs and source of financing.

Montenegro has fiscal rules that are embedded in the LBFR. These include rules that: (i) the primary fiscal balance should be positive, (ii) current expenditures and transfers should be lower than current revenues and grants, (iii) the cash fiscal deficit of the general government should not exceed 3 percent of GDP, (iv) public debt should not exceed 60 percent of GDP, (v) total guarantees should not exceed 15 percent of GDP, and (vi) local government’s fiscal deficit should not exceed 10 percent of their revenues in the current year. While the government does not prepare a separate report on compliance with the fiscal rules, this is included in the Macroeconomic and Fiscal Policy Guidelines 2018-21. **Based on the analysis and supporting evidence, the score for this dimension is A.**

Dimension 15.3. Reporting on fiscal outcomes

As part of the Explanation to the 2019 Budget Law proposal submitted to parliament, an estimation of the current year execution of the central and local government budgets, together with an explanation on revenue/expenditure deviations from the approved targets, as set by the approved budget law. The 2019 budget documentation included the estimates for each revenue and expenditure category (economic

[68] Official Gazette of Montenegro, 20/14, 56/14, 70/17, 7/18, and 55/18.
[69] The Fiscal Strategy for 2017-2020 was issued in Official Gazette no: 52/2017 and can be found at http://zakoni.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/216/1498-9444-00-72-17-35.pdf.

classification) at the aggregate level for the current year, 2018. The draft Budget Law submitted to the parliament was published on the parliament's website.[70] However, no report that would provide any information on the progress against implementation of the Fiscal Strategy, explanation of deviations, or corrective actions to be taken is produced as part of the annual budget documentation or for internal government purposes. **Based on the analysis and supporting evidence, the score for this dimension is D.**

PI-16 Medium-term perspective in expenditure budgeting

This indicator examines the extent to which expenditure budgets are developed for the medium term, within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans. For Dimensions 16.1, 16.2, and 16.3, the assessment is based on the last budget submitted to the legislature, (FY 2019). Dimension 16.4 was assessed on the last budget submitted to the legislature (FY 2018), and the current (FY 2019) budget. The coverage is BCG.

Summary of scores and performance table PI-16

Indicator/Dimension	Score 2019	Brief justification for score
PI-16 Medium-term perspective in expenditure budgeting	**C+**	Scoring method M2 (AV)
16.1. Medium-term expenditure estimates	C	The annual budget presents estimates of expenditure for the budget year and the two following years for the allocated by economic classification.
16.2. Medium-term expenditure ceilings	A	Aggregate and first-level spending units' expenditure ceilings for the budget year and the two following fiscal years are approved by government before the first budget circular is issued.
16.3. Alignment of strategic plans and medium-term budgets	C	Medium-term strategic plans are prepared for some ministries. Some expenditure policy proposals in the annual budget estimates align with strategic plans.
16.4. Consistency of budgets with previous year's estimates	D	Budgetary documents provide no explanations of deviations when compared to the previous year's medium-term documentation and projections.

Source: World Bank.

Dimension 16.1. Medium term expenditure estimates

The 2019 draft Budget Law submitted to the parliament includes the medium-term fiscal perspective covering the 2019-21 period in the Explanation to the Budget Law. The document includes expenditure estimates for state budget, central government, and local administrations by economic classification. The administrative and functional classification breakdown are only available for the budget year, that is, 2019.

Based on the analysis and supporting evidence, the score for this dimension is C.

Dimension 16.2. Medium-term expenditure ceilings

The Macroeconomic and Fiscal Guidelines provide expenditure ceilings for the budget year and two following years. The LBFR prescribes the adoption of the guidelines in April and the issuance of the budget circular in May. The definition of the expenditure ceiling is determined as the total amount of budget spending, excluding for repayment of debt and interest expenditures financed from donation and co-financing expenditures, as well as expenditures related to natural disasters or any types of unpredictable circumstance. Once the overall

[70] http://zakoni.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/610/1902-11387-33-18-7.pdf.

ceiling is determined, the Macroeconomic and Fiscal Policy Guidelines provide a breakdown of the ceiling's CG budget, state funds budget, capital budget, and budget reserves for the 2019-21 period. Similarly, the administrative breakdown of these ceilings is provided by the first-tier spending units, again with a medium-term perspective. Due to a delay, in 2018 the Macroeconomic and Fiscal Guidelines were adopted on July 26, 2018, while the budget circular was issued on July 30, 2018.

Based on the analysis and supporting evidence, the score for this dimension is A.

Dimension 16.3. Alignment of strategic plans and medium-term budgets

There are over one hundred sector strategies; however, there is no clear mechanism for operationalizing the strategic plans and objectives in medium-term budgets. The sectoral strategies and related action plans include clearly defined objectives, but only in some cases are there dedicated programs included in the budget with sufficient allocations that support implementation of actions and achievement of objectives. (For example, the Public Administration Reform Strategy 2016-20 and its action plan 2018-2020 have been fully costed and the allocated funds for 2019 have been included in the 2019 budget through a separate budget line.) In addition, due to weak program budgeting, the programs do not have clearly defined objectives, performance indicators, outputs, and outcomes (see above PI-8.1). The approach is on a case by case basis, rather than systemic. As part of ongoing additional PAR reform efforts, the government adopted the Methodology for Medium Term Work Planning of Ministries in October 2018. As part of this new initiative, which will roll out in 2020, all ministries will prepare their strategic plans and link their medium-term plans to those strategies. The government is in the piloting process with three ministries: Ministry of Sustainable Development, Ministry of Economy, and Ministry of Agriculture and Rural Development.

The MoF is involved in the development of various sectoral plans and action plans in order to ensure these documents reflect the relevant budgets and demonstrate linkages with the government's program, the annual Budget Law, and the country's Macroeconomic and Fiscal Guidelines.

At the moment, only some expenditure policy proposals are based on strategic plans, including those proposals in the 2019 Budget Law and related medium-term framework.

Based on the analysis and supporting evidence, the score for this dimension is C.

Dimension 16.4. Consistency of budgets with previous year's estimates

Macroeconomic and Fiscal Policy Guidelines provide expenditure ceilings for the budget year and the two following years, while the Explanation to the Budget Law provides expenditure estimates according to economic classifications. Neither of the two documents, however, explains deviations from the previous year's medium-term documentation and projections.

Based on the analysis and supporting evidence, the score for this dimension is D.

PI–17 Budget preparation

This indicator measures the effectiveness of participation by relevant stakeholders, including political leadership, in the budget preparation process and whether that participation is orderly and timely. The time period for Dimensions 17.1 and 17.2 is the last budget submitted to the legislature (FY 2019) and for Dimension 17.3 it is the last three completed fiscal years. The coverage is BCG.

Summary of scores and performance table PI-17

Indicator/Dimension	Score 2019	Brief justification for score
PI-17 Budget preparation	**C+**	Scoring method M2 (AV)
17.1. Budget calendar	C	A clear budget calendar exists and is set out in the LBFR. The calendar allows for spending units two months from receipt of the budget circular to write financial plans. The calendar was largely not adhered to during the preparation of the last budget (2019) submitted to the parliament.
17.2. Guidance on budget preparation	A	The budget circular is comprehensive and clear. It covers total expenditure for entire fiscal year and sets out expenditure ceilings for budget users. The Budget Law for 2019 largely reflected the ceilings prescribed by 2018 circular.
17.3. Budget submission to the legislature	D	The draft Budget Law was sent to the legislature 11 days before the start of the next fiscal year in 2016, 1.5 months before the start of the next fiscal year in 2017, and 25 days before start of the next fiscal year in 2018.

Source: World Bank.

Dimension 17.1. Budget calendar

The budget calendar of Montenegro is clearly set out in Articles 28 to 33 of the LBFR. The Fiscal Strategy is the cornerstone of budgetary policy. This document is developed for the duration of the government's term of office. The standing Fiscal Strategy was brought forward on July 26, 2017. The annual Macroeconomic and Fiscal Policy Guidelines are the basis for the development of the Instructions for budget preparation. However, the LBFR prescribes that instructions for preparation of the capital budget are distributed earlier (by the end January), while draft capital budgets should be sent to the MoF by March 15th.

The table below lists all the actions of the budget preparation process with the deadlines prescribed by the LBFR and the dates when these actions took place, in the case of the last budget submitted to the legislature. The budget calendar of Montenegro was generally not adhered to in 2018, since six out of nine actions were not performed on time as set forth by the Law. It must however, be noted that the budget for 2019 was adopted on time (before the beginning of the fiscal year) and that budget users were left exactly six weeks (from July 30, 2018 until September 10, 2018) to prepare their draft budget requests and send them to the MoF.

Budget Calendar of Montenegro

Action	Deadlines prescribed by LBFR	Actual dates for the last budget submitted to the legislature (2019 budget)	Respected (Y/N)
Preparation of Fiscal Strategy[71]	no deadline	July 26, 2017	n/a
Instructions for capital budget preparation sent to budget users	end of January	January 25, 2018	Y
Draft capital budgets submitted to MoF	15th of March	June 1	N
Framework for macroeconomic and fiscal policy (based on the above) prepared and approved by GoM	end of April	July 26, 2018	N
Instructions for preparation of current budget sent to budget users	end of May	July 30, 2018	N
Draft current budgets of spending units sent to MoF	end of July	September 10, 2018	N
Preliminary draft Budget Law prepared by MoF and submitted to GoM	end of October	December 6, 2018	N
Draft Budget Law submitted to the parliament	15th of November	December 7, 2018	N
Budget Law is adopted by the parliament	31st of December	December 28, 2018	Y

Source: World Bank.

Based on the assessment performed and supporting evidence, the score for this dimension is C.

Dimension 17.2. Guidance on budget preparation

The budget circular used for preparation of the last budget submitted to the legislation included the GoM's approved Macroeconomic and Fiscal Policy Guidelines for 2018-2020 period and spreadsheets in MS Excel format with detailed instructions on how to fill them. The Guidelines were adopted by the GoM on July 26, 2018, while the circular was distributed to budget users on July 30, 2018. The budget users were left about six weeks to complete their budget requests and send them back to MoF (that is, by September 10, 2018).

The Guidelines set the ceilings for current expenditures, transfers, expenditure of social security funds, budget reserves, and capital expenditures. The limits contained in the Guidelines are distributed based on organizational classification (for the first level spending units). The limits refer to the following and the next two fiscal years (2019, 2020, and 2021).

The approved budgets of the largest budget users (judicial institutions, Ministry of Education, Ministry of Labor and Social Protection, Ministry of Defense, Ministry of Interior, MTMA, and the Ministry of Agriculture and Rural Development) were assessed against the ceilings suggested by the circular. The approved budgets corresponded mostly to the ceilings. The aggregate deviation was 3.5 percent, largely thanks to the upward deviation identified in the case of the Ministry of Interior and the downward deviation identified in the case of Ministry of Education.

Based on the assessment performed and supporting evidence, the score for this dimension is A.

[71] The Fiscal Strategy is formulated at the beginning of and for the period matching the mandate of the government cabinet, as prescribed by the Generic Budget Law, so there is no annual deadline.

Dimension 17.3. Budget submission to the legislature

Draft budget laws for the last three completed fiscal years were sent eleven days before the start of the next fiscal year in 2016, one and a half months before the start of next fiscal year in 2017 and twenty-five days before start of the next fiscal year in 2018. The GoM has not submitted the draft laws to the legislature more than two months before the beginning of the next fiscal year in any of the assessed fiscal years. It submitted the draft budget more than one month before the start of the next fiscal year in only one of the assessed three years.

Dates of submission of draft budget laws to the parliament, last three completed fiscal years

Budget for	Date of submission of draft Budget Laws to the parliament	Date of adoption of Budget Laws
2017	December 21, 2016	December 29, 2016
2018	November 11, 2017	December 26, 2017
2019	December 7, 2018	December 28, 2018

Source: World Bank.

Based on the assessment performed and supporting evidence, the score for this dimension is D.

PI-18 Legislative scrutiny of budgets

This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the parliament scrutinizes, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and the extent to which they are adhered. The indicator also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature. The time period for assessment was the last completed fiscal year (FY 2018) for Dimensions 18.1, 18.2, and 18.4. For Dimension 18.3, the time period covered was the last three completed fiscal years (2016, 2017, and 2018). The coverage for all these dimensions was BCG.

Summary of scores and performance table PI-18

Indicator/Dimension	Score 2019	Brief justification for score
PI-18 Legislative scrutiny of budgets	**B+**	Scoring method M1 (WL)
18.1. Scope of budget scrutiny	A	The scope of annual budget scrutiny by the Assembly is comprehensive.
18.2. Legislative procedures for budget scrutiny	B	General procedures are codified in the assembly Rules of Procedures. Internal organizational arrangements include technical support but the proposal of the budget law is not subject to public consultation.
18.3. Timing of budget approval	A	The Assembly approved the annual budget in the last week of December in each of the three last years.
18.4. Rules for budget adjustments by the executive	A	Budget adjustments by the executive in 2018 were orderly and within the caps set under clear rules.

Source: World Bank.

The responsibility of the Montenegrin parliament to adopt the budget and the final account stems from Article 82 of the Constitution. This responsibility is detailed in provisions of primary legislation and the parliament's Rules of Procedure, which regulate which budget documentation is to be submitted and reviewed, the actors involved, and the timing of the scrutiny and approval for specific documents. In the period under assessment, the parliament discharged its responsibilities with respect to the annual budget law regularly and in full. In July 2017, the parliament approved the Fiscal Strategy for 2017-20 in line with the LBFR (see PI-15).

Dimension 18.1. Scope of budget scrutiny

The scope and depth of legislative scrutiny is determined by the structure and contents of the proposal of the annual Budget Law as defined in Article 34 of the LBFR (discussed in PI-5 above). An overview of elements of scrutiny fulfilled against the PEFA Framework requirements is presented in the table below. **Based on the analysis and supporting evidence, the score for the present dimension is A**.

Elements of budget documentation deliberated in parliament

Fiscal 2018	Covered	Document/Reference
Fiscal policies	Yes	Incorporated in the explanation to the annual Budget Law, (element 1, PI-5).
Macro-fiscal forecasts	Yes	Incorporated in the explanation to the annual Budget Law, (element 6, PI-5).
Medium-term priorities	Yes	Incorporated in the explanation to the annual Budget Law, (element 10, PI-5).
Details of revenue and expenditure	Yes	Annual proposal of the Budget Law, (element 4, PI-5).

Source: CEBF.

Dimension 18.2. Legislative procedures for budget scrutiny

Procedures carried out in parliamentary committees and in the plenary that pertain to the proposal of the annual Budget Law follow the same requirements applicable to all primary legislation. These procedures are documented in the parliament's Rules of Procedure, Articles 130 through 153, and provide for: (i) review, hearings of executive representatives, conclusions, and recommendations by competent sectorial committees, as well as (ii) multiple readings, debates, and opportunities to file amendments in the plenary. Any supplementary budget should follow the same requirements and this was the case with two supplementary budgets in March 2018 and July 2018. Under the provisions of the Law on Public Administration, proposal of the annual budget law is exempt from mandatory public consultations.

The CEBF a specialized review committee with the central role of implementing procedures for the approval of the annual Budget Law. The CEBF is charged with reviewing and consolidating feedback and proposed amendments from sectoral committees and forwarding them to the plenary. No dedicated Budget Office has been established, but there are two advisers who provide technical support and are accountable to CEBF members in discharge of their mandate. The procedures for budget scrutiny are codified and were adhered to in 2018. While there is evidence that representatives of CSOs contributed in the CEBF sessions to deliberate the annual budget proposal, the practice does not qualify as 'public consultations' in terms of the PEFA Framework requirements.

The performance on this dimension meets the PEFA Framework requirements for score B.

Dimension 18.3. Timing of budget approval

The deadline for the government to propose the annual budget to parliament is November 15, as defined in the LBFR. Notwithstanding the substantial delay in submission for fiscal 2017, parliament managed to adopt the budget proposals before each new year in the last three completed fiscal years. Actual approval dates, all in the last week of December, are presented in the table below.

Available information is considered sufficient evidence to assign score A for this dimension.

Actual submission and approval dates of the annual budget proposal for fiscal years 2016, 2017, and 2018

Fiscal year	Date of submission	Date of approval	Full calendar months available
2016	November 16, 2015	December 29, 2015	Under two months
2017	December 21, 2016	December 29, 2016	Under one month
2018	November 15, 2017	December 26, 2017	Under two months

Source: CEBF.

Dimension 18.4. Rules for budget adjustments by the executive

In the last completed fiscal year (2018), the government proposed two supplementary budgets (March and July) that followed a clear and predictable approval procedure in the Assembly. In terms of transparency and predictability for all other in-year budget adjustments by the executive, reallocations permitted under LBFR are (i) up to 10 percent between spending units based on government approval, and (ii) up to 10 percent between programs and budget lines within the spending unit based on MoF authorization (Article 45), with the exception of capital spending, which is fully protected (Article 47). In addition to umbrella clauses in the organic legislation, specific budget lines may be exempt from adjustment through the annual Budget Law. In 2018, for example, this was the case with government co-financing for a number of EU accession reform projects (Article 16). The rules have been adhered in all cases in 2018, and were reviewed in a separate report on executed reallocations by the parliament during the deliberations of the Final Account.

The score for the present dimension is A.

3.5 PILLAR FIVE: Predictability and control in budget execution

PI-19 Revenue administration

The indicator assesses the procedures used to collect and monitor central government revenues. The assessment period for Dimensions 19.1 and 19.2 is at the time of assessment. For Dimensions 19.3 and 19.4, the relevant scope is the last completed fiscal year (FY 2018).

Summary of scores and performance table PI-19

Indicator/Dimension	Score 2019	Brief justification for score
PI-19 Revenue administration	**B**	Scoring method M2 (AV)
19.1. Rights and obligations for revenue measures	A	Revenue collecting entities use multiple channels and outreach efforts to provide comprehensive and timely information on revenue rights and obligations across revenue streams and payers.
19.2. Revenue risk management	B	Revenue risk management practices are structured and systematic but not comprehensive for all revenues streams and payers.
19.3. Revenue audit and investigation	A	Revenue collecting agencies delivered audits and investigations above the levels planned in their annual compliance improvement plans.
19.4. Revenue arrears monitoring	D	Despite positive trends in tax arrears management, performance in terms of the tax arrears age structure is less than required for score C.

Source: World Bank.

Overall revenue policy is managed by the MoF's Directorate for the Tax and Customs System, while the TA and the CA administer and collect all principal tax revenue streams (including VAT, CIT, PIT, customs, and excises) and non-tax revenues (mandatory social contributions). Together, these two revenue collecting entities account for over 90 percent of total central government revenues collected and over 99 percent of central government tax revenues. A limited number of other entities have the mandate to raise most of the non-tax revenues that are collected in the form of charges and fees. The table below presents the categories of CG tax and non-tax revenues in Montenegro and the responsibilities assigned for their collection.

CG revenue categories, collecting agencies and annual collection for 2018

Category of CG revenue	Collecting entity	Collected revenue Amount (€, million)	Collected revenue Percent of total
Taxes	**TA and CA**	**1068.9**	**61.22**
Personal income tax	TA	124.9	
Corporate income tax	TA	68.2	
Property transfer tax	TA	1.8	
Value added tax	TA and CA	616.9	
Excises	CA	221.2	
Tax on international trade and transactions	CA	26.6	
Other state revenues	TA, CA and other	9.3	
Contributions	**TA**	**524.4**	**30.04**
Pension and disability insurance contributions		317.0	
Health insurance contributions		182.0	
Unemployment insurance contributions		13.6	
Other contributions		11.8	

Fees	**TA, CA and other**	**16.9**	**0.97**
Administrative fees		11.4	
Court fees		1.3	
Residential fees		1.6	
Other fees		2.6	
Charges	**TA, CA and other**	**26.4**	**1.51**
Charges for use of goods of common interest		0.9	
Charges for use of natural resources		3.9	
Environmental charges		0.4	
Charges for organizing games of chance		9.0	
Road charges		3.2	
Other charges		9.0	
Other revenue	**TA, CA and other**	**71.3**	**4.08**
Income from capital		39.7	
Fines and confiscated proceeds		12.9	
Revenues generated by authorities in the course of their operations		3.4	
Other revenue		15.2	
Loan repayment proceeds	**Other**	**11.4**	**0.65**
Donations	**Other**	**26.7**	**1.53**
Total		**1746.0**	**100.00**

Source: MoF data, June 2019.
Note: Other bodies that collect public revenues (described in some detail under PI-20 below) account for under 10 percent of the total CG revenue collections and are therefore not considered further for assessment of this indicator.

Revenue administration is subject to a comprehensive legal framework that specifies the roles and responsibilities of the revenue collecting entities and payers. Separate legislation is in place for tax administration, customs administration, administrative procedures, and audit, alongside dedicated legislation for all major tax revenues streams. Since the last PEFA assessment, tax and customs legislation has been progressively amended to align with the EU accession requirements.

Dimension 19.1. Rights and obligations for revenue measures

The main two revenue collecting entities maintain a variety of physical and on-line communication channels to provide timely information about the rights and obligations of individual taxpayers. Both administrations maintain a physical presence through a network of regional and local offices outside of headquarters (with eight branches and 21 offices under the TA and four customs clearance offices under the CA). Both administrations undertake regular outreach efforts, such as thematic tax caravans (TA) and open door days (CA), as well as campaigns on social networks, television, and radio and in print. In addition, both administrations interact with taxpayers by answering queries submitted online, over the phone, or in writing. Detailed statistics are publicly reported, with annual figures disaggregated by type of service provided, revenue stream, and payer segment served. Web pages of both administrations included on-line access to all guidance and forms, brochures and leaflets, a guidebook, and series of frequently asked questions.

Beyond data dissemination, both administrations continue to develop online services for registration and filing of tax returns and payments, thus further reducing associated transaction costs and mitigating the risk of potential discretionary treatment. In the CA, nearly 98 percent of customs declaration are received and processed electronically. In the TA, electronic filing of tax returns is mandatory for CIT and taxes and contributions on earnings (98 percent of returns are filed online) and voluntary for VAT (80 percent returns are filed online, and the number of online filings is increasing). TA offers service for online filing of financial statements and requests for VAT refunds (processed mainly by the TA), as well as access to individual registration data and tax payers' individual tax file.

In terms of redress procedures, all decisions of the TA and CA may be appealed to a second-instance body in the Department for Second-Instance Tax and Customs Proceedings of the MoF's Directorate for Tax and Customs System.[72] Decisions of the second-instance body are subject to further appeal under administrative proceedings in front of the Administrative Court. Information about the available administrative procedures and processes for redress is an integral part of each decision issued to payers by the revenue collecting entities.

Information provided by the revenue collecting entities covers notifications, instructions, and procedures for registration, declaration, and payment, customized for different revenue streams and taxpayer segments. SAI's annual activity report for 2018 highlights the timeliness and effectiveness of the measures carried out by revenue agencies to promote voluntary compliance.

Considering the publicly available evidence, reported statistics and information from interviews, the score for the present dimension is A.

Dimension 19.2. Revenue risk management

In the TA, the Large Taxpayers' Sector (catering for roughly 250 large taxpayers that account for 40 percent of the TA's total revenue collections) was the first unit to revisit its earlier risk management methodology and to introduce an approach structured in line with good international practices. A consistent approach across taxpayer segments, including a full roll-out of the risk management approach used by the Large Taxpayers' Sector in other departments, is currently underway, but some departments continue to use the TA's earlier system of taxpayer risk profiling.

In the CA, there is a committed risk management and intelligence unit charged with coordinating the risk management process across all stages of customs operations and the four main revenue obligation areas (registration, filing, payments, and reporting of information in declarations). Risks are documented in a committed Risk Management Register, based on risk criteria formulated on the basis of cross-referencing information about payers from the CA and other bodies (TA, law enforcement agencies, and so on).

Risk management processes in both administrations are structured and systematic, but not as evenly comprehensive in the TA. Practices are more advanced for specific revenues (for instance, VAT, and customs) and taxpayer segments (for example, large taxpayers). In evidence of PEFA materiality thresholds, risk management practices over VAT revenues that are considered aligned with good practices account for at least 35 percent of total CG revenue (see table above).

Overall performance under the present dimension qualifies for score B.

Dimension 19.3. Revenue audit and investigation

Both revenue administrations undertake audits and investigations on the basis of a documented annual compliance improvement plan.[73] For 2018, the TA has significantly exceeded the completion rate against the plan as presented in the table below. A surge in tax audits occurred in the context of a broader drive to counter the grey economy, and included the hiring of new tax auditors. Currently the number of auditors stands at 150, although not all are in the field. TA audits have been targeted at specific revenue streams (taxes and

[72] MoF's second-instance proceedings cover individual decisions by the TA, CA, Gaming Administration, and Inspection Administration on appeals from individuals and legal entities. In 2018, the Department received 1,193 appeals in total (including 32 cases carried over from the last year), 124 of which concerned appeals of tax and customs payments. In the same period, the Department processed 1,225 cases, of which 1,115 appeals have been decided. In total, 440 appeals have been rejected, 638 cases have been returned to first-instance bodies for repeated proceedings, 37 cases have been cancelled following the appeal, and the remaining 110 cases have been carried over.

[73] The Compliance Improvement Plan of the CA was not available for review as it is classified as internal. Available SAI audit findings confirm the document exists and is used in practice.

social security contributions) or industries (for example, construction or hospitality) and adjusted for seasonality based on identified risk patterns. The higher proportion of partial (targeted) audits reflects more structured risk assessment approaches. The CA Department for ex-post control in 2018 planned for 21 audits and completed 28 (19 planned and nine ad hoc), delivering 133 percent relative to the Plan. For more serious instances of non-compliance, both administrations commit limited resources to multi-agency teams tasked with carrying out specialized investigations that are managed by the Office of the Special Prosecutor. **Considering that both administrations delivered above the planned audits/controls documented in their annual compliance improvement plans, the score for the present dimension is A**.

Revenue audits and investigations planned and carried out in the TA (2018)

Type of revenue audit, by revenue stream	2018		
	Total carried out	Total planned	Percent completed
Number of full audits*	2,600	2,935	88.58
Number of partial audits**	20,557	10,980	187.22
Total number of audits carried out	**23,157**	**13,915**	**166.41**

Source: Annual TA Activity Report for 2018, TA data for 2018.
Note: * Audit across revenue streams, covering a 5-year period.
** Targeted audit of a specific revenue stream, sector, or seasonal pattern.

Dimension 19.4. Revenue arrears monitoring

CA reported under €50,000 of revenue arrears in 2018 and well below that amount in 2016 and 2017, mostly for VAT at import. All expected customs proceeds are secured by bank guarantees. In the same period, TA reported a substantially reduced share of tax arrears (assessed tax beyond due payment date) compared to earlier years, partly because of increased collections and partly because of improved management of tax arrears introduced with the Law on Rescheduling of Tax Debt (2016). TA enters into debt rescheduling agreements with tax debtors that guarantee write-off of interest and procedural costs to payers who repay the principal debt in installments. As of the second quarter of 2019, the measures have resulted in the recovery of €54 million of tax debt (out of the total €66 million covered under the agreements concluded). Additional procedures for tax debt repayment are available in the Decree on Payment of Tax Debt in Installments (2017).

Despite the improvements, the stock of tax arrears maintained by the TA (also available disaggregated) stood at €397.4 million (or 36.6 percent) of the total tax collections as of the end of 2018 (table below). Of those, around €300 million (or 76.4 percent) represented tax arrears older than 12 months.

CG tax arrears stock and age profile in 2016-2018 (€, million)

No.	Central government tax arrears stock and age profile	Fiscal year		
		2016	2017	2018
1	Total CG revenue collections	1487.05	1566.27	1746.02
2	Total stock of tax arrears at end of the fiscal year	567.60	444.70	397.40
3	Share of tax arrears in the total revenue collections (2/1, percentage)	38.17	28.39	22.76
4	Tax arrears older than 12 months	502.10	370.50	303.60
5	Share of tax arrears older than 12 months in the total arrears (4/2, percentage)	88.46	83.31	76.39

Source: MoF and TA data generated for the needs of the PEFA assessment (April 2019).

SAI has documented findings and issued repeated recommendations related to the accuracy of tax arrears data and these have been largely acted upon (fully in the CA and partially in the TA, in anticipation of systemic information system support). Data on tax arrears was historically recorded and monitored in separate registration systems that now require the TA staff to manually control, reconcile, and migrate the relevant data. The SAI confirmed that flows of tax arrears in the last three years are correct (that is, recorded in compliance with regulations) but the opening balance of arrears from 2015 was not considered accurate. A high proportion of uncollectible tax debt reflects issues with write-offs that can be attributed to procedural obstacles that were being addressed at the time of assessment. While the total stock of tax arrears at the end of 2018 was below 23 percent of total CG revenue collections, tax arrears older than 12 months accounted for just over 75 percent of the stock.

Considering the age profile of tax arrears, overall performance on this dimension under the Framework requirements scores D.

PI-20 Accounting for revenue

This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. It covers both tax and nontax revenues collected by the CG. The assessment period is at time of the assessment.

Summary of scores and performance table PI-20

Indicator/Dimension	Score 2019	Brief justification for score
PI-20 Accounting for revenue	**C+**	Scoring Method M1 (WL)
20.1. Information on revenue collections	A	Information on revenue collections from the TA and CA, broken down by revenue type and consolidated into a report, is available daily for the MoF's Treasury Directorate.
20.2. Transfer of revenue collections	A	Entities collecting 90 percent of CG revenue make the collections available daily to the MoF's Treasury Directorate.
20.3. Revenue accounts reconciliation	C	Revenue accounts held by collecting entities, which collect all CG revenue, are reconciled against the Treasury data, but the reconciliation does not encompass tax arrears.

Source: World Bank.

The procedural framework for collection of public revenues in Montenegro is contained in the Order on Manner of Payment of Public Revenues (2018). The Order defines the accounts to which payment of public revenues specified by law and other regulations is to be made, the manner of making the payment, and reporting by the beneficiaries. Collection of public revenues is carried out through the revenue collection account and the following groups of transaction accounts used by revenue collecting entities to transfer funds to the State Treasury Central Account:

- CA, account identification number 805,
- TA, account identification number 820,
- Ministry of Internal Affairs, account identification number 825,
- Police Administration, account identification number 840, and
- Ministries and other administrative bodies, account identification number 832.

The State Treasury Central Account is used for public revenues collection and for making allocations for respective beneficiaries such as the CG budget, SNG budgets, and institutions entitled to receive public funds in line with the law. The State Treasury Main Account is intended for recording funds used for the Central Government budget operations. Transaction accounts are analytically systematized by type and form of fiscal obligation, which ensures a clear presentation of reports by structure and type of collected revenues in the revenue collecting agencies and the State Treasury. There is a specific sub-account for each type of tax to ensure the information required for the recording of tax receipts in the State Treasury Main Ledger and the reconciliation of tax liability in revenue collecting entities by payer and type of tax is disaggregated. All of the revenue payment accounts are operated by the CBM, with the exception of a minor share of own-source revenues in separate accounts that are held with commercial banks. (See PI-6.2 above for details).

Dimension 20.1. Information on revenue collections

The CBM submits individual statements on daily changes in the accounts by payers to the TA (820 group of accounts), CA (805 group of accounts), and State Treasury (825, 832, and 840 groups of accounts). In parallel, the TA submits a report on daily changes in the accounts for mandatory social insurance by payers to the Pension and Disability Insurance Fund, Health Insurance Fund, and Employment Bureau of Montenegro. Information on revenue collections from institutions collecting their own source revenue is available only annually. In terms of materiality, however, own source revenues of individual institutions, at 2.3 percent of total CG revenue (using PI-6 data as a proxy), are not considered material for the dimension score. Information on all CG revenues (above 90 percent) is available daily to the MoF's Treasury Directorate, broken down by revenue type and consolidated into a report. **According to the available evidence, performance on this dimension merits score A.**

Information on revenue collection

Collecting entity (account number)	Revenue category and Total amount collected[74]	Frequency of data transfer to the MoF's Treasury Directorate	Characteristics of transferred data (Y/N): Broken down by revenue type	Consolidated into a report	Consolidated
TA (820) CA (805) Ministry of Internal Affairs (825) Police Administration (840) Ministries, administrative and judicial authorities (832)	See table above	Daily	Yes	Yes	Yes
Institutions collecting own source revenue	—	Quarterly Annually	Yes	Yes	Yes

Source: MoF State Treasury, for the needs of the PEFA assessment (May 2019).

Dimension 20.2. Transfer of revenue collections

Upon identifying the type of revenue, the CA, TA, Ministry of Internal Affairs, and the Police Administration issue orders to CBM to transfer the revenue collected from the transaction accounts 805, 820, 825, and 840 to the Central State Treasury Account. The transfer is accompanied by the revenue statement, which includes the composition of public revenues by economic classification codes. Revenue collecting entities execute the transfer at least once per day. To minimize revenue float, the closing daily balance of the transfer accounts must be zero.

Based on the available evidence, performance on this dimension fulfils the requirements for score A.

Dimension 20.3. Revenue accounts reconciliation

Collecting entities with direct access to revenue accounts with the CBM, the TA, and the CA review collections and reconcile them against assessments on a daily basis. Collecting entities without direct access to revenue accounts reconcile the collections against assessments based on a statement made available by the State Treasury. Information on revenues paid directly into the State Treasury Main Account is available without delay and reconciled with CBM.

[74] As described under PI-19 to determine the materiality.

Revenue accounts reconciliation

Collecting entity	Revenue category	Frequency	Type of reconciled data (Y/N):			
			Assessments	Collections	Arrears	Transfers to Treasury
TA	See table above	Monthly	Yes	Yes	No	Yes
CA						

Source: State Treasury and revenue collecting entities.

Information about revenues assessed, collected in dedicated revenue accounts, and transferred to the State Treasury Main Account are reconciled on monthly basis. At the beginning of each month, data from the revenue collecting entities is reconciled against the State Treasury data for the past month; however, revenue arrears data are not reconciled.

Considering that revenue arrears are not yet subject to reconciliation, the score for the dimension is C.

PI-21 Predictability of in-year resource allocation

This indicator assesses the extent to which the MoF is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to spending units for service delivery. Effective service delivery and execution of the budget in accordance with work plans requires that budgetary units receive reliable information on the availability of funds so that they can control commitments and make payments for nonfinancial assets, goods, and services, as intended by the budget. This, in turn, requires effective liquidity management to ensure resources are available when needed. The time period for the indicator is at time of assessment for Dimension PI-21.1 and for Dimensions PI-21.2 through 21.4 the time is the last completed fiscal year (FY 2018). Coverage for all these dimensions is the BCG.

Summary of scores and performance table PI-21

Indicator/Dimension	Score 2019	Brief justification for score
PI-21 Predictability of in-year resource allocation	**A**	Scoring method M2 (AV)
21.1. Consolidation of cash balances	A	Comprehensive STA coverage allows for daily consolidation of virtually all CG cash and bank balances.
21.2. Cash forecasting and monitoring	A	MoF's annual cash forecast is updated monthly on a rolling basis from monitored revenue and expenditure flows.
21.3. Information on commitment ceilings	A	Spending units receive information more than six months in advance as to how they can commit funds within their annual budget allocations and make payments within monthly limits.
21.4. Significance of in-year budget adjustments	A	Insignificant in-year adjustments in 2018 (composition variance of 3.8 percent) took place in line with predictable and transparent rules codified in the legislation.

Source: World Bank.

STA coverage in Montenegro is comprehensive. In terms of the structure, there are four main revenue and one expenditure BCG accounts which account for over 90 percent of government cash deposits.[75] In line with Article 10 of the LBFR, bank accounts may be opened only upon approval of the Minister and must be designated as state accounts. Except for a limited number of accounts in commercial banks that are off the STA (described in Dimension 21.1), virtually all CG bank accounts are operated as a set of linked revenue and

[75] Other, less material government accounts—not necessarily linked with BCG—include the Equalization Fund account, account for confiscated funds, tax arrears repayment account, liquidity account (for trading in securities), and account for support to municipalities for pre-financing of donor funded projects.

expenditures accounts that are held with CBM. The existing STA arrangements, in place since 2010, ensure daily consolidation of cash balances, thus creating a solid foundation for liquidity management.

Dimension 21.1. Consolidation of cash balances

Government cash deposits are held either in CBM or in a number of commercial banks through which the STA operates, and are the subject of daily consolidated reports. Some resources related to foreign-financed projects are kept in special accounts in commercial banks, and not consolidated with the STA during the year. The most material of these are accounts are opened and held for implementation of EU pre-accession assistance (24 accounts in total), estimated at under 2 percent of total revenue (as presented in the table 42). Health institutions' payrolls are operated through commercial banks, but purchases of goods and services are paid directly from the STA. Some deposits by health and education institutions, resulting from payments for their services, remain outside the STA (as discussed in PI-6), but these are immaterial in relation to overall expenditure.

Based on the available information, the score for the present dimension is A.

Dimension 21.2. Cash forecasting and monitoring

The MoF's Treasury Directorate prepares annual cash flow forecasts on inputs from the Budget Directorate and Economic Policy Directorate. Revenue estimates are updated monthly, based on the monitoring of the information on the actual revenue collected and on expenditures submitted for payment. Spending estimates reflect the approved spending plans submitted by the spending units, which are broken down by month. The forecasts are continuously monitored, and re-forecasts are made each month on a rolling basis, based on the above parameters.

Based on the available information, the score for the present dimension is A.

Dimension 21.3. Information on commitment ceilings

Following the approval of the annual budget, the MoF apportions the approved budget month by month based on inputs from the spending units. Based on revenue projections and historical treasury data, the MoF estimates limits on expenditure warrants for the first-tier spending units for each month of the current fiscal year. Based on these warrants, first-tier spending units prepare a monthly spending plan that is submitted to the MoF.

Cash is made available to spending units through monthly warrants, provided that the units' payment requests are within the cumulative total of the warrants released. As long as the planned commitments are within the monthly spending plan and the total annual budget allocations on each budget line, spending units have generally been able to be confident in making commitments at least six months ahead.

Based on the interviews and supporting evidence, the score for the present dimension is A.

Dimension 21.4. Significance of in-year budget adjustments

This dimension assesses the frequency and transparency of budget allocations adjustments by the executive, without requiring parliamentary approval, as reflected in aggregate allocations by economic classification (assessed in PI-2 above). The adjustments by the executive without parliamentary approval are carried out according to the rules described in PI-18.4. The SAI has not reported any concerns with the transparency of in-year budget allocation adjustments. The assessment score was determined based on the above, and considering the evidence presented in PI-2, which suggests that composition variance in 2018 has stood at 7 percent for functional classifications and 4.3 percent for economic classifications relative to the original budget.

Based on the available evidence, the score for the present dimension is A.

PI-22 Expenditure arrears

This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control. For Dimension 22.1 the time period is the last three completed fiscal year (2016, 2017, and 2018). Dimension 22.2's time period was at the time of assessment. The coverage is BCG.

Summary of scores and performance table PI-22

Indicator/Dimension	Score 2019	Brief justification for score
PI-22 Expenditure arrears	**D+**	Scoring method M1 (WL)
22.1. Stock of expenditure arrears	D*	Expenditure arrears were under 5 percent of the total expenditure in the last three completed fiscal years, but the data is not considered reliable enough to assign a higher score.
22.2. Expenditure arrears monitoring	C	Notwithstanding data reliability concerns, the information on stock and composition of expenditure arrears is published annually.

Source: World Bank.

The LBFR (Article 1) defines arrears as liabilities from an earlier period for which payments are outstanding as of due date. To qualify as arrears, liabilities must have been created in line with law and contract; that is, the commitment should be incurred in line with the rules discussed in PI-25.2. Under the organic Law on Obligations, the generic due date for payment of liability is 30 days, unless specified differently under contract. Arrears are reported annually as a part of the annual Final Account and audited by the SAI. The SAI annual Audit Report in each of the last three completed fiscal years identified data on arrears as one of the elements for its conditional opinion on compliance.

Dimension 22.1. Stock of expenditure arrears

There are no centralized records of central government arrears that are readily available from the Treasury Directorate-operated FMIS.[76] The data on arrears reported to the Treasury Directorate is therefore drawn from the reporting entities' auxiliary records but, due to lack of clear definitions, total reported figures include both actual arrears and unpaid liabilities that may not be yet past due.

While the Treasury Directorate is able to single out the figures that are past due for the needs of quarterly reporting, the reported arrears data, however, is not regularly verified by the MoF for existence, completeness, and accuracy of the underlying commitment.

While available data places CG arrears at under 5 percent of the total expenditure, the arrears data are not considered sufficiently reliable to assign a rating and the score for this dimension is D*.

[76] FMIS captures committed expenditure only at the payment stage. Please see PI-25 for details.

Stock of expenditure arrears: breakdown by economic categories

Categories of arrears	2016	2017	2018
1. Liabilities for current expenditure (1.1.+1.2.+1.3)	14.1	14.5	13.2
1.1 liabilities for gross salaries and contributions paid by the employer	0.1	0.2	0.1
1.2 liabilities for other personal earnings	0.4	0.3	0.1
1.3 liabilities for other current expenditure	13.6	14.0	13.0
2. Liabilities for social protection transfers	46.9	46.9	45.6
3. Liabilities for transfers to institutions, individuals and loans	0.8	11.7	13.9
4. Liabilities for capital expenditure	1.1	3.2	9.4
5. Liabilities for debt repayment	0.1	0.02	0.03
Total stock of arrears at the end of the fiscal year (i)	**63.0**	**76.3**	**82.1**
Total actual expenditure for the fiscal year[77] (ii)	**1,622.0**	**1,803.1**	**1,914.9**
Ratio (percent) (i)/(ii)	**3.88**	**4.23**	**4.28**

Source: Data from the Proposal of the Law on Final Account.

Dimension 22.2. Expenditure arrears monitoring

At the time of the assessment, arrears were monitored quarterly, using two-digit economic classification categories, on the basis of self-reported data from the spending units on Treasury-prescribed template. Annual monitoring is done based on four-digit economic classifications and captures the age profile of the reported arrears, which are filed with the MoF's Treasury Directorate alongside their annual financial statements within 60 days of the end of the year. Once consolidated, the arrears report is submitted for audit as a part of the government's Final Account.

Expenditure arrears monitoring: breakdown by categories

<table>
<tr><th rowspan="2">Category of arrears</th><th colspan="3">Data generated (Y/N):</th><th rowspan="2">Frequency</th></tr>
<tr><th>Stock</th><th>Age</th><th>Composition</th></tr>
<tr><td>1. Liabilities for current expenditure</td><td rowspan="10">Y</td><td rowspan="10">N</td><td rowspan="10">Y</td><td rowspan="10">Quarterly</td></tr>
<tr><td>1.1 Liabilities for gross salaries and contributions paid by the employer</td></tr>
<tr><td>1.2 Liabilities for other personal earnings</td></tr>
<tr><td>1.3 Liabilities for other current expenditure</td></tr>
<tr><td>2. Liabilities for social protection transfers</td></tr>
<tr><td>3. Liabilities for transfers to institutions, individuals, and loans</td></tr>
<tr><td>4. Liabilities for capital expenditure</td></tr>
<tr><td>5. Liabilities for borrowing and loans</td></tr>
<tr><td>6. Liabilities for debt repayment</td></tr>
<tr><td>7. Liabilities from contingency</td></tr>
<tr><td>All expenditures categories in the Chart of Accounts, using 4-digit economic classification</td><td>Y</td><td>Y</td><td>Y</td><td>Annually</td></tr>
</table>

Source: MoF's Treasury Directorate, based on the prescribed quarterly and annual arrears reporting templates.

[77] As described under PI-1.

Based on the annual reported information and PEFA Framework scoring requirements, and notwithstanding the data reliability issues noted in Dimension 22.1, the performance on this dimension qualifies for score C.

PI-23 Payroll controls

This indicator is concerned with payroll practices for CG employees, including how the payroll is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls under PI-25. The time period for Dimensions 23.1, 23.2, and 23.3 is at the time of assessment. For Dimension 23.4, the time period is for the last three completed fiscal year (2016, 2017, and 2018).

Summary of scores and performance table PI-23

Indicator/Dimension	Score 2019	Brief justification for score
PI-23 Payroll controls	**C+**	Scoring method M1 (WL)
23.1. Integration of payroll and personnel records	B	Once approved against the staffing list, all changes to personnel records made in individual institutions and reported to the MoF are manually entered to be reflected in the next month's payroll.
23.2. Management of payroll changes	A	Required changes to the personnel records and the payroll are made monthly, with negligible retroactive adjustments.
23.3. Internal control of payroll	C	Absence of significant audit findings on MoF-operated payroll calculation suggests sufficient control exist over data integrity.
23.4. Payroll audit	C	The SAI regularly audits salary expenditures, with a walkthrough and substantive testing of the payroll system, but audit coverage did not necessarily encompass all central government entities over the last three years.

Source: World Bank.

In the absence of a reliable centralized personnel records database for all staff who are paid from the CG budget, full personnel records are held by individual spending units. The MoF maintains a basic set of personnel record parameters needed for salary calculations for a limited number of CG entities. As shown in the table below, fully centralized payroll calculation and payment is carried out by the MoF's Department for Payroll Calculation (DPC) under the Budget Directorate for only a quarter of the central government spending units and around 23 percent of total staff financed from the CG budget.

For the remaining 77 percent of staff, individual spending units maintain full control over data integrity and the consistency between personnel records and payroll data, while the MoF performs limited verification and executes payments. These spending units—which include more complex and thus riskier systems involving the police, military, health, and education—perform their own payroll calculations and those of their subordinate institutions and send them in Excel files to the MoF for verification and payment execution. MoF verification for these bodies is limited to a set of manual calculation controls, after which the resulting payment specification is reconciled with the spending unit that filed the calculation for verification ahead of execution of the payment.

Outside the MoF, the main central database of personnel records for roughly 12,000 CG employees is maintained by the HRMA. For the time being, the HRMA's database is not used in the payroll process due to issues of data integrity and timeliness of updating that have been documented by the SAI. A comprehensive EU-funded technical assistance project is underway to support modernization of personnel management and the HMRA . Once completed, it is expected to address the scope and data integrity issues as a foundation for the implementation of a system for the centralized calculation of earnings. Some jurisdictional issues are likely to continue affecting the overall comprehensiveness of the database once it is completed.

CG bodies and staff covered by MoF centralized payroll

CG bodies, as per 2018 Decree on Organization of the Bodies of the State Administration	Number of spending units	Total staff financed from the CG budget	De-centralized personnel records	MoF-centralized	
				Payroll calculation	Payment
Total CG	421	42,222	—	—	
Bodies of state administration	77	7,367	Basic elements in the MoF	Yes	
Ministry of Internal Affairs, Ministry of Defense, penitentiaries, and Directorate for Confidential Information	28	—	Fully decentralized	No	Yes
Institutions of culture and social protection	33	2,170	Basic elements in the MoF	Yes	
Education institutions	250	—	Fully decentralized	No	Yes
Health care institutions	33	—	Fully decentralized	No	Yes

Source: MoF, Budget Department and the HRMA for the needs of the PEFA assessment, May 2019.

In decentralized systems such as the one in Montenegro, PEFA methodology encourages the assessors to consider using a sampling approach. The sample for this indicator is the MoF's centralized payroll calculation, because the MoF exercises a certain degree of control over the bulk of the CG wage bill, despite the high degree of decentralization. The sample retains the same scope as in the assessment undertaken in 2013 using 2011 Framework. This makes it possible to capture performance changes over time and to set a relevant baseline for subsequent assessments, considering the MoF's future role in the comprehensively designed system for the centralized calculation of earnings, which is under development.

Dimension 23.1. Integration of payroll and personnel records

The regular payroll period for CG staff in Montenegro is one month. It is noted that the existing payroll software in the MoF is not directly linked with centralized personnel records in the HRMA or the other financial management information systems operated by the MoF, the Treasury Directorate's SAP FMIS and the Budget Directorate's budget planning management information system. Requested changes concerning staffing and promotion are subject to prior approval by the HRMA and the MoF to ensure that they are undertaken within approved personnel budget allocations. Each month, the spending units notify the MoF of any changes in the personnel records that are to be reflected in the next month's payroll. Any requested change to personnel records must be fully documented before the corresponding change is made in the payroll. Once verified, changes to the personnel records are entered into the MoF database and the next month's payroll is accordingly adjusted manually.

Monthly manual reconciliation of personnel records and payroll data upon completed ex-ante controls meet the Framework requirements for score B.

Dimension 23.2. Management of payroll changes

As noted in Dimension 23.1, changes to the personnel records and the corresponding payroll changes are carried out monthly, in time for the following month's payments. While no statistics on retroactive adjustments are maintained, MoF reported that these are incidental, which is evidenced by the absence of major audit findings of control failures in payroll management (see Dimension 23.4) and by the fact that there are virtually no salary arrears (see Dimension 22.1).

Performance on this dimension meets the Framework requirements for score A.

Dimension 23.3. Internal control of payroll

With no documented procedures that regulate changes to personnel records and payroll data,[78] this dimension is assessed based on information on practices from the DPC and third parties at the time of assessment. Integrity of underlying decentralized personnel records is the responsibility of individual spending units. In the MoF centralized payroll system, access to MoF-held personnel and payroll records is restricted to around 10 staff in the DPC, whose interventions in the password-protected system result in an audit trail. The total payroll is approved by the Head of the DPC. With no reported audit findings on weaknesses in internal control over payroll records, the integrity of data for the sampled payroll calculation would appear high, but no comprehensive evidence on the controls over data integrity in personnel records of individual spending units is readily available. **Absence of significant audit findings on MoF-operated payroll calculation suggests sufficient control exist over data integrity to meet the framework requirements for score C.**

Dimension 23.4. Payroll audit

In response to risks from material misstatement, the SAI audits salary expenditure as a part of its annual audit of the financial statements. Audit procedures include a walkthrough and substantive tests of completeness, cutoff, and occurrence with respect to the annual payroll. Considering the degree of decentralization of personnel records and that the annual audit is based on a sample, it cannot be established with certainty that the payroll of all central government bodies has been audited in the last three fiscal years. In spite of evident improvements in internal and external audit capacity, no dedicated payroll audit was carried out encompassing all central government units. **In line with the available evidence, performance on this dimension qualifies for score C**.

PI-24 Procurement management

This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, open and competitive procedures, procurement results monitoring, and access to appeal and redress arrangements. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores. Indicator coverage is CG and the scope on all dimensions is the last completed fiscal year (FY 2018). It should be noted that the assessment undertaken addressed the practices of the PPA, which ceased to function in January 2019, when its responsibilities moved to the MoF's Directorate for Public Procurement Policy.

Summary of scores and performance table PI-24

Indicator/Dimension	Score 2019	Brief justification for score
PI-24 Procurement	**B+**	Scoring method M2 (AV)
24.1. Procurement monitoring	B	Databases or records are maintained for contracts, including data on what has been procured, the value of the procurement, and who has been awarded contracts. The data are accurate and complete for most procurement methods for goods, services, and works.
24.2. Procurement methods	B	According to data collected from the PPA and SIGMA monitoring reports, the most commonly used procedure is open public procurement (79 percent in 2018).
24.3. Public access to procurement information	A	The legal framework for procurement, procurement plans, procurement operations, bidding opportunities, and contract awards are available on the PPA website in a timely manner. Information related to complaints received is published on the State Commission for Control of Public

[78] These were contained in the earlier version of the Treasury Directorate Instruction but repealed in 2017 and not replaced since.

		Procurement Procedures (SC)'s website.
24.4. Procurement complaints management	B	The procurement complaint system meets five of the six criteria, the exception being the timely issuing of the decisions. Frequent delays are reported, due to the workload of the SC.

Source: World Bank.

Dimension 24.1. Procurement monitoring

Article 19 of the PPL related to the competences of the PPA lists the monitoring of the public procurement system implementation as the PPA's very first task. Despite this, the legal and institutional framework in Montenegro has failed to implement an adequate monitoring system. This problem is clearly recognized in the Strategy for Development of the Public Procurement System in Montenegro for 2016-20 and in the last several years has been the subject of EU recommendations. Although procurement data are not yet automatically generated from the PPA's computerized information system, they are available in the annual reports. Data collection and data analysis are monitored through the reporting application in the portal, which enables tracking of planned and conducted procedures.

Procurement records include procurement types and methods, contracts values and volume, processing time, suppliers, and bidders' name and origin. They are maintained for most types of procurements for goods, works, and services by the PPA. This is due primarily to the fact that by legislation changes in 2017, which prescribe that it is not mandatory for small value procurement to publish procurement information. This caused a drop from 2017 to 2018 (around 17 percent) in publicly recorded information.

To date, Montenegro has not fully implemented a proper e-procurement system, although there is a functional and electronic public procurement system that is not to be considered complete. During the last few years, there have been several attempts to improve the current e-procurement system and, based on the data collected by the PPA reports on public procurement, the number of users of the e-portal has constantly increased.[79] A fully-fledged e-procurement system is being developed and is expected to be launched in pilot projects on January 2020.

Based on the available evidence, the score on this dimension is B.

Dimension 24.2. Procurement methods

Article 20 of PPL determines the different types of procedures for public procurement in Montenegro. Based on its provisions, the following procedures are in place:

- open procedure,
- restricted procedure,
- negotiated procedure with prior publication of a contract notice,
- negotiated procedure without prior publication of a contract notice,
- contest,
- shopping method, and
- direct agreement.

According to data collected from PPA and SIGMA monitoring reports, the most commonly used procedure is the open procedure for public procurement, which covered 79 percent of procurements in 2018 (as compared to 85.17 percent in 2017).

[79] Procurement date data are available through the public procurement portal http://www.ujn.gov.me/.

Negotiated procedures without prior publication of a contract notice were 1.33 percent of all procurement procedures, slightly down in terms of both the number of contracts and the contracted value compared to previous years.

Application by contracting authorities of the negotiated procedure, with or without the publication of a contract, was subject to a prior approval from the PPA, based on the provisions of Article 31 of the PPL. This approval mechanism may be considered as positive in terms of prevention of abuse of procedures, but on the other hand may create difficulties in clarifying the responsibility for inconsistencies between state bodies in the application of the law. The mechanism for pre-approval is an unnecessary burden on both the contracting authorities and the PPA in cases in which factual circumstances, such as an objective lack of competition, preclude the application of open procedures.

Centralized procurement and framework contracts are used to a limited extent. If correctly implemented, the centralized public procurement could lead to savings and be more efficient, especially in cases of standard procurements. **Based on the available evidence, the score on this dimension is B.**

2018 Public procurement by type and value

Procurement type	Value (€, million)	Percent total procurement value
Open competition	355.0	79.0
Small value procurements	72.0	16.0
Negotiations procedure without advertisement (direct selection)	6.0	1.3
Urgent procurement	13.9	3.1
Others including negotiations with advertisement	2.5	0.6
Total procurements	**449.4**	**100.0**

Source: PPA 2018 Annual Report.

Dimension 24.3. Public access to procurement information

Public access to procurement information is facilitated through the PPA website. The current electronic public procurement system in Montenegro enables e-notifications and publication of procurement plans, tender documents, invitation to tenders, notices, and decisions related to the selection of the best bid, the suspension or cancellation of the procedure, and publication of contracts.

Annual procurement reports and all public procurement documents prepared by contracting authorities are published at the PPA portal. Publications are available that include regulations and other information such as public procurement plans, tender documents, decisions on qualification of candidates, decisions on selection of the most advantageous bid, decisions on suspension of a public procurement procedure, decisions on annulment of a public procurement procedure, public procurement contracts, and changes or amendments to a plan, tender document, decision, or contracts. System users made some comments that procurement documentation is not always in user-friendly or machine-readable formats. **Based on the available evidence, the score on this dimension is A.**

Public access to information

Element/ Requirements	Met (Y/N)	Evidence used/ Comments
Legal and regulatory framework for procurement	Y	All legal acts, bylaws, including standard bidding documents are available from the PPA portal.
Government procurement plans	Y	All procurement plans are published on the PPA portal.
Bidding opportunities	Y	
Contract award (purpose, contractor and value)	Y	

Data on resolution of procurement complaint	Y	SC publishes its decision on the its website and all data are consolidated on the Annual Reports.
Annual procurement statistics	Y	Published in the annual reports.

Source: World Bank.

Dimension 24.4. Procurement complaints management

The review of complaints submitted by economic operators against decisions of the contracting authorities is conducted by an independent and autonomous state administration body with the possibility of appealing its ruling in front of the Administrative Court.

The CCPP provides procurement law enforcement through a well-established complaint review mechanism. The roles of review bodies are defined by the PPL and review procedures and remedies are based on the EU Remedies Directive. The CCPP is an autonomous government body responsible for reviewing and considering appeals in connection with public procurement procedures. It is independent, financed by the state budget, and reports to the parliament.

The CCPP has a president and six members, appointed by the government through a public announcement and serving a five-year term, with the possibility of reappointment.

The CCPP must make its decision within 15 days of receipt of the complete documentation. This time period may be extended for an additional ten days if it is necessary to hire experts or obtain opinions from the competent institutions, or if procurement documentation is complex.

In 2017, the average time for decision making by the CCPP was 44 days from receipt of the full set of documents sent by contracting authorities.

Decisions of the CCPP are clear, reasoned, final, and are published promptly; however, in some of the rulings the approach is rather formalistic, for the rulings do not affect the procurement procedure itself or have a clear impact on the award decision. The CCPP's rulings are often challenged by Administrative Courts for reasons related to the provisions of the law on administrative procedure rather than those of the PPL. This, together with the occasional annulment of decisions of the CCPP on appeal, represents an obstacle to the efficiency of the remedies system.

Until March 2016, CCPP decisions, which are public, were not published on the PPA website due to software problems. In March 2016 this problem was solved, and all decisions are now published on the CCPP website. They are published in non-searchable PDF format, so it is difficult to generate statistics by types of complaint, sector, category of procurement, economic operator, and so forth at a specific point in time. Publication of decisions enables interested parties to be better informed as to the consistency and fairness of the process. **Based on the available evidence, the score on this dimension is B.**

Complaint processes met

Element/ Requirements	Met (Y/N)
Complaints are reviewed by a body that is not involved in procurement transactions or in the process leading to contract award decisions	Y
The complaint body does not charge fees that prohibit access by concerned parties	Y
Follows processes for submission and resolutions of complaints that are clearly defined and publicly available	Y
The complaint body exercises the authority to suspend the procurement process	Y
The complaint body issues decisions within the timeframe specified in the rules/regulations	N
The complaint body issues decisions that are binding on every party	Y

Source: World Bank.

Decisions on complaints

Decisions on complaints						
COMPLAINTS	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Accepted	262	382	343	332	276	149
Refused	162	161	168	207	273	176
Rejected	129	147	253	399	401	25
Not permitted	78	72	72	134	158	—
Untimely	12	7	7	8	6	—
Stated by an unauthorized person	11	11	11	28	25	—
Incomplete	22	58	58	199	211	—
Not under jurisdiction	3	1	1	—	1	—
Canceled ex officio due to the complaint	156	45	28	4	4	256
Terminated due to the complaint withdrawal	20	27	24	34	29	17
In favor of complainant	496	499	443	470	438	430
Against complainant	233	260	362	471	545	193
Average time of decision-making per complaint (in number of days)	16	21	42	42	44	

Source: World Bank.

PI-25 Internal controls on non-salary expenditure

This indicator measures the effectiveness of general internal controls for CG non-salary expenditures at the time of the assessment (see PI-23 for payroll controls). The time period for this indicator is at the time of assessment and the coverage includes CG.

Summary of scores and performance table PI-25

Indicator/Dimension	Score 2019	Brief justification for score
PI-25 Internal controls on non-salary expenditure	B	Scoring method M2 (AV)
25.1. Segregation of duties	A	Procedures are in place that clearly prescribe requirements for segregation of duties throughout the expenditure process.
25.2. Effectiveness of expenditure commitment controls	C	The design of the system to control entering into commitments relies on the accountability of heads of spending units and does not include a centralized control mechanism to mitigate the risk of undisclosed liabilities showing up after the authorization stage. Multi-annual commitments are subject to MoF ex-ante approval.
25.3. Compliance with payment rules and procedures	B	Within the FMIS, any exceptions to the prescribed rules and procedures are justified in advance and virtually all payments comply with the requirements. Isolated instances of non-compliance have been noted in the commitment stage.

Source: World Bank.

Multiple MoF directorates are involved in setting out the internal control rules over the expenditure assessed under this indicator (see Section 2.4 on institutional roles). Dimensions are scored based on both manual and automated commitment controls that apply to central government entities in using the FMIS under the Treasury Directorate. In parallel, the indicator also discusses the broader internal control framework under the purview of the CHD, as the responsibilities for routine expenditure controls are devolved towards spending units to promote managerial accountability. Heads of institutions are ultimately responsible for the commitment, verification, and payment order stages.

At the start of every month, spending units submit reservations to the MoF by which they effectively specify the use they intend to make of the funds warrants to be issued to them. The Treasury Directorate issues monthly funds warrants to spending units based on their annual appropriations in the Budget Law. All payment requests from spending units must be within the cumulative warrants issued or automated controls in the SAP system prevent the payment. Every payment must be accompanied by a properly verified payment order and no exceptions are envisaged to this procedure.

Dimension 25.1. Segregation of duties

Segregation of duties in the use of the FMIS system is prescribed in the Instruction on Treasury Operations as issued by the Treasury Directorate. At the level of spending units and in the Treasury Directorate, the Instruction mandates the segregation of responsibilities between the chief finance officer (usually the head of the spending units) and financial officers who may be charged as approving officers, authorizing officers, control officers, and petty cash officers. The Treasury Directorate maintains the specimen signatures of all appointed finance officers. CHD reported progress with mapping of the business process that underpin the making of commitments, including how the duties are effectively segregated on the spending unit level.

Segregation of duties in other key processes is singled out as a required control activity in the Law on Management and Internal Control, intended to prevent the same member of government staff from being responsible for any two of authorization, approval, execution, recording, and control. Internal and external audit functions are independent from the management (see PI-26 and PI-30, respectively). Two signatures are required for any financial commitment to be incurred or payment request to be executed.

Based on the available evidence of clearly prescribed requirements for the segregation of duties, the score for the present dimension is A.

Dimension 25.2. Effectiveness of expenditure commitment controls

At the level of the spending units, any request to commit the funds from the CG budget must be initiated by the chief finance officer (that is, the head of the institution). Based on a request signed by the chief finance officer, which verifies the compliance of the transaction with the annual Budget Law, the authorizing officer verifies that there is adequate documentation as the basis to enter into a commitment and that budget funds have been authorized for the specific type of expense.

Commitments must be presented by economic and functional classification to the Treasury Directorate on Template 1, Request for Reservation of Funds. Based on this, the MoF reserves the respective portion of the approved warrant. The funds are reserved only after the approving officer in the Treasury Directorate has controlled the request for reservation to confirm it has been approved by the chief finance officer and duly authorized by the authorizing officer, and that verification has been made that sufficient funds are available in the budget for the respective commitment.

Spending units must submit payment orders on the Treasury Directorate template for all payments to be executed from the Single Treasury Account. The Treasury Directorate executes payment orders only after matching them to reservations. However, no effective control is in place to ensure that all commitments on orders, contracts, and so forth and on liabilities on deliveries of goods and services are systematically captured in the FMIS. The spending units are therefore not effectively prevented from incurring legal commitments in excess of the funds warrants issued to them, and then may delay entering a budget commitment and filing their payment requests until they have sufficient warranted funds available, thus possibly contributing to arrears (see also PI-22).

The MoF receives information on current commitments from spending units but there is doubt about the reliability of their systems to record and report all outstanding commitments. In any case, the current arrangements do not constitute an operational commitment control of the current commitments by the Treasury Directorate. Controls are considered effective for multi-annual commitments that require ex-ante approval by the MoF before the respective contracts are signed.

Based on the combined available evidence on effectiveness of control over annual and multi-annual commitments, the score for the present dimension is C.

Dimension 25.3. Compliance with payment rules and procedures

Irregularities are not currently quantified but it is generally understood that the instances of non-compliance with payment rules and procedures are contained. Budget inspection, an important compliance instrument introduced in the Budget Law (Articles 77-79) to follow-up and sanction irregularities, was not staffed and operational at the time of the assessment and compliance could not be ascertained from this source.

The last available annual opinion of the SAI on the regularity of the Final Account was conditional, suggesting room for improvement in compliance with payment rules and procedures. No exceptions to payment rules and procedures have been reported but at least some of the findings (those on arrears) demonstrate non-compliance in the commitment and verification stage. CHD annually reports on the status of the establishment and effectiveness of the internal control system, based on a self-assessment questionnaire answered by spending units across the five COSO components, including the control activities. The report findings suggest that more and more institutions have elaborated the MoF requirements concerning procedures for ensuring compliance and that they are now audited more frequently as a part of the overall internal control framework.

Based on the analysis of available evidence, performance on this dimension qualifies for score B.

PI-26 Internal audit

This indicator assesses the standards and procedures applied in the decentralized central government IA system in Montenegro. The time period for Dimensions 26.1 and 26.2 is at time of assessment. For Dimension 26.3 the time period is the last completed fiscal year and for Dimension 26.4 audit reports used for the assessment should have been issued in last three fiscal years. The coverage is CG.

Summary of scores and performance table PI-26

Indicator/Dimension	Score 2019	Brief justification for score
PI-26 Internal audit	**B+**	Scoring method M1 (WL)
26.1. Coverage of IA		All central government revenue and expenditure is covered by the IA function.
26.2. Nature of audits and standards applied	B	Audits have appropriate focus, with efforts underway to institute quality assurance and ensure formal conformance with the standards.
26.3. Implementation of IAs and reporting	A	Over 90 percent of programmed audits in 2018 have been completed and reported to management, with copies available to the SAI and the CHD in line with their competencies.
26.4. Response to IAs	B	Response to IA recommendations, as evidenced by reported follow-up rates, was high but not all recommendations were implemented.

Source: World Bank.

The legislative and methodological framework for the IA function has been progressively refined in line with the requirements of international standards and best practices. IA is positioned as an organizationally and functionally independent advisory function to the top management of each institution. Organizational and implementing arrangements are documented in individual IA Charters between the head of the spending unit and the head of the IA Unit (IAU).

The CHD manages a comprehensive in-class and on-the-job training program for public sector internal auditors, in cooperation with the HRMA. Candidates who successfully complete the program are certified and subject to further continuous professional development requirements. In November 2017, the share of internal auditors certified as meeting the requirements was nearly 90 percent.

IA capacity has increased progressively in terms of the formal establishment, coverage, and quality of audit work, as documented in baseline and follow-up external assessments carried out by SIGMA (2015 and 2017, respectively) under its Principles of Public Administration methodology. The government continues to implement recommendations issued in response to the assessment findings in order to further align with international best practices. The EU-funded PFM project (2019-22) supports further development of IA as an integral part of its PIFC component.

Dimension 26.1. Coverage of internal audit

In line with Article 49 of the Management and Control Law, the IA function in CG entities can be organized through (i) establishment of an IAU in the spending unit, (ii) agreement on sourcing of the IA function from another spending unit with MoF approval, or (iii) provision of the IA function from another sector-linked spending unit. This set-up made it possible for the CHD to report 100 percent coverage of CG entities in terms of expenditure. Breakdown by the IA function delivery mode and the corresponding share of the 2018 expenditure is presented in the table below. MoF's IAU audits the TA and the CA, which together account for over 90 percent of central government revenues.

IA coverage

	Institutions by type of IA function	Number of spending units	Percentage of budget expenditure covered	Percentage of CG revenue covered
1	IAUs established	26	59.28	10.00
2	Agreement on sourcing of the IA function (smaller spending units)	43	2.69	
3	Covered by sectoral assignment (MoF IAU for TA and CA revenues)	45	38.01	90.00
	Total central government coverage		100.00	100.00

Source: Assessment team calculations based on MoF CHD for the PEFA assessment using 2017, 2018, and 2019 Consolidated PIFC Reports.

Earlier diagnostic assessments have noted issues with understaffing of the established IAUs and these largely persist. The dimension-level score is assigned on the premise that an IAU can be considered operational with a single internal auditor.

Based on the analysis and supporting evidence, the score for the present dimension is A.

Dimension 26.2. Nature of audits and standards applied

The Law on Management and Internal Control endorses the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors as the applicable framework for performing the IA function in the Montenegrin public sector. Requirements of the IPPF[80] are reflected in the IA Manual (2017) curated by the

[80] These requirements include the definition, purpose, nature, and scope of internal audit, as well as the specific requirements of individual attribute and performance standards.

MoF CHD. Audits deal with governance, risk management, and internal control systems of the audited spending units.

In terms of quality of IA work, supervision on the individual engagement level follows the requirements of the applicable standards. All Heads of IAUs are required to develop and implement a Quality Assurance and Improvement Program for the IAU and there is progress in preparations for internal quality assessments. Independent external assessments according to the IPPF Framework are envisaged, but none have been conducted to date. In discharging its mandate of coordinating the IA function in the public sector, MoF CHD annually carries out four to five quality reviews, in line with the established methodology. Summary findings are reported to the government in the Consolidated Annual Report on PIFC.

While audit engagements are predominantly focused on internal control adequacy and effectiveness (as documented in CHD review reports and third-party assessments, such as SAI reports and diagnostic work by development partners), efforts are still ongoing to introduce external quality assessment and claim full conformance with the IPPF.

The score assigned for this dimension at the time of the assessment is B.

Dimension 26.3. Implementation of IAs and reporting

Each IAU is required to carry out risk-based strategic, annual, and audit engagement planning, documented in the Strategic IA Plan (which covers three years and is updated on a rolling basis), the Annual IA Plan, and Audit Engagement Plans. These requirements are complied with in practice. Reports are delivered to the head of the audited spending unit and are available upon request to the external auditors and the CHD (as a part of quality review explained above). MoF CHD reports a summary of main audit findings annually to the government.

Based on the reported rate of nearly 95 percent of executed IAs against plans in the last completed fiscal year, the score for this dimension is A.

IA engagements, planned and carried out

		Fiscal 2018
1	Number of planned audits	87
2	Number of audits carried out*	82
3	Index (2/1), percent	94.25

Source: MoF CHD for the PEFA assessment using 2019 Consolidated PIFC Report.
Note: * This does not include ad hoc engagements, which suggests even more IA work may have been carried out than reported.

Dimension 26.4. Response to internal audits

IA recommendations are issued and follow-up measures planned and agreed as a part of each engagement.[81] Management responses are documented in the central registers of IA recommendation statuses held by each IAU. Each IAU monitors IA implementation and annually reports on the implementation status to the CHD.[82] This information is aggregated into the publicly available Consolidated PIFC Report.

The available evidence for all CG entities in the table below shows a high rate of management response. Although the materiality threshold for score A is met in terms of CG entities (by value), the spread between

[81] These follow-up measures can take the form of written feedback from auditees, separate follow-up audits, or follow-up as a part of a subsequent audit.
[82] IAUs report on the status of implementation of recommendations as of the last day of December each year. Information on follow-up of IA recommendations that are carried over beyond the 12-month horizon is not available centrally.

fully and partially implemented recommendations suggest that **the current performance on this dimension qualifies for a score of B**.

Management response to IA recommendations

No.	Status of IA recommendations	2016	2017	2018
1	Recommendations issued	294	252	277
2	Fully implemented, within due date	153	160	167
3	Index (2/1), percent	52.0	63.5	60.2
4	Partially implemented, within due date	109	81	86
5	Index (4/1), percent	37.1	32.1	31.0
7	Not implemented, past due date	32	11	24
8	Index (7/1), percent	10.8	4.3	8.6

Source: MoF, CHD for the PEFA assessment based on the 2017, 2018, and 2019 Consolidated PIFC Report.

3.6 PILLAR SIX: Accounting and reporting

PI-27 Financial data integrity

This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores. The coverage is BCG and the time period assessed is at time of assessment, or covering the preceding fiscal year for 27.1-27.3.

Summary of scores and performance table PI-27

Indicator/Dimension	Score 2019	Brief justification for score
PI-27 Financial data integrity	**A**	Scoring Method M2 (AV)
27.1. Bank account reconciliation	A	STA balances are reconciled daily, as well as the accounts in commercial banks held for donor funding. Own source accounts by spending units are reconciled monthly, but they represent 2 percent of total expenditures.
27.2. Suspense accounts	NA	There are no suspense accounts.
27.3. Advance accounts	A	All advances are cleared promptly.
27.4. Financial data integrity processes	A	Access and changes to records are restricted. Treasury checks the integrity of data provided by spending units. Additional checks are done by the SAI and the MoF's IAU.

Source: World Bank.

Dimension 27.1. Bank account reconciliation

There are three main types of bank accounts operated by CG. The regularity with which each of them is reconciled is described below.

CG bank accounts

Bank account	Frequency of reconciliation	Timeline for reconciliation
STA (State Treasury general account)	Daily	Real time
Accounts of revenue collection agencies (central account of the State Treasury)	Daily	Real time
Commercial banks: donor funds	Daily	Daily
Commercial banks: own source revenue	Monthly	Monthly

Source: World Bank.

The Treasury operates an STA held at CBM from/to which most state receipts and payments flow. There are also certain accounts held at commercial banks, which are in most cases opened for project financing from various international organizations or donors.

The STA is reconciled daily and electronically with statements received from CBM. The reconciliation is also done with the general ledger. As payment instructions are transmitted electronically for immediate action, there is no time difference between the date of payment instruction and the date of debit to the account. As discussed with respect to PI-20.2, the revenue collection agencies hold and manage accounts for the purposes of revenue collection. By the end of the day the balances on those accounts should be zero, with the funds transferred to the central STA. These are reconciled daily.

As mentioned at PI-6.2, there are also some resources related to donor-financed projects that are kept in special accounts in commercial banks. Balances on such accounts are not consolidated with the STA balance, but the Treasury Directorate receives information about the balance daily. These are monitored and captured by the Treasury Directorate and included in the annual financial statements.

The parts of the budgets of educational, healthcare, and cultural institutions of Montenegro collect own source revenues realized by rendering additional services (such as collecting various student fees, renting gyms, or providing healthcare service to foreign citizens), and those accounts are held at commercial banks and reconciled monthly. However, the total amount of own source funds is estimated at €40 million in 2018, which represents 2 percent of total expenditures, therefore in line with the PEFA framework criteria it can be stated that all accounts are reconciled daily.

Hence, the score for the present dimension is A.

Dimension 27.2 Suspense accounts

The strict operation of the STA ensures that there are no suspense accounts. Budget expenditures financed from the STA require full documentation before they can be paid from the STA.

Because of this, the dimension is not applicable.

Dimension 27.3. Advance accounts

The internal instruction of the Treasury[83] prescribes the detailed procedures for advance payments. Spending units may obtain advances for items such as business trips and small expenditures. Spending units operate an imprest cash account whereby the MoF advances an amount of cash to each spending unit sufficient to enable it to pay for expenses in cash. Imprest ceilings are determined by the MoF after an assessment of each spending unit's needs. In order to obtain a replenishment of any cash spent, spending units must submit valid expenditure claims to justify the utilization of the cash spent. At the end of the year, each spending unit must return unutilized cash to the Treasury, together with valid expenditure accounts to justify any cash spent. The system of reconciliation and clearance of cash imprest advances, travel advances, contractor advances, and staff advances ensures monthly reconciliations within a month after the end of each month.

Based on the analysis and supporting evidence, the score for the present dimension is A.

Dimension 27.4. Financial data integrity processes

This dimension assesses the extent to which processes support the delivery of financial information and focuses on data integrity defined as accuracy and completeness.

The main IT system of the MoF through its Treasury Directorate runs SAP software. SAP functions include budget planning and execution, cash management, accounting, and reporting. The spending units have access to the system through a web portal. The access to the system is restricted by a rigid system of access passwords. There are well established procedures for creating new users, changing profiles, and deactivating users. MoF authorizes user licenses based on the decisions issued by spending units. The system keeps track of who has accessed a computer system, when it was accessed, and what operations were performed.

The integrity of financial data is checked by the Treasury Directorate. The MoF IT Department monitors unauthorized accounting system access and any attempts at such access can be detected. So far, no such instances have been observed. The system does not require frequent changes of the password by the users,

[83] Official Gazette 5/14 of December 19, 2014 and 72/15 of December 21, 2015.

but users must change the passwords to their individual work stations every 45 days. The backup procedure for SAP is done every 15 minutes.

Access and changes to records are restricted and recorded, and result in an audit trail. The IAD of the MoF, through their audits, verifies the integrity and accuracy of financial data.

Based on the analysis and supporting evidence, the score for the present dimension is A.

PI-28 In-year budget reports

This indicator assesses the comprehensiveness, accuracy, and timeliness of the information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures. The indicator measures quarterly budget execution reports prepared by the Treasury Directorate, based on the Treasury Main Ledger and information reported from the spending units. The scores are aggregated using the M1 (WL) method. Coverage is BCG and the period assessed is the last completed fiscal year.

Summary of scores and performance table PI-28

Indicator/Dimension	Score 2019	Brief justification for score
PI-28 In-year budget reports	**D+**	Scoring Method M1 (WL)
28.1. Coverage and comparability of reports	D	A comparison to the budget is possible at a certain level of aggregation, but only based on economic classification.
28.2. Timing of in-year budget reports	B	The in-year reports are produced quarterly and issued within four weeks after the end of the reporting period.
28.3. Accuracy of in-year budget reports	A	There are no material concerns about the accuracy of in-year reports based on discussions with IAD of the MoF and SAI.

Source: World Bank.

Dimension 28.1. Coverage and comparability of reports

A Rulebook on the preparation and delivery of financial reports for budget, state funds, and local governments[84] prescribes the format and content of quarterly and annual financial reports. They include the following:

- Cash Flow Statement I – economic classification,
- Cash Flow Statement II – functional classification,
- Cash Flow Statement III,
- Cash Flow Statement IV,
- Report on unsettled liabilities,
- Consolidated report of a spending unit which is responsible for public institutions, and
- Consolidated report on public spending.

Spending units report quarterly to the MoF, and those spending units that have responsibility for certain public institutions, receive and consolidate their financial information on a quarterly basis before reporting to the MoF. In-year reports show for comparison the latest revised budget where applicable, not the original budget. The MoF posts on its website the budget outturn reports at an aggregated level rather than at the full level of

[84] Rulebook on the Manner of Preparation and Delivery of Financial Reports for Budget, State Funds and Local Governments, 2014, article 7.

detail as presented in the original budget. The reports are aggregated only on economic classification, and do not report separately on different spending units, functions, or programs, therefore direct comparison to the original budget is not possible. It appears that all the information needed to produce more detailed reports which would enable a direct comparison to the original budget is already available from the SAP system, however this is not benefited from as the reporting format prescribed by the legislation does not require such information.

The in-year reports include expenditures based on transfers. Prescribed financial statements focus on cash flows and budget execution, with only additional information on outstanding liabilities/arrears. There is no information on other non-financial and financial assets and liabilities.

Hence, the score for the present dimension is D.

Dimension 28.2. Timing of in-year budget reports

Quarterly budget execution reports are prepared by the Treasury Directorate based on the Treasury Main Ledger and information reported from the spending units. The reports are issued within four weeks after the quarter ends.

It should be noted that aggregate reports are also produced monthly by the MoF Treasury Directorate from the SAP system shortly after the end of each month. However, quarterly reports, which represent formally prescribed reports by legislation, are assessed for all dimensions of this indicator. The monthly reports do not cover the actual expenditures incurred by the spending units outside the STA (most expenditures are indeed paid out of the STA), and they do not include the information on outstanding liabilities. Monthly reports are not distributed, but spending units have direct access to the SAP and such reports.

Based on the evidence presented, the score for the dimension is B.

Dimension 28.3. Accuracy of in-year budget reports

There are no major concerns regarding the accuracy of in-year budget reports. In preparation of the consolidated quarterly report prepared by the MoF, the reported data from the spending units is reconciled with the Treasury Main Ledger by the MoF. The operation of the STA and submission by the spending units of budget execution data through SAP and on paper enables a close and regular monitoring and reconciliation of financial information and flows. Reports issued during the year are cash based and include additional information on commitments and unsettled liabilities. Report on analysis of public spending is issued each quarter and includes elaboration of the budget execution.

Hence, the score for the present dimension is A.

PI-29 Annual financial reports

This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. The scores are aggregated using M1 (WL) method. The coverage is BCG and the period assessed is the last completed fiscal year.

Summary of scores and performance table PI-29

Indicator/Dimension	Score 2019	Brief justification for score
PI-29 Annual financial reports	**D+**	Scoring Method M1 (WL)
29.1. Completeness of annual financial reports	C	The information about financial and non-financial assets, as well as liabilities, is not complete and presented.
29.2. Submission of reports for external audit	B	The year-end accounts are submitted to external audit within six months of the end of the fiscal year.
29.3. Accounting standards	D	Standards are not disclosed.

Source: World Bank.

Dimension 29.1. Completeness of annual financial reports

The LBFR prescribes the form of the government's annual financial statements (the final account),[85] which are consolidated by the Treasury Directorate and presented in the draft Law on the Final Account. The annual financial statements (the draft Law on Final Account) is fully comparable with the approved Budget Law. The information presented is on cash basis and includes revenue and expenditures, with additional data only on arrears (see PI-22). No additional financial information on non-financial and financial assets or on liabilities is presented. The statements show revenue by item and expenditure by all relevant classifications (see PI-4), with comparison to revised budget figures, and bank deposits at the beginning and end of the year. There is some analysis of material variances. Financial assets and liabilities are not shown in their entirety; however, state debt is reported.

Financial reports of CG

Financial report[86]	Date annual report submitted for external audit	Content of annual financial report (Y/N):			Reconciled cash flow statement (Y/N)
		Expenditures and revenues by economic classification	Financial and non-financial assets and liabilities	Guarantees and long-term obligations	
2016	June 15, 2017	Y	N	Y	Y
2017	June 13, 2018	Y	N	Y	Y
2018	June 7, 2019	Y	N	Y	Y

Source: World Bank.

The score for the present dimension is C.

Dimension 29.2. Submission of reports for external audit

In accordance with the LBFR, the MoF is required to prepare a draft Law on Final Account and submit it to the government by June 1 of the current year for the previous year. The government adopts the proposal of the

[85] Article 68 of the 2018 LBFR mandates that the final account include (i) opening and closing balances of the TA, (ii) an overview of deviations to planned figures, and reports on (iii) incurred loans, (iv) use of the budgetary reserve, (v) guarantees issued during the year, (vi) capital projects, (vii) execution of the program budget, (viii) state debt and issued guarantees, (ix) tax and non-tax receivables, (x) revenues and expenditures of public institutions not included in the STA and (xi) unsettled liabilities/arrears.
[86] This may be a consolidated financial report or a list of financial reports from all individual CG units.

law by the end of June, which then become available to the SAI which submits its audit report on the proposed Law on the Final Statement of Accounts to the parliament by October 15th. The government must also submit the draft Law on Final Account to the parliament by the end of September.

The MoF sent the draft Law on Final Account for 2018 to the government on May 28, 2019. Although there was no formal submission by the government to the SAI, the SAI simultaneously received a copy of the draft Law on Final Account upon the government's adoption on June 7, 2019, in order that it could complete its audit in time for the government to meet its reporting obligation to parliament.

The score for the present dimension is B.

Dimension 29.3. Accounting standards

There is no reference in the annual financial statements (draft Law on Final Account) to the accounting standards used for their preparation; however, Article 7 of the Rulebook on the Manner of Preparation and Delivery of Financial Reports for Budget, State Funds, and Local Governments prescribes that the financial statements be prepared in accordance with the International Public Sector Accounting Standards on a cash basis. The format has developed over time to incorporate various information requirements and to remove redundancies, without reference to any specific set of accounting standards or financial reporting framework. The statements are in a consistent format from year to year and are prepared in accordance with the prevailing legislation and regulation. Although the statements are considered by MoF to be broadly consistent with cash-based International Public Sector Accounting Standards, as they apply to the revenue and expenditure statements, they do not include other information required to comply with the standard and do not disclose the accounting framework and standards used.

Hence, the score for the present dimension is D.

3.7 PILLAR SEVEN: External scrutiny and audit

PI-30 External audit

This indicator examines the attributes of the external audit function in the Montenegrin public sector, focusing on the SAI.[87] Principal documents used as points of reference for this indicator are the Constitution, the SAI Law, the SAI Rules of Procedure and their methodological framework, the SAI audit reports of the draft Law on the Final Account (SAI Annual Audit Report), and the SAI Annual Activity Report. The audit report assessed and scored in Dimensions 30.1, 30.2, and 30.3 below is the SAI Annual Audit Report, as it is the report of the financial and compliance audit of the government's Final Account. Indicator coverage is CG and the scope covers the last three fiscal years.

Summary of scores and performance table PI-30

Indicator/Dimension	Score 2019	Brief justification for score
PI-30 External audit	**B+**	Scoring method M1 (WL)
30.1. Audit coverage and standards	B	Considering the limited coverage of assets and liabilities in the government's financial statements, the SAI's annual financial and compliance audits in the last 3 completed fiscal years are considered to have covered at least all of the CG revenues and expenditures.
30.2. Submission of audit reports to the legislature	B	SAI took approximately 4 months (mid-June to mid-Oct) to issue the Audit Report on budget execution in each of the last 3 years in line with the deadlines defined under the applicable legislation.
30.3. External audit follow-up	B	The government formally provides a timely and comprehensive action plan, but available evidence suggests only limited effectiveness of its follow-up. SAI carries out regular follow-up audits to ascertain the status of issued recommendations.
30.4. SAI independence	A	SAI has financial, functional, and organizational independence from the executive, which is observed in practice, in line with the Constitution and law.

Source: World Bank.

The Montenegrin SAI is organized in a collegiate model, managed by a Senate, the five members of which are appointed by the Assembly. The President is selected among Senate members for a single 9-year term. The organization and bodies of the SAI are set down in Articles 29, 30 and 31 of the SAI Law. In 2018, SAI had 71 total staff (out of 87 systematized posts), of whom 60 (of 73) worked in audit functions and 11 (of 14) in non-audit capacities.[88] All the audit staff in positions where certification is required are certified with the title State Auditor in line with the SAI's by-laws and program. The SAI subscribes to the International Standards of Supreme Audit Institutions (ISSAI) Framework and there are no national auditing standards in place. Over the past five years, the SAI has updated its existing and developed new methodological guidance with technical assistance. In 2014, a twinning project to strengthen quality assurance was completed with the Latvian SAI.

The SAI has maintained its comprehensive remit over the bodies and organizations that manage the state budget and assets, local governments, public enterprises, CBM, and other legal entities in which the state has

[87] The Audit Authority, the external auditor for the EU funds management structure, audits the Instrument for Pre-Accession Assistance (IPA) structure and reports to the European Commission.
[88] Systematized posts include top management (five members of the Senate). Of 60 audit staff, 55 are engaged in audit work and five work on horizontal support assignments.

an ownership share. In addition, the Law on Financing of Political Parties (2014) assigns the SAI with the statutory annual audit of consolidated financial statements of political parties with revenues over €10,000.

The SAI has increased its audit capacity, refined its audit methodologies, and implemented internal quality assurance procedures. This strengthened capacity has helped to increase the audit coverage relative to the last assessment, in spite of the additional workload imposed by statutory audits of political parties. Since the latest amendments to the LBFR, the SAI annually assesses the compliance with fiscal responsibility criteria, which provides the legislature with an independent review of adherence to the proclaimed fiscal policy objectives and targets. At the same time, SAI's actual coverage of local governments and public enterprises remains very limited (see PI-10). The SAI's capacity for performance audit has increased, but the number of audits for economy, efficiency, and effectiveness (see under PI-8.4) is still limited. Statistics about the audit work carried out by the SAI are presented in the table below.

Type and number of audits carried out

Type of audit / Calendar year (October 10 through October 9)	2015-2016	2016-2017	2017-2018
Financial / compliance audit (including the audit of the Final Account)	13	15	22
Audits of political parties	14	22	34
Follow-up (control) audits	4	—	3
Performance audits	4	3	4
IT audits	—	1	2

Source: SAI Annual Activity Reports for 2016, 2017, and 2018 and SAI data.

Dimension 30.1. Audit coverage and standards

The Institution disclosed conformance with ISSAI level III standards in its annual Audit Reports, which implies alignment with INTOSAI's fundamental auditing principles. Adherence to the disclosed standards is verified for each audit through an internal quality assurance procedure in line with the Audit Quality Control Guidelines (2015) based, among other things, on International Standard on Quality Control 1.[89] The following main methodological guidance is in place: (i) Guidelines for Assessing the Application of Fiscal Responsibility Criteria (2017), (ii) Guidelines for Audit of Annual Financial Statements of Political Parties (2018), (iii) Guidelines for Auditing the Final Account of the State (2018), (iv) Instruction on Methodology for Carrying Out Financial and Compliance Audit (2015), and (v) Instruction for Carrying Out Performance Audit (2017). While a number of level IV ISSAIs have been translated and made available to audit staff, their requirements have not yet been incorporated into the operating manuals. Full alignment of methodologies ISSAIs to reflect the detailed requirements of the standards in the SAI operating procedures and to assure conformance with level IV was ongoing at the time of the assessment. Delays experienced in updating the methodological framework are attributed to the postponement of the technical assistance project in support of these reform measures. All SAI staff are required to observe the Institution's Code of Ethics.

In terms of coverage, SAI's annual financial audits in the last 3 completed fiscal years cover at least all of the revenues, expenditures and available information on arrears (see PIs 22 and 29 for details). Regularity audits covered the auditees' compliance with legislation covering all revenues, expenditures, assets and liabilities but not the underlying accounting records. Moreover, in June 2019 the SAI completed a performance audit on accounting treatment of assets, noting substantial delays in implementing the infrastructure (information

[89] There are no available independent quality assurance reports to support a full assessment of whether there was general adherence to audit standards.

system) and data for a comprehensive asset register (see also PI-12). The respective Audit Reports in each of the assessed years document a clear focus on the most material issues and systemic and control risks.

Considering the limitations imposed by the coverage of the government's financial statements, the score for the present dimension is B.

Dimension 30.2. Submission of audit reports to the legislature

In line with Article 18 of the SAI Law, the SAI reports to the Assembly and the government through (i) submission of the annual report, (ii) submission of individual reports, and (iii) advising based on findings obtained through audit work. Additional reporting requirements are elaborated in the 2016 Protocol on Cooperation between the Assembly and the SAI. This dimension assesses the timeliness of submission of the annual Audit Report to the parliament, measured from the date of the SAI's receipt of the relevant unaudited financial reports. Actual dates for the last three fiscal years, as per reporting deadlines prescribed in the legislation, are presented in the table below. Parliamentary representatives interviewed reported that both the Audit Report and the Activity Report are available in time to inform debate and adoption of the Final Account Law and of the annual Budget Law.

Timing of audit reports submission to the legislature

Fiscal years	Dates of receipt of the proposal Final Account by the SAI	Dates of submission of the annual Audit Report to the Assembly	Audit completed under
2015	June 15, 2016	October 17, 2016	4 months
2016	June 15, 2017	October 16, 2017	4 months
2017	June 15, 2018	October 15, 2018	4 months

Source: SAI data and official Annual Audit Report dates.

Based on the supporting evidence, the score for the present dimension is B.

Dimension 30.3. External audit follow-up

This dimension assesses the extent to which effective and timely follow-up on external audit recommendations or observations is undertaken by the executive or the audited entity. The SAI reported the following number of recommendations in the past three years as part of its annual Audit Reports. As per PEFA Framework requirements, this dimension measures follow-up on recommendations by the executive from the annual Audit Report only.[90]

Recommendations and follow-up

Recommendations / calendar year	2016 Audit Report	2017 Audit Report	2018 Audit Report*
On the last year's final account – Audit Report	11	16	12
Implemented (partially implemented) within 12 months	1 (5)	3 (7)	5 (8)

Source: SAI Annual Activity Reports for 2016, 2017, and 2018 and SAI data.
Note: *Data from October 2019.

The government formally responds to the Conclusions of the parliament with a detailed Action Plan to implement the SAI's systemic recommendation and reports quarterly on the status of implementation. A summary report on implementation status of the issued recommendations is likewise available annually as a part of Section II of the SAI Activity Report. Information on the implementation of all other recommendations

[90] Recommendations issued in individual audits and reported on aggregate and by institution in the annual Activity Report are as follows: For the period covering October 2015-October 2016, the SAI issued 354 recommendations. For the period covering October 2016-October 2017, the number of SAI recommendations was 527. For the period October 2017-October 2018, the SAI reported 462 recommendations issued.

for individual audits is maintained on the SAI level and reported annually on aggregate. The deadlines for follow-up for individual audits are decided by the competent SAI collegium. The information is reported to the parliament once a year, in the Activity Report.

Some recommendations are repeated from year to year, including those that involve systemic weaknesses and those that result from failure to follow-up on earlier recommendations. In accordance with the PEFA Framework guidance, the terms “formal” and “comprehensive” do not imply that recommendations have necessarily been implemented.

Despite concerns over recommendations repeated in the past three fiscal years, the performance of the executive on this dimension meets the PEFA Framework requirements for score B.

Dimension 30.4. SAI independence

There are firm legal requirements to ensure that the Montenegrin SAI operates fully independently from the executive and that these are enforced in practice. Independence from the executive extends over appointment and removal of senate members, audit planning, and arrangements for publicizing reports, as well as the approval and execution of the SAI’s budget. Notably, however, the SAI uses the government HRM system for the administrative part of its recruitment process and executes its budget through the MoF FMIS. SAI management did not report these practices as impairments to its financial, functional, and organizational independence. An overview of fulfilled independence requirements is presented in the table below.

Fulfilment of SAI independence requirements

Element/ Requirements	Met (Y/N)	Evidence used/Comments
1.The SAI operates independently from the executive with respect to:		
procedures for appointment and removal of the President and members of the Senate	Yes	Defined in the SAI Law (Articles 33-42).
The planning of audit engagements	Yes	Defined in the SAI Law (Article 9), Rules of Procedure (Section V), audit methodologies. Annual audits of the Final Account and political parties are statutory.
Arrangements for publicizing reports	Yes	Defined in the SAI Law (Article 50), Rules of Procedure.
The approval and execution of the SAI’s budget.	Yes	Defined in the SAI Law (Article 51).
2. This independence is assured by law.	Yes	Defined in the Constitution of Montenegro and the SAI Law.
3. The SAI has unrestricted and timely access to records, documentation and information for all audited entities.	Yes	Defined in the SAI Law (Article 10) and the Law on Data Confidentiality (Article 26), including access to confidential information by senate members.

Source: SAI, annotated by the assessment team.

The SAI Law requires that the parliament to appoint senate members based on nominations received from the CEBF and this has been the case for all current Senate members. Moreover, Senate members enjoy immunity from criminal persecution in discharging their duties.

The SAI budget is approved by the parliament as a separate administrative heading under the annual Budget Law. Once the budget proposal submitted by the SAI is reviewed and approved by the CEBF (in practice, without modifications), the proposal is sent to the MoF, which is required to incorporate it intact into the proposal of the Budget Law that is subsequently reviewed by the CEBF once again and adopted in the plenary (see PI-18 for the budget approval procedure). Once approved, the execution of the SAI budget is subject to standard MoF procedures related to treasury operations. The law requires the government to separately report and justify modifications to the SAI budget during the year if any should occur.[91] Systematization and staffing levels at the SAI are decided by the senate. While the SAI utilizes the executive's HRM system for administrative aspects of recruitment, the final decisions on staff recruitment is made by the SAI management. Salary levels for SAI management and staff are defined in the legislation, but SAI management may incentivize performance financially through bonuses as regulated in the Institution's internal procedures.

Audit planning is carried out in accordance with the SAI Law and the SAI Rules of Procedures. Beyond required annual audits, SAI is entitled to plan its work without undue interference and this has been observed in practice. Individual engagements are planned in accordance with the above methodological instructions for performing financial, compliance, and performance audit.

In terms of access to information, Article 24 of the SAI Law mandates that the SAI independently decides on requests for information, and penalties are prescribed for failure to comply (Articles 52-53). The SAI has not reported any issues with timely access by auditors to information, records, and documentation in any of the audited entities. Access to confidential data is available to senate members who are authorized under law to access them without prior permission.

Considering that the safeguards required to assure the independence of the SAI from the executive exist and have been observed in practice in the period under assessment, the score for this dimension is A.

PI-31 Legislative scrutiny of audit reports

This indicator focuses on the parliament's scrutiny of the audited financial reports of the Montenegrin CG, including institutional units, to the extent that either they are required by law to submit audit reports to the legislature or their parent or controlling unit must answer questions and take action on their behalf. As per PEFA methodology, scoring of Dimensions 31.1, 31.2, and 32.3 is based on the Audit Report of the Final Account, while the practices concerning individual audit report scrutiny are taken into account for Dimension 31.4. The scope of this indicator are the last three completed years.

Summary of scores and performance table PI-31

Indicator/Dimension	Score 2018	Brief justification for score
PI-31 Legislative scrutiny of audit reports	**B+**	Scoring method M2 (AV)
31.1. Timing of audit report scrutiny	A	Last received audit report has been tabled and scrutinized in the plenary within 3 months of the date of receipt.
31.2. Hearings on audit findings	C	While hearings held in 2016 have been comprehensive, absence of hearings on audit reports in 2017 and 2018 implies lower frequency and depth.
31.3. Recommendations on audit by legislature	A	The parliament formally requires and receives evidence of government follow-up on SAI recommendations.
31.4. Transparency of legislative scrutiny of audit reports	A	Proceedings in the CEBF and the plenary are open to the public and the outputs are available from the parliament web page (excluding defense and national security).

Source: World Bank.

The main provisions that regulate the parliament's scrutiny of audit reports are laid down in the Constitution, the Budget Law, and the SAI Law. These are further elaborated in the respective Rules of Procedure of the parliament and the SAI. The Protocol on Cooperation concluded between the parliament and the SAI in 2018 further operationalizes the exchange of information and institutional cooperation modalities. The main

[91] This is assured in the Law; however, a reported incident from 2019 when the SAI budget was cut alongside other expenditure suggests additional institutional safeguards are required on the MoF side to prevent similar occurrences in the future.

documents used for the assessment are publicly available annual audit and activity reports of the SAI and the reports, conclusions, and other material produced by the CEBF.

The CEBF is organized as a permanent body comprised of 13 members, with its main competencies spelled out in Article 43 of the parliament's Rules of Procedure. The work of the CEBF is supported by a technical service, which includes the CEBF's secretary and, since 2016, two advisers, who are charged with providing supplementary information and analyses (for example, 15 professional analyses in 2018, although not all were necessarily related to audit reports).

Dimension 31.1. Timing of audit report scrutiny

The National Assembly receives the Proposal of Law on the Final Account for the previous fiscal year from the government by the end of September and the Annual Audit Report on the Proposal from the SAI by the 15th of October of the current year. In addition, by the end of October the SAI submits its Annual Activity Report, which contains highlights and recommendations from all individual audits carried out in the past 12 months.[92] Before being tabled in the plenary session, both the Audit Report and the Activity Report are scrutinized by the CEBF, which has the mandate to carry out hearings and issue its own statements, recommendations, and proposals for conclusions for the plenary. The parliament acknowledges the SAI's Audit Report and Activity Report rather than formally approving them. In the absence of a specific date by which the scrutiny of the Audit Report should be considered completed and approved, the timing under this dimension is measured as the time from the receipt of the Audit Report by the parliament until it is tabled in the plenary as a part of the proposal of the Law on the Final Account. The actual dates in the last three fiscal years are presented in the table below.

Timing of audit report scrutiny

Fiscal years of the Audit Report	Dates of receipt of the annual Audit Report	Date Audit Reports tabled in the plenary
2015	October 17, 2016	December 27, 2016
2016	October 16, 2017	November 23, 2017
2017	October 15, 2018	November 27, 2018

Source: SAI and CEBF.

The parliament discharged its responsibility for scrutiny of the Audit Report within three months from the date of its receipt in all three years.

Based on the available evidence, the score for this dimension is A.

Dimension 31.2. Hearings on audit findings

In line with the Rules of Procedure, parliamentary committees can carry out consultative and control hearings. Conclusions from control hearings are further deliberated in the plenary. In the absence of detailed procedures at committee level, the overall practices with respect to institutions and individuals represented in the hearings varies among different committees. Past control hearings conducted by the CEBF included the heads of audited institutions, MoF and SAI representatives. Moreover, SAI representatives appeared in other sectoral committees which deliberated audit reports in the course of their proceedings, all in line with Articles 52 and 53 of the SAI Rules of Procedure. An overview of the total number of hearings, including those related to audit reports is presented below.

[92] In practice, individual audit reports are sent separately to CEBF based on the decision of the responsible SAI collegium and in line with the Protocol on cooperation between the two institutions. All audit reports in their entirety are publicly available from the SAI web site.

Consultative and control hearings held by the CEBF

Type of hearing	2016 Total	2016 Audit related	2016 Attended by	2017 Total	2017 Audit related	2017 Attended by	2018 Total	2018 Audit related	2018 Attended by
Consultative	0	0	—	3	0	—	1	0	—
Control	5	3	Ministers, heads of institutions, SAI	0	0	—	1	0	—

Source: CEBF.

While there was a strong performance in 2016, no control hearings with respect to audit reports were held in 2017 and 2018.[93] Despite the fact that the hearings held in 2016 were comprehensive, the absence of hearings on audit reports in 2017 and 2018 means a lower frequency and depth of scrutiny than in the past. In line with the PEFA Framework guidance, due to inconsistent pattern of hearings on audit findings across the three years under assessment, the hearings are considered "occasional." **Overall performance for this dimension qualifies for score C.**

Dimension 31.3. Recommendations on audit by legislature

Based on its analysis of audit findings and recommendations from the annual Audit Report and SAI Activity Report, the CEBF adopts its own substantive report which documents the discussions and proposes Conclusions for the plenary session. In different reference years, these Conclusions ranged from calling upon the government to implement SAI recommendation to summarizing/reiterating the main ones. Once deliberated and adopted in the plenary session, the Conclusions of parliament on audit recommendations are published in the Official Gazette and their implementation is made binding for the executive.

As a part of the parliament's conclusions, the government is required to submit its Annual Action Plan for addressing the recommendations and to report quarterly on their implementation. Despite an apparently effective feedback loop, a number of high-profile recommendations from the SAI have been repeating over the years. There is also no documented link between the hearings conducted about audit reports and the recommendations issued by the parliament. Available evidence suggests that the parliament continues to exercise a largely formal role (highlighted in the 2013 assessment), which is restricted to reiterating the SAI recommendations. **The existing system by which the parliament holds the government accountable for following-up on audit recommendations formally meets the Framework requirements for score A**, although the actual practice offers room for more substantive parliamentary follow-up.

Dimension 31.4. Transparency of legislative scrutiny of audit reports

Transparency of parliamentary scrutiny is evidenced by the fact that both consultative and control hearings are open to the public and interested parties. Individual sessions of the parliamentary boards are documented and published on the web page of the parliament. As noted in PI-31.2 above, all reports from control hearings are tabled in the plenary sessions. In all three years under consideration, the CEBF issued a summary annual report about its activities also covering its work on scrutiny of the annual Audit Report. In evidence of the transparency of parliamentary scrutiny, all the documents used for the purpose of the scoring under this indicator were available and easily identifiable on the web site of the parliament.

Based on the analysis and supporting evidence, performance under this dimension merits an A score.

[93] Recent public NGO reports concerning parliamentary oversight suggest a reduced number of control hearings is due to an opposition boycott of the parliament.

4. Conclusions of the analysis of PFM systems

4.1 Integrated assessment of PFM performance

Budget Reliability. Deviations of both expenditures and revenue are within acceptable margins compared to the original budget, and the budget can be considered as generally credible. Deviations of expenditures were up to six percent in the assessed period of 2016-18. Expenditures deviations had marked both downwards and upwards trends, depending on the year, so there is no weakness in budgeting in terms of a tendency to understate expenditures. Deviations in the expenditure composition by function and by economic classification were around four percent, apart from 2016, which was a unique year. The reason for the larger deviation in composition in 2016 was due to the difference between budgeted and actual expenditure for the largest capital investment project, construction of the highway.

The deviation of revenue was low and stayed within 2 percent margin in the assessed period of 2016-18. The deviation in the composition was only marginally higher than that, due to larger than planned tax on goods and services revenue, except for the 10.7 percent in 2016. Funds allocated and used as a budget reserve are low, at around 1 percent of total expenditures.

Budget reliability on the expenditure side is ensured by sound Treasury controls during budget execution. These controls allow spending units to file for payment only if those commitments are within budgeted allocations. In-year reallocation have been limited and supplementary budgets reviewed by the parliament. On the revenue side, enhanced revenue administration and tax collection, accompanied by reduction in tax arrears, allowed for accurate revenue planning.

Transparency of Public Finances. The Budget is comprehensive and transparent in terms of using all relevant budget classifications. Documentation is comprehensive and includes most of the elements prescribed by the methodology as best practice. There is a low level of extra-budgetary operations that remain outside financial reports. Fiscal information is transparent and accessible to the public, including the budget proposal and enacted budget, in-year and annual budget reports, audited financial statements, and other relevant documents. The SAI has access to all required documentation and makes all of its audit reports available to the public. At the same time, opportunities for public participation are limited and the proposal of the annual Budget Law is not necessarily subject to public consultations. Third-party sources consulted for the assessment highlight increased use of confidentiality by state authorities in response to NGO requests for non-public fiscal information.

Lack of meaningful program budgeting impedes the quality of performance information on service delivery and on the performance of the budget in general, in relation to defining and achieving objectives and key performance indicators. Although complex, there is an equitable, rule-based system for determining the level of transfers to the sub-national level; however, due to one-off difficulties encountered (described in PI-7), in the last fiscal year the system was not followed, which resulted in the low score in this area.

Management of assets and liabilities. Overall, this area is underdeveloped. While debt and guarantees recording, reporting, and approval are well established, management of assets, public investment and fiscal risks are weak. Debt management strategy is adopted for the period of three years, although there is no monitoring and reporting on its implementation.

While the MoF receives audited financial statements of public corporations and local governments, and some limited information on contingent liabilities, this data is not analyzed in order to feed the conclusions into concrete follow-up actions. There is no established system or practices for monitoring and managing fiscal risks arising from operations of public corporations, sub-national governments, PPPs, natural disasters, and other potential risks.

Management of public investments is weak in all stages of the cycle. Identification, economic analysis, appraisal, selection, costing, and implementation monitoring are all either deficient or not performed. The legislative framework (the DCB) includes provisions that would strengthen the system and the process, if implemented, but nevertheless enforcement has so far poor.

Register of non-financial assets is in the early stages of development, therefore there is no complete and accurate data on non-financial assets. In addition, due to the cash basis of accounting being used, there is no reporting of data on financial or non-financial assets. There is some information available on financial assets, but it remains outside of financial reports as no form for financial statements requires reporting this information. There are certain procedures for management of assets, including transfer and disposal, but fairly incomplete.

Policy-based fiscal strategy and budgeting. The parliament adopted a four-year Fiscal Strategy (2017-20), and there are over one hundred other sector and thematic strategies in Montenegro. The Fiscal Strategy includes assessments of the fiscal impact of revenue and expenditure policy measures and quantified and qualitative targets. However, strategies are not always operationalized through the budget, and there is a relatively weak linkage between strategies and expenditure policy proposals. In addition, outcomes and results of strategies are not systematically monitored and measured.

Annual Macroeconomic and Fiscal Policy Guidelines, covering three-year periods, provide a medium-term budget framework. The guidelines provide forecasts for key macroeconomic and fiscal forecasts, together with several scenarios of sensitivity analysis. Medium-term expenditure estimates are subsequently included in the Explanation to the annual Budget Law. However, medium-term planning appears to be quite provisional, and consistency of the budget with the previous years' estimates is weak. The country's ERP 2019-21 was prepared based on the Macroeconomic and Fiscal Policy Guidelines.

There is clear guidance on budget preparation and a prescribed budget calendar, but different steps in the calendar were not respected in the assessed period; this included the government missing the date of submission of the budget to the legislature. Nevertheless, the budgets were adopted by the parliament in a timely manner, and the legislative scrutiny is adequate in terms of legislative procedures, rules for budget adjustments, and timeliness.

Predictability and control in budget execution. This pillar overall performed quite strongly. On the revenue side of budget execution, the revenue administration is adequate in terms of managing risk and the auditing of taxes by the revenue agencies (the TA and CA are the key revenue collecting agencies), as well in communicating rights and obligations to taxpayers. Accounting for revenue is also appropriate. One area for improvement is the monitoring and management of tax arrears. Although the overall level of arrears was reduced in the previous years, there are material concerns about the accuracy of data.

On the expenditure side, the predictability and availability of resources is ensured and sets the basis for spending units to execute their budgets according to plans. Controls embedded in the Treasury system allow for execution of payment requests only within the budget allocations, thus safeguarding the credibility of the budget. One area that needs attention is commitment control, as there is no centralized control for entering into contractual or other legal commitments by the spending units. It is left with each spending unit's own system of internal controls, thus creating some concerns about potential commitments beyond the budget allocations being created. There are concerns with the accuracy of available data on such commitments and the resulting liabilities. A lack of accrual accounting information is notable, although the MoF produces a report on arrears within the financial statements that presents accrual-based information. Information on arrears is available quarterly and annually, and, according to the reported data, arrears remain below 5 percent of total expenditures. The reliability of the reported data, however, has been questioned by the SAI.

Payroll management and controls are highly decentralized, but the MoF-operated payroll system performed reasonably well. Framework and practices for procurement management are largely appropriate from the aspects of procurement monitoring, methods used, public information, and complaints mechanisms. IA has been gradually strengthened, and the coverage, standards applied, conduct of planned audits, and response to IA recommendations are scoring well.

Accounting and reporting. Accounting and reporting are done on a cash basis. Frequency of reporting (quarterly and annual) and timeliness (including submission to external audit) are adequate. There are no material concerns about the accuracy of cash-based information included in the financial reports (revenues and expenditures): however, there is some uncertainty about the accuracy of the opening balance of tax arrears and the outstanding liabilities due for payment.

The principal weakness with regard to reporting relates to the completeness of information included in financial reports. This issue stems from the fact that accounting is done on a cash basis and therefore there is no information in the financial reports on assets and liabilities (apart from the report on unsettled commitments/liabilities). Quarterly reports during the year are prepared based only on economic classification, so they are not fully comparable with the budget and annual reporting. Annual financial statements are prepared based on relevant legislative acts, but they do not disclose the accounting standards used. Accounts reconciliation is performed regularly and the integrity of financial data—beyond the issues reported above—is sound.

External scrutiny and audit. External audit performed by the SAI is relatively strong from the aspects of the timeliness, coverage, and auditing standards used. The SAI operates independently from the executive and conducts a full range of audits. The audit of the government's annual financial statements is submitted to the parliament within four months after becoming available for audit, which is a reasonable time frame. With regard to the coverage, the SAI audits all government revenues and expenditures; however, due to the limitation of the financial reports which do not include information on assets and liabilities, those categories consequently remain unaudited.

Follow-up on the audit findings is moderate, since a comprehensive and timely response to audit findings is prepared, but implementation remains partial. Financial, functional, and organizational independence of the SAI is rated highly.

Parliamentary scrutiny of audit reports is adequate in terms of timely consideration, monitoring implementation of audit recommendations and transparency. However, parliamentary hearings on audit findings should be much more frequent and productive.

4.2 Effectiveness of the internal control framework

The effectiveness of the internal control framework is subject to close scrutiny by the MoF and external stakeholders across four control objectives.[94] Individual entities develop the institution-level internal control framework based on the Plan for Improving Management and Control, but there is limited ownership over the document by heads of institutions. MoF CHD annually collects and consolidates information on self-

[94] (i) operations are executed in an orderly, ethical, economical, efficient, and effective manner; (ii) accountability obligations are fulfilled; (iii) applicable laws and regulations are complied with; and (iv) resources are safeguarded against loss, misuse and damage.

assessment of PIFC status across five COSO Framework components,[95] following up with targeted quality reviews of both financial management and IA in individual institutions. Internal and external auditors have made substantial contributions to assessment of the internal control system through their individual engagement and annual reporting. According to an April 2019 progress assessment carried out by the EC, Montenegro was moderately prepared to assume membership obligations on Chapter 32: Financial Control, which is considered the benchmark for, among other things, development of PIFC and the external audit function.[96] Combined findings from these sources indicate evident progress in internal control effectiveness, supported with extensive capacity development for relevant staff. Against this background, the degree of success in practical implementation in different spending units remains uneven.

The internal control framework made a tangible contribution to addressing the risks related to achieving each of the main three fiscal and budgetary outcomes. Against the broader macro environment and the objectives in the PAR Strategy and the PFM Reform Program 2016-20, the internal control framework in Montenegro in the period under assessment had to respond to the dual challenge of (i) maintaining compliance with rules and financial targets and (ii) supporting service delivery optimization to secure value for money. It likewise had to accommodate the at times conflicting interests of the MoF and the spending units. Finally, ensuring an effective internal control framework had to account for the need for a quick build-up of management and IA capacity in a large number of institutions at once.

Emerging fiscal constraints in 2017 required exercise of strict control on overall fiscal aggregates, focusing the controls on inputs and strict compliance with the rules. Findings on overall budget reliability signal that the MoF managed to uphold controls over budget rules for supplementary estimates and virements. In parallel, the drive for improved capacity for resource allocation over the medium term required that controls be optimized to support decision making by linking resources with objectives and results. Additional enabling factors for full implementation in this regard are yet to be secured through improved strategic planning and program budgeting approach. New ex-ante control mechanisms over fiscal impacts of legislation and policy have been introduced, but findings from a regional study of implementation obstacles note a lingering lack of capacity for active gate-keeping.

Overall control environment is conducive to managerial accountability for compliance and value for money which has been a cross-cutting concern throughout the assessed period. Individual entities develop the institution-level internal control framework based on the Plan for Improving Management and Control. On institutional level, control remain centralized and this issue stems from a lack of delegation of authority, which can be attributed to insufficiently developed accountability and reporting lines for monitoring how the authority has been exercised, resources used, and responsibilities fulfilled. A very low percentage of institutions (24 percent) have reported the existence of procedures that specify the reporting requirements over entities they oversee. The issue of inter-institutional accountability remains pronounced, suggesting room for improvement of harmonization in the exercise of internal controls between and among institutions.

Risks are documented in risk registers which have been established by 56 percent of institutions, according to self-reported 2019 data. Risk management has performed reasonably well in all corresponding dimensions analyzed in section 3, except in the economic analysis of investment proposals. Incorporating a risk-based approach in revenue collecting agencies helped to promote operational efficiency in collection and audit. Further development of the risk management function, including in investment and asset management, is needed in order to improve control activities in these areas in the future. Risk management practices in

[95] Control environment, risk assessment, control activities, information and communication, and monitoring.

[96] European Commission, *2018 Annual Progress Report*. (Brussels: European Commission, 2019).

individual institutions are not an adequate compensation for the absence of an institutionalized fiscal risk monitoring and management function.

With respect to evaluation of the internal control systems, both the audit (internal and external) and oversight functions have strengthened, but their value added may, at times, be difficult to quantify. The IA function has strengthened across all relevant parameters (number of units, number of auditors, number of audits, and recommendations). The bulk of resources were committed to auditing compliance and only a fragment to auditing value for money. SAI issued a conditional opinion on regularity and a positive opinion on financial statements for 2017 (the last audited statement available). Auditees confirmed that the SAI's performance audits of customs collection and VAT arrears management made considerable impact. In another instance, SAI performance audit recommendations were issued on the efficiency of the IA function. In terms of management response to audit recommendations, practices in the assessed period have scored in the upper performance range. External audit reports were used to hold government executives to account in front of the parliament's working bodies.

As recommended by PEFA Secretariat guidance, Section 3 findings on internal control effectiveness are mapped against the five internal control components—control environment, risk assessment, control activities, information and communication, and monitoring—in Annex 2, highlighting gaps in coverage for the individual components.

4.3 PFM strengths and weaknesses

Strengthened PFM institutions and processes have a critical influence on budgetary and fiscal outcomes, and on the government achieving its objectives in this area. The PEFA assessment measures the extent to which the PFM system supports achieving three outcomes: aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery.

Aggregate fiscal discipline

The budgets are fairly reliable, with deviations of both revenue and expenditures remaining within manageable levels, in most years lower than 7 percent. With regard to the fiscal balance, deficits of 3.1 percent, 5.8 percent, and 3.7 percent in the period 2016-18[97] were registered, with no significant deviations from the plan. The budget is transparent and presented by all relevant classifications, with a low level of extra-budgetary funds and unreported operations.

On the revenue side, revenue mobilization has improved over the past few years, mainly due to improved tax collections and reduction in tax arrears. With regard to expenditure management, there are hard controls embedded in the budget execution system that allow for payments only within budget allocations, thus largely contributing to the fiscal discipline. Other elements related to budget execution such as accounts reconciliation, budgetary controls, integrity of financial data, and reporting are adequate. Commitment control is decentralized to financial management and control systems within individual spending units, and there is no effective ex-ante control to prevent spending units from entering into contractual commitments beyond budget limits. Reported arrears remain below 5 percent of total expenditures for the time being; however, reliability of data on arrears remains uncertain, partly due to the lack of accrual accounting information.

PFM elements that are essential to ensuring aggregate discipline over multiple budget cycles in the medium-to-long term are areas of weakness. While, on the upside, macroeconomic and fiscal forecasting, fiscal policies and strategies, and medium-term planning exist, there seem to be weak linkages with the implementation of

[97] World Bank, *Western Balkans Regular Economic Report No. 15.* (Washington: World Bank, 2019).

those. Operationalization of them to concrete actions and budget priorities is slight, and even medium-term expenditure estimates remain provisional and are considered and analyzed to low extent on rolling basis. Although the government is exposed to various fiscal risks such as guaranteed loans, contingent liabilities, deposit insurance, natural disasters, local governments etc., some of which have materialized in the past, there is no established and formalized system for monitoring and taking actions to mitigate and reduce fiscal risks. Similarly, there is no appropriate system for the management of assets and the register of non-financial assets still needs to be developed. This can negatively influence aggregate fiscal discipline over the long term and undermines efforts for revenue maximization from renting, disposal, and overall management of assets. An underdeveloped system for public investment management can lead, in practice, to technically unprepared projects being selected, with implementation and results are sub-optimal. Lastly, a lack of meaningful program budgeting and performance management prevents measurement of the results of specific programs, projects, and activities, and deprives future planning of resources of this important information, which would feed into future planning and budgeting cycles.

In conclusion, while annual budgets and their execution to a large extent positively contribute to aggregate fiscal discipline, elements that contribute to maintaining aggregate fiscal discipline in the medium to long term, such as medium-term planning, implementation of strategies and fiscal policies, and management of public assets and capital investments remain weak.

Strategic allocation of resources

Using limited fiscal space in a strategic manner is a means to support economic development and growth. In Montenegro, a large number of strategies and reform programs have been developed, representing a solid base for a clear strategic direction for the country in terms of priorities. However, the implementation of strategies and policy documents requires concrete actions in order to achieve objectives. The linkage between high-level documents and specific annual and medium-term budget composition and priorities is not always obvious, and outcomes of strategies are not measured.

Acceptable levels of deviations in revenue and expenditures ensure that budgeted allocations for strategic priorities and policy objectives are implemented. Such budget reliability is enabled by a sound budget preparation and execution system and efficient revenue administration. Reliable reporting of revenue and expenditures provides credible information on the execution of strategic allocations. Payroll controls are sound, thus reducing any risk of excessive payroll cost that could shrink the fiscal space for strategic activities. Procurement management is fairly adequate, supporting the budget execution process for strategic and policy objectives. However, while the system ensures that, once budgeted, the allocations are properly implemented, as mentioned above the strategies and policy objectives are not always operationalized through budget activities.

Public investment projects are an important tool in achieving strategic objectives, and existing weaknesses in the process of identifying, evaluating, selecting and implementing investment projects, are detrimental to strategic allocation of resources. The medium-term budget is a key instrument for achieving strategic objectives given their long-term perspective; therefore, the fact that medium-term budgetary framework is quite unreliable, with the two years after the budget year being only provisional, additionally weakens the link between setting strategic objectives and allocating the resources for achieving those objectives.

Efficient service delivery

A sound budget execution system ensures that budget allocations intended for service delivery are executed in an orderly manner. Deviations of total expenditures and in the composition of expenditures remains manageable, hence the risk of reallocation of budgeted funds for service delivery for other purposes is low. At the same time, the overall efficient revenue administration ensures availability of planned funds for service delivery. Information on resources received by service delivery units is available for both the budget source of financing and, in general, for own source revenue.

On the downside, the absence of performance management concepts and practices represents a weakness, largely influenced by an underdeveloped program budgeting. Measuring efficiency and effectiveness of service delivery is a vital element of evaluating the impact of and further strengthening service delivery; however, currently no policy or program objectives, related performance indicators, outputs, and outcomes are formulated for budget programs. Reports on performance results for outputs and outcomes are not produced either in the executive's budget proposal or in monthly, quarterly, or annual reports or other public documents. The MoF does not carry out and publish performance-based expenditure reviews. There are no performance evaluations on the efficiency and effectiveness of service delivery programs. The SAI has performed eleven performance audits in the past three years, and while the institution's capacity for performance audit has increased, the number of audits of economy, efficiency, and effectiveness is still limited.

4.4 Performance changes since a previous assessment

The current assessment provides an analysis of the performance changes compared to the 2013 assessment. Given that the 2013 assessment was conducted in line with PEFA 2011 Framework, while the current assessment is using PEFA 2016 Framework, the analysis of performance change in line with the PEFA Secretariat's guidance[98] was done by assessing the indicators under PEFA 2011 Framework with the available data for the current assessment (see Annex 4 for details).

The evidenced changes show an overall tendency of improving performance. Fifteen out of 28 performance indicators kept the same rating, eleven indicators registered improved scores due to improved performance, and only two indicators showed deteriorated scores. For two indicators with lowered scores (PI-4 Stock and monitoring of expenditure arrears and PI-18 Effectiveness of payroll controls) judgment was applied and resulted in differences which meant they registered lower scores than in the previous assessment, although there was no substantive performance change. On the other hand, PI-9 Oversight of aggregate fiscal risk from other public sector entities, registered the same score due to the method (weakest link) used, but in fact the performance deteriorated.

The indicators and areas that registered improved performance are the following:

PI-1 Aggregate expenditure outturn compared to original approved budget: The budget is more reliable, as only one out of three years had expenditure deviation more than 5 percent.

PI-3 Aggregate revenue outturn compared to original approved budget: Deviations in budgeted versus actual revenues were reduced significantly, as the deviation did not exceed 2 percent in 2016-18 assessed period.

PI-7 Extent of unreported government operations: The level of unreported expenditures has been brought down to 0.66 percent of total budget expenditures and 1.05 percent in the case of revenue. Donor funded projects are better integrated into the budget planning and execution system, and information on such projects is available.

PI-8 *Transparency of inter-governmental fiscal relations*: SNG fiscal data are collected quarterly, consolidated, and published annually, within 3 months from year-end.

[98] Guidance on reporting performance changes in PEFA 2016 from previous assessments that applied PEFA 2005 or PEFA 2011.

PI-14 Effectiveness of measures for taxpayer registration and tax assessment: There are better linkages between databases and registries, better effectiveness of penalties for non-compliance, and roll out of risk-based approach beyond the large taxpayer office in the TA.

PI-17 Recording and management of cash balances, debt and guarantees: Records and reports on public debt improved. There is a clearer system for contracting loans and issuing guarantees.

PI-19 Competition, value for money and controls in procurement: Non-competitive procurement procedures decreased from 5.3 percent in 2012 to 1.3 percent in 2018. The CCPP is an independent body responsible for reviewing and considering appeals, and is not involved in any phase of contract award decisions.

PI-20 Effectiveness of internal controls for non-salary expenditure: Progress in implementation of the PIFC framework resulted in a better understanding of internal control rules and procedures. There is a higher degree of compliance with rules for processing and recording transactions.

PI-21 Effectiveness of IA: There was a substantially improved score due to improved coverage and quality resulting from a doubling of IA capacity, updated manuals and methodologies, and a substantial effort made to improve quality. Frequency and distribution is at the same level, but more units are considered operational. Implementation of IA recommendations has increased from 59 percent implemented and 11 partially implemented in 2013 to 60 percent implemented and 31 percent partially implemented in 2019.

PI-26 Scope, nature and follow-up of external audit: Performance has improved, including increased audit capacity and refined methodologies for the audit of regularity, financial statements, and performance in line with the ISSAIs.

PI-27 Legislative scrutiny of the annual budget law: The scope of the legislature scrutiny has improved, with all elements in PI-18.1 deliberated by the parliament. There is some additional time (15 extra days) and increased technical capacity in the CEBF to analyze the budget proposal.

One indicator deteriorated in performance (although it registered the same score due to the weakest link method used):

PI-9 Oversight of aggregate fiscal risk from other public sector entities: This is due to insufficient monitoring of the local governments' fiscal position by the CG.

Since the performance changes had an upward tendency, they impacted the fiscal and budgetary outcomes in a positive way. The summary of the impact is summarized below.

Aggregate fiscal discipline. More reliable, budgeted expenditures and revenue directly impact enhanced aggregate fiscal discipline, as did the lower level of unreported government operations, which contributes to comprehensiveness and credibility of the budget. Enhanced procedures for debt financing ensured that closing the financing gap in a more efficient and cost-effective manner contributed to an optimized use of budget funds. Sound procedures for issuing guarantees ensure safeguarding of budget funds in the appropriate manner. Effective internal controls enable sound and reliable budget execution. On the downside, the lack of appropriate monitoring of fiscal risks arising from local governments' operations and other sources is detrimental to fiscal discipline due to the incremental risk of unexpected burdens on the budget to respond to materialized fiscal risks.

Strategic allocation of resources. More reliable budgets and budget execution ensure that allocations for strategic purposes are properly planned and executed, without the risk of poor budgeting resulting in reallocation of resources to less strategic, unplanned, ad-hoc activities. Strong legislative scrutiny creates an accountable environment favorable to aligning budget priorities with strategic objectives. Efficient revenue administration ensures the availability of resources for undertaking strategic projects. Strong public procurement management sets the ground for adequate implementation of strategic allocations.

Efficient service delivery. As described in the impact on strategic allocation of resources, reliable budgets, budget execution, and revenue administration ensure that resources for service delivery are properly planned, made available, and executed without disruptions such as reallocation to other priorities and so on. The quality of external audits provides an indication of the use of funds for service delivery, and performance audits measure achievement of performance indicators, results, and objectives, providing valuable inputs for further enhancement of service delivery. Quality findings by IAs also contribute by integrating their recommendations in order to bolster efficiency of service delivery, despite the low overall rate of value for money audits conducted.

5. Government PFM reform process

Montenegro is undertaking an ambitious PFMRP covering the period 2016-20, with institutionalized structures for implementation, coordination, and monitoring. MoF is the lead implementing agency, with extensive support from development partners in specific activities. Several institutions charged with implementing the PFM Reform Program are implementing complementary, institution-specific development strategies in parallel.

Current plans for improvement target a number of weaknesses in PFM performance that are noted in the PEFA assessment and discussed in Section 4 above, but government monitoring reports issued in 2018 and 2019 noted the delays in implementation and available CSOs report are critical of the reform pace and focus. Looking ahead, implementation of PFMRP is likely to pick up the pace with the mid-2018 update of the Action Plan, introduction of stronger links with the umbrella PAR strategy, and a reinforced monitoring and evaluation system. Since early 2019, overall coordination of PFMRP implementation has been entrusted to the MoF's Budget Directorate.

5.1 Approach to PFM reforms

Initially adopted in 2015 and updated in June 2017, PFMRP represents one overarching strategic framework that aims to ensure sound PFM and fiscal sustainability in line with EU legislation. The current reform agenda appears driven as much by the country's EU accession agenda as by unfavorable fiscal trends that led to the retrenchment program in 2017. Areas covered under PFMRP include medium-term and annual resource planning, budget execution, accounting and reporting, public internal financial control, and external audit. Key roles in PFMRP implementation have been accordingly assigned to MoF, the TA, the CA, the SAI, and the Audit Authority, with the understanding that the implementation is linked to all budget users in the public sector.

Implementation of PFMRP is envisaged through five reform goals that have 11 objectives, operationalized through nearly 100 specific activities. Progress is monitored against 41 indicators. Regular monitoring takes place at political and administrative levels, with transparent reporting on implementation by the government and third parties alike.

Implementation of the PFMRP is subject to external review and independent evaluations. In particular, independent assessments note significant room for improvement in PFMRP monitoring by ensuring a stronger connection between the activities in the Action Plan and the impact indicators in order to strengthen overall reporting so that tangible explanations of progress and challenges are provided and the authenticity, accuracy and consistency of reported data improved. The same message is echoed in the findings documented in available reports from CSOs.

In its 2019 Progress Report, the EC, reporting on the ability of the country to assume the obligations of EU membership across negotiation chapters, acknowledged multiple reform successes, but highlighted as many challenges ahead. Another independent source of information on PFM performance is available from the Organisation for Economic Co-operation and Development's SIGMA's Principles of Public Administration, which made a 2017 assessment that highlighted improvements on a number of its indicators relative to the 2015 baseline scores; these can be attributed to the implementation of the PFM Reform Program. Civil society organizations actively monitored government reform efforts and publicly reported against progress, albeit less favorably than the government.

5.2 Recent and on-going reform actions

PFMRP priorities revolve around ensuring responsible fiscal policy management and fiscal stability. PFMRP objectives are defined and grouped under the following PFM areas, each elaborated in terms of specific objectives. Budget transparency is represented as a horizontal activity mostly related to comprehensiveness, quality, integrity, and accuracy of budgetary information.

Table 5.2: Overview of PFMRP areas and objectives

Reform areas	Objectives
Sustainable fiscal framework, public expenditures planning, and budgeting	- The medium-term budget framework reflects government policies and policy goals and contains fixed spending ceilings for all first level spending units. - Creating an efficient system for measuring the impact of budget programs with a view to increasing efficiency and transparency of public expenditures. - Improve capital budget planning and progress reporting for capital projects - Improved projections of macroeconomic indicators.
Budget execution	- Strengthening the administrative capacity of the TA to increase tax collection, thus contributing to maximizing of the government's fiscal revenues. - Strengthen CA capacities to ensure efficient revenue collection, customs area safety, and protection of society, as well as creating an environment more conducive to business operation. - Align the public procurement system with the pertinent EU acquis in order to set-up an efficient, transparent, and competitive public procurement system in Montenegro. - Increase efficiency, effectiveness, and transparency of state aid control in Montenegro in order to be EU-compliant. - Better public debt monitoring and reporting, definition and adoption of clear debt management procedures and debt analysis, and cash management and debt repayment transactions management.
PIFC development	- All spending units manage public finance in an efficient, economic, effective, and transparent manner.
Transparent financial reporting and accounting	- Improve the quality of public finance management and reporting by introducing the main preconditions for key elements of accrual-based accounting.
Strengthening external audit capacities	- Improve auditing process, build auditor capacities, and increase transparency of public spending (SAI). - Building capacities and improving audit procedure (Audit Authority).

Source: 2016-20 PFMRP, June 2018.

In 2017-18, the implementation rate against performance indicators averaged 50 percent. Similar implementation rates are reported on activity levels. Independent assessments provide different implementation figures and note the discontinuity (and the resulting lack of credibility) in annual updates and the action plans and reporting on their implementation. Delays in the past have been attributed mainly to prolonged tender procedures for technical assistance projects; 2018 government monitoring reports acknowledged "that further implementation of activities does not depend exclusively on the [government]." It is noted, however, that EU-funded technical assistance projects within IPA 2014 were tendered under indirect management by Montenegrin institutions, which means that the MoF had the full responsibility for the process.

Despite relatively low implementation rates, 2018 and 2019 progress reports indicate that important results have been accomplished across a number of areas, including improvement in the legal framework for capital budget planning, the macroeconomic model, efficiency in TA operations and revenue collection, collections by the CA, increased capacity for public internal financial control, debt management, and the external audit function. Some of the corresponding performance improvements are evidenced by improved scores on dimension and indicator levels in Section 3. On the other hand, CSOs and non-public third-party assessments have been critical of the government's efforts, including its failure to implement the electronic registry of state assets, strengthen the preconditions for meaningful program budgeting, introduce a more accurate overview of capital budgeting projects and fix delays in the establishment of an electronic public procurement system, while noting that some of the reform achievements have been undermined with unplanned interventions in the public procurement legal framework in 2017.

With the 2018 update of the PFRMP Action Plan, the government took out the measure intended to promote the alignment of government finance statistics (GFS) with the ESA 2010, which was a part of the original PFM reform package. The lack of progress in this area may undermine the reliability, scope, and transparency of GFS, where gaps also were highlighted by the IMF in the most recent 2019 Article IV consultations.

5.3 Institutional considerations

PFMRP is nested under Objective 4.5 of the Public Administration Reform Strategy 2016-20. Both documents play an important role in Montenegro's EU accession aspirations, with implementation of the PFM Reform Program linked to six negotiation chapters.[99] The adoption of PFMRP was the key criterion for further IPA technical support and a prerequisite for sector budget support. Progress is tied to the fulfilment of the requirements for withdrawing the IPA Sector Budget Support funds. From 2017 onwards, MoF reports on the progress annually to the government and biannually to the EC.

Government leadership and ownership

MoF is the lead implementing entity for the bulk of PFMRP activities (82 of the original 98), with the remainder allocated to the government's General Secretariat, SAI, and the Audit Authority. Planned reforms are reinforced through a number of institution-specific development strategies for comprehensive capacity building efforts on an institutional level, including the SAI Strategic Development Plan, 2018-22, TA Corporate Strategy 2019-22, and CA Corporate Strategy 2018-20. The foreseen activities are coordinated and complement the overarching PFMRP. Long-term reform efforts requiring substantial coordination across the public sector (such as the development of public internal financial control, refinement of the public procurement system, and transition to accrual accounting) are further elaborated in respective strategic papers. Independent assessment notes a high dependence on donors' assistance for implementation that affects prioritization and sequencing of reforms, which may have an adverse impact on government ownership and sustainability alike (see below).

Coordination across government

Coordination and monitoring structures have been set up at the political, operating, and administrative level. At the political level, the PAR Council, coordinated by the Deputy Prime Minister for Political System, Internal, and Foreign Policy, monitors the implementation of the 2016-20 PAR Strategy and the accompanying Action Plans. At the administrative level, two Working Groups (the Coordination Working Group at the level of decision-makers and the Operational Team at administrative level), comprised of 19 members each, include representatives of the implementing institutions as well as representatives of the Ministry of Public Administration and the staff of the parliament's CEBF. Despite evident investment in coordinating capacity,

[99] These chapters are Chapter 5: Public Procurement, Chapter 16: Taxation, Chapter 17: Economic and Monetary Policy, Chapter 29: Customs Union, Chapter 32: Financial Control, and Chapter 33: Financial and Budgetary Provisions.

challenges in coordination remain. A 2019 independent evaluation notes that the MoF "still needs to become fully involved in the overall reform coordination, notably due to the increased need to link policy and fiscal planning and to focus on managerial accountability."[100]

A sustainable reform process

Considerable support to the implementation of PFMRP is available from externally-financed technical assistance projects. At the time of the assessment, implementation was underway for seven EU-funded PFM projects. The government contributes with in-kind expertise, co-financing of technical assistance projects, and assuming the recurrent costs resulting from reform implementation. PFMRP is fully costed for one-off implementation costs and the corresponding amounts required for implementation can be traced to the budget documents. Structured capacity development programs are in place, many tied with institution-specific development strategies. The MoF's Annual Progress Report for 2018 contains recommendations for subsequent stages in implementation intended to reinforce sustainability of current achievements.

Transparency of the PFM program

Information on PFMRP is actively disseminated. The MoF is entrusted with posting the definition of indicators on the webpages of the MoF and the PAR Council, but previously noted issues with credibility of the reported information could be an area of concern for the government. The established Coordination Group is a platform for policy dialogue and donor coordination with other relevant stakeholders (international financial institutions, bilateral donors, civil society, and other stakeholders) and its meetings should be organized at least once per year to discuss the main issues related to the sector. The first Dialogue on the PFM Reform Program between the government and the EC took place on September 26, 2018.

[100] EC progress report, 2019.

Annex 1: Performance indicator summary

COUNTRY NAME: Montenegro			Current assessment	
	2019			
Pillar	Indicator/Dimension		Score	Description of requirements met
Budget Reliability	**PI-1**	**Aggregate expenditure outturn**	**B**	Aggregate expenditure outturn was 101 percent in 2017, while it was 93.6 percent in 2016 and 105.1 percent in 2018.
	PI-2	**Expenditure composition outturn**	**B+**	Scoring method M1 (WL).
		(i) Expenditure composition outturn by function	B	Variance in expenditure composition by function was 27.3 percent in 2016, 4.3 percent in 2017, and 7 percent in 2018.
		(ii) Expenditure composition outturn by economic type	B	Variance in expenditure composition by economic classification was below 10 percent in two of the last three years: 13.8 percent in 2016, 5.9 percent in 2017. And 4.3 percent in 2018
		(iii) Expenditure from contingency reserves	A	Actual expenditure charged to contingency vote (that is, the budget reserve) was on average 1.2 percent over the last three completed fiscal years (2016, 2017, and 2018).
	PI-3	**Revenue outturn**	**B+**	Scoring method M2 (AV).
		(i) Aggregate revenue outturn	A	Actual revenue was in the range of 100.9 percent and 102.2 percent over the last three completed fiscal years.
		(ii) Revenue composition outturn	B	The variance in revenue composition was 10.7 percent in 2016, 3.7 percent in 2017, and 5.8 percent in 2018.
Transparency of Public Finances	**PI-4**	**Budget Classification**	**A**	Budget formulation, execution, and reporting are based on organizational, economic, functional, program, and project-based classification using a prescribed Chart of Accounts, which can produce information comparable to GFS/COFOG standards.
	PI-5	**Budget Documentation**	**B**	Given that eight out of the 12 elements required by this indicator are fulfilled, including four basic elements, the score is B.
	PI-6	**Central government operations outside financial reports**	**B+**	Scoring method M2 (AV).
		(i) Expenditure outside financial reports	A	The amount of expenditures of budgetary and extrabudgetary units unreported in the annual financial report (the Final Account) for 2017 were 0.55 percent of the total budget expenditures.
		(ii) Revenue outside financial reports	A	The amount of revenues of budgetary and extrabudgetary units unreported in the annual financial report (the Final Account) for 2017 was 1 percent of the total budget revenues.
		(iii) Financial reports of extra-budgetary units	C	Financial reports of the majority of extra-budgetary units are submitted to the government within nine months of the year-end.
	PI-7	**Transfers to SNGs**	**D**	Scoring method M2 (AV).
		(i) System for allocating transfers	D	Although the established system for most of transfers is transparent and rule-based, it was not applied in the last completed fiscal year (2018).
		(ii) Timeliness of information on transfers	D	Information on transfers to municipalities was not available in the last completed fiscal year (2018) before draft budgets were required to be submitted to local parliaments.

	PI-8	**Performance information for service delivery**	**D+**	Scoring method M2 (AV).
		(i) Performance plans for service delivery	D	Currently, no policy or program objectives, related performance indicators, outputs, and outcomes are formulated for budget programs.
		(ii) Performance achieved for service delivery	D	Reports on performance results for outputs and outcomes are not produced.
		(iii) Resources received by service delivery units	A	Information on resource received is available for at least two large ministries, and reported annually.
		(iv)Performance evaluation for service delivery	D	There are no internal performance evaluations for service delivery units. SAI performed 10 performance audits in past three years; however, the subjects and comprehensiveness of these reports are insufficient for a C score.
	PI-9	**Public access to information**	**A**	All five basic and three out of four additional elements are made available to the public.
Management of assets and liabilities	**PI-10**	**Fiscal risk reporting**	**C**	Scoring method M2 (AV).
		(i) Monitoring of public corporations	C	MoF, as the monitoring agency of public corporations, receives financial reports of most public corporations within nine months of the fiscal year end. No consolidated fiscal risk report is being prepared.
		(ii) Monitoring of sub-national government (SNG)	B	During the last completed fiscal year, MoF received audited financial statements from 17 out of 23 municipalities within nine months of the end of previous fiscal year.
		(iii) Contingent liabilities and other fiscal risks	D	Certain sources of contingent liabilities (guarantees) are reported within various documents prepared and published by either the GoM or MoF; however, the associated risks are not quantified.
	PI-11	**Public investment management**	**D+**	Scoring method M2 (AV).
		(i) Economic analysis of investment proposals	D	There are no national guidelines for performing EA of investment projects. The process of external review is not well established. EA was done for one out of three major investment projects. However, the quality of the assessment could not be assessed as it is classified as internal and was not available to the assessment team.
		(ii) Investment project selection	D	Criteria for investment project selection and prioritization exist and are improved by the new DCB. However, there is no formal evidence to support their application during the capital budget preparation process.
		(iii) Investment project costing	D	Costing of all major investment projects is done within the financing request going to MoF. The costing does not include projections that go beyond the fiscal year for which financing is requested.
		(iv) Investment project monitoring	B	Physical and financial implementation reports on major investment projects are prepared and made public on annual level. The reports are prepared by the implementing government unit.
	PI-12	**Public asset management**	**D+**	Scoring method M2 (AV).
		(i) Financial asset monitoring	C	The government maintains records of its holdings in major categories of financial assets, but the consolidated information on the performance of the portfolio of financial assets is not available.
		(ii) Nonfinancial asset monitoring	D	The government maintains a very basic register of movable and immovable assets that is incomplete and captures only aggregate data.

		(iii) Transparency of asset disposal	C	Cash held on accounts and tax arrears are the main categories of financial assets, and the records on those items are available. The government has low level investments in available cash, and other assessed categories represent a minor part of government financial assets, but consolidated information on the performance of the portfolio of financial assets is not available.
	PI-13	**Debt management**	**A**	Scoring method M2 (AV).
		(i) Recording and reporting of debt and guarantees	A	All central government debt and guarantees transactions are accurate, updated, and reconciled monthly. Central government debt reports are published quarterly. Comprehensive reports, including reports on guarantees and local governments debt, are produced annually.
		(ii) Approval of debt and guarantees	A	Public debt is governed by the LBFR, annual Budget Law, and annual Decision on Borrowing. These three legislative pieces authorize MoF to manage and undertake all debt related operations. Annual borrowing is approved as part of the annual Budget Law and related GoM Decision.
		(iii) Debt management strategy	B	The DMS is prepared for a period of three years, every third year. It includes quantified target ranges for key risk parameters. There is no reporting on DMS implementation.
Policy-based fiscal strategy and budgeting	**PI-14**	**Macroeconomic and fiscal forecasting**	**B+**	Scoring method M2 (AV).
		(i) Macroeconomic forecasts	B	The government prepares forecasts of key macroeconomic indicators, which are revised annually. The forecasts cover the budget year and the two following fiscal years.
		(ii) Fiscal forecasts	B	The government prepares forecasts of the main fiscal indicators, including revenues by type, expenditure by type, and the budget balance, for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions, are included in budget documentation submitted to legislature.
		(iii) Macro-fiscal sensitivity analysis	A	The government prepares a range of fiscal forecasts based on alternative macroeconomic assumptions. These scenarios are published, together with its central forecast.
	PI-15	**Fiscal strategy**	**B**	Scoring method M2 (AV).
		(i) Fiscal impact of policy proposals	A	The government prepares estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year and the following two fiscal years, which are submitted to the legislature.
		(ii) Fiscal strategy adoption	A	The government has adopted, submitted to the parliament, and published a current year fiscal strategy that includes explicit, time-based quantitative fiscal goals and targets, together with qualitative objectives for at least the budget year and the following two years.
		(iii) Reporting on fiscal outcomes	D	Performance is less that required for a C score.
	PI-16	**Medium term perspective in expenditure budgeting**	**C+**	Scoring method M2 (AV).
		(i) Medium-term expenditure estimates	C	The annual budget presents estimates of expenditure for the budget year and the two following years for the allocated by economic classification.

		(ii) Medium-term expenditure ceilings	A	Aggregate and ministry level expenditure ceilings for the budget year and the two following fiscal years are approved by government before the first budget circular is issued.
		(iii) Alignment of strategic plans and medium-term budgets	C	Medium term strategic plans are prepared for some ministries. Some expenditure policy proposals in the annual budget estimates align with the strategic plans.
		(iv) Consistency of budgets with previous year estimates	D	Performance is less that required for a C score.
	PI-17	**Budget preparation process**	**C+**	Scoring method M2 (AV).
		(i) Budget calendar	C	Clear budget calendar exists and is set out in the LBFR. The calendar allows two months to spending units for financial plans from receipt of the budget circular. The calendar was largely not adhered to during preparation of the last budget submitted to the parliament (the 2019 Budget).
		(ii) Guidance on budget preparation	A	The budget circular is comprehensive and clear. It covers total expenditure for the entire fiscal year and sets out expenditure ceilings for budget users. The Budget Law for 2019 largely reflected the ceilings prescribed by the 2018 circular.
		(iii) Budget submission to the legislature	D	The Draft Budget Law was sent to the legislature 11 days before the start of next fiscal year in 2016, 1.5 months before the start of next fiscal year in 2017, and 25 days before start of the next fiscal year in 2018.
	PI-18	**Legislative scrutiny of budgets**	**B+**	Scoring method M1 (WL).
		(i) Scope of budget scrutiny	A	The scope of annual budget scrutiny by the parliament is comprehensive.
		(ii) Legislative procedures for budget scrutiny	B	General procedures are codified in the parliamentary Rules of Procedures. Internal organizational arrangements include technical support, but the proposal of the budget law is not subject to public consultation.
		(iii) Timing of budget approval	A	The parliament approved the annual budget in the last week of December in each of the three last years.
		(iv) Rules for budget adjustments by the executive	A	Budget adjustments by the executive in 2018 were orderly and within the caps set by clear the rules.
Predictability and control in budget execution	**PI-19**	**Revenue administration**	**B**	Scoring method M2 (AV).
		(i) Rights and obligations for revenue measures	A	TA and CA use multiple channels and outreach efforts to provide comprehensive and timely information on revenue rights and obligations across revenue streams and payers.
		(ii) Revenue risk management	B	Revenue risk management practices are structured and systematic but not as comprehensive for all revenues streams and payers.
		(iii) Revenue audit and investigation	A	TA and CA delivered audits and investigations above the levels planned in their annual compliance improvement plans.
		(iv) Revenue arrears monitoring	D	Despite positive trends in tax arrears management, performance in terms of the age structure of tax arrears is less than required for score C.
	PI-20	**Accounting for revenue**	**C+**	Scoring method M1 (WL).
		(i) Information on revenue collections	A	Information on revenue collections from the TA and CA, broken down by revenue type and consolidated into a report, is available daily to the State Treasury.

		(ii) Transfer of revenue collections	A	Entities collecting all of CG revenue transfer the collections daily to the Treasury.
		(iii) Revenue accounts reconciliation	C	Revenue accounts held by collecting entities that collect all CG revenue are reconciled against the Treasury data but the reconciliation does not encompass tax arrears.
	PI-21	**Predictability of in-year resource allocation**	**A**	Scoring method M2 (AV).
		(i) Consolidation of cash balances	A	Comprehensive STA coverage allows for daily consolidation of virtually all CG cash and bank balances.
		(ii) Cash forecasting and monitoring	A	MoF's annual cash forecast is updated monthly on a rolling basis via monitored revenue and expenditure flows.
		(iii) Information on commitment ceilings	A	Spending units receive information more than six months in advance as to their ability to commit funds within their annual budget allocations and make payments within monthly limits.
		(iv) Significance of in-year budget adjustments	A	Insignificant in-year adjustments in 2018 (composition variance of 3.8 percent) took place in line with predictable and transparent rules codified in the legislation.
	PI-22	**Expenditure arrears**	**D+**	Scoring method M1 (WL).
		(i) Stock of expenditure arrears	D*	Expenditure arrears were under 1 percent of the total expenditure in at least two of the last three completed fiscal years, but the data is not considered reliable enough to assign a higher score.
		(ii) Expenditure arrears monitoring	C	Notwithstanding data reliability concerns, the information on stock and composition of expenditure arrears is published annually.
	PI-23	**Payroll controls**	**C+**	Scoring method M1 (WL).
		(i) Integration of payroll and personnel records	B	Once approved against the staffing list, all changes to personnel records made in individual institutions and reported to the MoF are manually entered to be reflected in the next month's payroll.
		(ii) Management of payroll changes	A	Required changes to the personnel records and the payroll are made monthly, with negligible retroactive adjustments.
		(iii) Internal control of payroll	C	Absence of significant audit findings on MoF-operated payroll calculation suggests sufficient controls exist over data integrity.
		(iv) Payroll audit	C	SAI regularly audits salary expenditures, with a walkthrough and substantive testing of the payroll system, but audit coverage did not necessarily encompass all CG entities.
	PI-24	**Procurement**	**B+**	Scoring method M2 (AV).
		(i) Procurement monitoring	B	Databases or records are maintained for contracts, including data on what has been procured, the value of the procurement, and who has been awarded contracts. The data are accurate and complete for most procurement methods for goods, services, and works.
		(ii) Procurement methods	B	According to data collected from the PPA and SIGMA monitoring reports, the most commonly used procedure is open public procurement (79 percent in 2018).
		(iii) Public access to procurement information	A	The legal framework for procurement, procurement plans, procurement operations, bidding opportunities, and contract awards are available on the PPA website in a timely manner. Information related to complaints

				received is published on the State Commission for Control of Public Procurement Procedures (SC)'s website.
		(iv) Procurement complaints management	B	The procurement complaint system meets five of the six criteria, the exception being the timely issuing of the decisions. Frequent delays are reported, due to the workload of the SC.
	PI-25	**Internal controls on non-salary expenditure**	**B**	Scoring method M2 (AV).
		(i) Segregation of duties	A	Procedures are in place that clearly prescribe requirements for segregation of duties throughout the expenditure process.
		(ii) Effectiveness of expenditure commitment controls	C	Design of the system to control entering into commitments relies on accountability of heads of spending units and does not include a centralized control mechanism to mitigate the risk of undisclosed liabilities showing up beyond the authorization stage. Multi-annual commitments are subject to MoF ex-ante approval.
		(iii) Compliance with payment rules and procedures	B	Within the FMIS, any exceptions to the prescribed rules and procedures are justified in advance and virtually all payments comply with the requirements. Isolated instances of non-compliance have been noted in the commitment stage.
	PI-26	**IA effectiveness**	**B+**	Scoring method M1 (WL).
		(i)Coverage of IA	A	Virtually all CG revenue and expenditure is covered by the IA function.
		(ii) Nature of audits and standards applied	B	Audits have appropriate focus, with efforts underway to institute quality assurance and ensure formal conformance with the standards.
		(iii) Implementation of IAs and reporting	A	Over 90 percent of programmed audits in 2018 have been completed and reported to management, with copies available to the SAI and the CHD in line with their competencies.
		(iv) Response to IAs	B	Response to IA recommendations, evidenced by reported follow-up rates, was high but not all recommendations were implemented.
Accounting and Reporting	**PI-27**	**Financial data integrity**	**A**	Scoring method M2 (AV).
		(i)Bank account reconciliation	A	STA balances are reconciled daily, as well as the accounts in commercial banks held for donor funding. Own source accounts by spending units are reconciled monthly, but they represent 2 percent of total expenditures.
		(ii) Suspense accounts	N/A	There are no suspense accounts.
		(iii) Advance accounts	A	All advances are cleared promptly.
		(iv) Financial data integrity processes	A	Access and changes to records are restricted. Treasury checks the integrity of data provided by spending units. Additional checks are done by the SAI and IAD of the MoF.
	PI-28	**In-year budget reports**	**D+**	Scoring method M1 (WL).
		(i)Coverage and comparability of reports	D	Comparison to the original budget is possible at a certain level of aggregation, but only based on economic classification.
		(ii) Timing of in-year budget reports	B	The in-year reports are produced quarterly and issued within four weeks after the end of the reporting date.
		(iii)Accuracy of in-year budget reports	A	There are no material concerns about the accuracy of in-year reports following the discussions with the IAD of the MoF and SAI.
	PI-29	**Annual financial reports**	**D+**	Scoring method M1 (WL).

		(i)Completeness of annual financial reports	C	The information about financial and non-financial assets, as well as liabilities, is not complete and presented.
		(ii) Submission of reports for external audit	B	The year-end accounts are submitted to external audit within six months of the end of the fiscal year.
		(iii) Accounting standards	D	Standards are not disclosed.
External scrutiny and audit	**PI-30**	**External audit**	**B+**	Scoring method M1 (WL).
		(i)Audit coverage and standards	B	Considering limited coverage of assets and liabilities in the government's financial statements, the SAI's annual financial and compliance audits in the last three completed fiscal years are considered to have covered at least all of the CG revenues and expenditures.
		(ii) Submission of audit reports to the legislature	B	SAI took approximately four months (mid-June to mid-Oct) to issue the Audit Report on budget execution in each of the last three years in line with the deadlines defined under the applicable legislation.
		(iii) External audit follow-up	B	The government formally provides a timely and comprehensive action plan, but available evidence suggests only limited effectiveness in its follow-up. SAI carries out regular follow-up audits to ascertain the status of issued recommendations.
		(iv)Supreme Audit Institution (SAI) independence	A	SAI has financial, functional, and organizational independence from the executive, which is observed in practice in line with the Constitution and law.
	PI-31	**Legislative scrutiny of audit reports**	**B+**	Scoring method M2 (AV).
		(i)Timing of audit report scrutiny	A	Audit report has been tabled and scrutinized in the plenary within three months of the date of receipt.
		(ii) Hearings on audit findings	C	While hearings held in 2016 were comprehensive, absence of hearings on audit reports in 2017 and 2018 implied lower frequency and depth.
		(iii) Recommendations on audit by the legislature	A	The parliament formally requires and receives evidence of government follow-up on SAI recommendations.
		(iv)Transparency of legislative scrutiny of audit reports	A	Proceedings in the CBEG and the plenary are open to the public. Outputs are available from the parliament web page (excluding defense and national security).

Annex 2: Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
1. Control environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization	Institutions are required to develop risk-based integrity plans. All major entities taking part in the key PFM processes (such as the CA and SAI) have adopted, implemented, and reported on their integrity plan status. The Code of Ethics for Civil Servants (OG 20/12) is in force and all civil servants sign a Statement on Compliance upon induction training. Systems for strengthened management of irregularities are being put in place under the new Law on Management and Control.
1.2 Commitment to competence	Training programs and methodological guidance are available for top managers (who set the tone in an institution for implementation), for middle-level managers (practical implementation) and for internal auditors (auditing the implementation). Overall, all staff is eligible and benefit from training. Self-reported data for 2018 indicate that in 61 percent of budget beneficiaries there are formal staff professional development plans. Training on management skills and tools and training on financial, accounting and, budgetary processes are organized by the HRMA or international institutions. Multiple generations of public sector accountants and internal auditors have completed respective training programs, structured along international standards.
1.3 The tone at the top (management's philosophy and operating style)	Only 10 percent of top management has attended the training delivered on financial management and control, with most delegating this training to senior civil servants (CHD, 2019). Individual entities develop the institution-level internal control framework based on the Plan for Improving Management and Control, but there is limited ownership over the document by heads of institutions.
1.4 Organizational structure	CHU reported that internal organization of units and their scope, approved staffing lists, and job descriptions are consistently captured in the rulebooks on organization and systematization of posts, but reporting and accountability lines are not defined (2019).
1.5 Human resource policies and practices	Establishment of an accurate and reliable central data base of all civil servants at HRMA is still pending.
2. Risk assessment	
2.1 Risk identification	Several dimensions assessed in this section are related to risk identification, notably: Economic Analysis of Investment Proposals in 11.1 is rated D. Debt Management Strategy in 13.3 is rated B. Macrofiscal sensitivity analysis in 14.3 is rated A.

	Revenue Risk Management in 19.2 is rated B. Cash Flow Forecasting and Monitoring in 21.2 is rated A. Risk identification, assessment, and monitoring are supported by a generic risk management methodology curated by the CHD.
2.2 Risk assessment (significance and likelihood)	According to the applicable methodology, risks are assessed for significance and the likelihood for high risk exposure areas and to prioritize follow-up action. See also risk identification (2.1 above).
2.3 Risk evaluation	Risks are documented in risk registers (established by 56 percent of institutions, according to self-reported 2019 data) that are to be regularly monitored and reassessed. Internal auditors have audited risk management arrangements. Recently, CHD began to require that beneficiaries report their top three risks, which are subsequently analyzed. Review of the reported risks show a varying degree of managerial competence in formulating comprehensive risk statements that identify actionable causes that are within management control. CHD analysis in 2019 points to the same conclusion in terms of management's systemic inability to separate risk as a potential adverse event and the existing weaknesses (mainly missing inputs) that are normally one of risk causes. Training on risk management is delivered by CHD in collaboration with HRMA.
2.4 Risk appetite assessment	Not many risks are quantified (or even quantifiable) to allow for somewhat more objective setting of risk appetite.
2.5 Responses to risk (transfer, tolerance, treatment, or termination)	All four generic options are available and used in selecting and implementing cost-effective and proportionate control activities.
3. Control activities	
3.1 Authorization and approval procedure	MoF CHD reported that only three CG ministries in 2018 "formally delegated financial powers and those were extended only to the heads of the administration accountable to the ministries, but not within the ministry itself. In the state administration, payments can be made only with approval of the head or the secretary of the institution." (CHD, 2019)
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	Among processes that assess segregation of duties, in Dimension 25.1 segregation of duties is rated A. Segregation of duties in payroll management in Dimension 23.3 scored C based on available evidence of data integrity in a highly decentralized system. In the FMIS, authorization, processing, recording, and reviewing are segregated, supported by soft and hard (application) controls. Outside of the FMIS environment, anecdotal evidence suggests that smaller, low-risk entities (for instance, rural schools) may sporadically encounter issues due to insufficient systematized staff.
3.3 Controls over access to resources and records	Compliance with payment rules and procedures is rated B in Dimension 25.3. Financial data integrity processes are rated A in Dimension 27.4. Controls over access to tangible assets are regulated in several primary laws and operationalized in numerous by-laws and procedures. For example, the Law on State Assets makes entity heads accountable for legal and economic management and use of state assets. Staff is responsible to purposefully and conscientiously use assets in performance of their duties. All important information systems can be accessed only by authorized users.
3.4 Verifications	Accuracy of in-year budget reports is rated A in Dimension 28.3.

	Effectiveness of controls over data used to verify payroll calculation in Dimension 23.3 could not be established with certainty in the absence of documented procedures.
3.5 Reconciliations	Among MoF-operated processes, Revenue accounts are regularly reconciled but do not cover tax arrears leading to score C in Dimension 20.3. Bank account reconciliations in Dimension 27.1 are rated B.
3.6 Reviews of operating performance	Ministries review operating performance as a part of ongoing monitoring (see item 5.1 below), within the context of multi-annual work programs and initial steps in the program budgeting approach.
3.7 Reviews of operations, processes and activities	Self-reported data for 2018, consolidated by the CHU, indicate that activities are ongoing to formalize business processes. This is understood as a necessary precondition for a meaningful review of operations.
3.8 Supervision (assigning, reviewing and approving, guidance and training)	A very low percentage of institutions (24 percent) have reported the existence of procedures that specify the reporting requirements over entities they oversee. This presents an opportunity to systemically strengthen inter-institutional coordination.
4. Information and communication	
	Integrity of financial data scored A in Dimension 27.4. The volume of performance information assessed in Dimension 8.2 scored D. Self-reported information indicates that 99.1 percent of managers receive appropriate and timely information for decision making purposes.
5. Monitoring	
5.1 Ongoing monitoring	Performance of internal control framework in the ongoing monitoring activities by the MoF and top management in institutions has been assessed and scored under the following dimensions in Section 3: • Resources received by service delivery units in Dimension 8.3 is rated A. • Monitoring of public corporations in Dimension 10.1 is rated C. • Monitoring of SNGs in Dimension 10.2 is rated B. • Contingent liabilities and other fiscal risks in Dimension 10.3 is rated D. • Investment project monitoring in Dimension 11.4 is rated C. • Quality of central government financial asset monitoring in Dimension 12.1 is rated C. • Quality of central government non-financial asset monitoring in Dimension 12.2 is rated D. • Revenue arrears monitoring in Dimension 19.4 is rated D. • Expenditure arrears monitoring in Dimension 22.2 is rated C. • Procurement monitoring in Dimension 24.1 is rated B. As per COSO principles, IA is an integral part of the monitoring component of the internal control framework. Implementation of IAs and reporting is rated A in Dimension 26.3. Ninety percent of the audits planned have been implemented. As of end 2018, there were nearly twice as many internal auditors on the CG and SNG levels combined than at the time of the last PEFA assessment in 2013, when there were 84 and 46, respectively. Virtually all of these auditors are certified according to CHD requirements. The most audited area is general operations (with 75 engagements carried out), followed by budget execution (16 engagements) and budget planning (11 engagements).

	The majority of recommendations provided on the CG level concerned compliance with regulations (nearly 60 percent), internal control improvements (around 34 percent), and value for money (almost 6 percent).
5.2 Evaluations	With respect to specific PFM processes assessed under the Framework Performance evaluation for service delivery in Dimension 8.4 is rated D. Evaluation practices by implementing agencies for Investment project selection in Dimension 11.2 are rated D. With respect to the overall functioning of the internal control system, managements in budget beneficiaries carry out annual self-assessments of management and internal control and report the results to the MoF CHD. In 2018, 93 percent of beneficiaries complied with this requirement. Autonomous parliamentary institutions, regulatory agencies, and public corporations are under the same requirement, with reporting lines to their parent institution. Since 2013, CHD annually has carried out quality reviews of the established financial management and control on a sample of institutions.
5.3 Management responses	Response to IA recommendations in Dimension 26.4 is rated B, monitored against registers of agreed recommendations held at the level of each institution. External audit follow-up in Dimension 30.3 is rated B. Top management also has been held to account in consultative and control hearings by the parliament's working bodies.

Annex 3: Sources of information

Annex 3A: Related surveys and analytical work

No	Institution	Document title	Date	Link
1	The IMF	Public Infrastructure in the Western Balkans: Opportunities and Challenges	Apr 2018	https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2018/02/07/Public-Infrastructure-in-the-Western-Balkans-Opportunities-and-Challenges-45547
2	OECD SIGMA	Monitoring Report: The Principles of Public Administration	Nov 2017	http://www.sigmaweb.org/publications/Monitoring-Report-2017-Montenegro.pdf
3	OECD SIGMA	Monitoring Report: The Principles of Public Administration	May 2019	http://www.sigmaweb.org/publications/Monitoring-Report-2019-Montenegro.pdf
4	The European Commission	Montenegro 2019 Report	May 2019	https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-montenegro-report.pdf
5	World Bank	Public Finance Synthesis Report	May 2019	http://documents.worldbank.org/curated/en/108101559640817785/Montenegro-Public-Finance-Synthesis-Report-Restoring-Sustainability-and-Strengthening-Efficiency-of-Public-Finance
6	Institut Alternativa	Report of PFM Reform in 2017 and 2018: The Other Side of the Medal	February 2019	https://institut-alternativa.org/izvjestaj-o-reformi-upravljanja-javnim-finansijama-u-2017-i-2018-godini-druga-strana-medalje/

Annex 3B: List of people interviewed

No	Institution	Department	Person	Position
1	Ministry of Finance		Nina Vujošević	State Secretary
	Ministry of Finance		Nemanja Katnić	State Secretary
2	Ministry of Finance	Directorate for State Budget	Bojan Paunović	Acting Director General
3	Ministry of Finance	Directorate for State Treasury	Dragan Darmanović	Director General
3	Ministry of Finance	Directorate for Central Harmonization	Ana Krsmanović	Director General
4	Ministry of Finance	Directorate for Financial System and Improving Business Environment	Bojana Bošković	Director General
5	Ministry of Finance	Directorate for Economic Policy	Iva Vuković	Director General
6	Ministry of Finance	Directorate for Local Self-government and State-owned Enterprises	Snežana Mugoša	Director General
7	Ministry of Finance	Directorate for Tax and Customs System	Biljana Peranović	Acting Director General
8	Ministry of Finance	Directorate for Public Procurement Policy	Jelena Jovetić	Acting Director General
9	Ministry of Finance	Directorate for State Budget	Milena Milović	Head of Department for Fiscal Analysis and Projections
10	Ministry of Finance	Directorate for State Budget	Slobodanka Burić	Head of Dpt. For Public Investment Planning
11	Ministry of Finance	Directorate for State Budget	Branko Krvavac	Advisor
12	Ministry of Finance	Directorate for State Treasury	Katarina Živković	Head of Dpt. for Public Debt
13	Ministry of Finance	Directorate for State Treasury	Marija Popović	Head of Dpt. For Budget Accounting and Reporting
14	Ministry of Finance	Directorate for Property and Legal Affairs	Milica Klikovac	Dpt. for State Property
15	Ministry of Finance	Internal Audit Dpt	Vladan Gligorović	Head
16	Ministry of Finance	Directorate for Public Procurement Policy	Farisa Kurpejović	Legal
17	General Secretariat of the Government		Nataša Pešić	Secretary General
18	General Secretariat of the Government	Sector for Planning, Coordination and Monitoring of Public Policy Implementation	Vera Mijatović	Head
19	State Audit Institution	Senate	Milan Dabović	President of the Senate
20	State Audit Institution	Senate	Zoran Jelić	Member of the Senate
21	State Audit Institution	Senate	Branislav Radulović	Member of the Senate

No	Institution	Department	Person	Position
22	State Audit Institution	Senate	Radule Žurić	Member of the Senate
23	State Audit Institution		Mihaela Popović	Secretary
24	State Audit Institution		Ivan Marojević	State Auditor
25	State Audit Institution	Dpt. for International Relations	Marija Žugić	Head
26	State Audit Institution	Dpt. for International Relations	Draško Novaković	Advisor
27	Tax Administration	Registration and Services	Dušanka Vujisić	Acting Assistant Director
28	Tax Administration	Large Taxpayers Office	Gordana Pejović	Head
29	Tax Administration	Risk Management Department	Tanja Mugoša	Head
30	Tax Administration		Esma Mazreku	Head
31	Tax Administration	Central Registry of Taxpayers	Ivan Komatina	Head
32	Tax Administration	Public Relations	Milica Vuletić	Advisor
33	Customs Administration	Dpt. for Revenue Collection	Jelena Đukić	Head
34	Customs Administration	Development Projects Dpt.	Dragana Šibalić	Head
35	Customs Administration	Department for Customs Investigations	Milena Radović	Head
36	Customs Administration	Ex-post Control Department	Branislav Janković	Head
37	Customs Administration	Risk Analysis and Intelligence Department	Rade Lazović	Head
38	Customs Administration	Customs and Legal Operations	Snežana Vučković	Advisor
39	Human Resources Administration	Training and Staff Development	Jadranka Đurković	Assistant Director
40	Human Resources Administration	Notices and Compliance Monitoring	Đuro Nikač	Assistant Director
41	Human Resources Administration	Personnel Information System	Milena Purlija	Assistant Director
42	Administration for Traffic		Mile Ostojić	Advisor
43	Administration for Traffic	Finances	Mirjana Martinović	Head of Finances
44	Administration for Public Works	Investment Project Monitoring and Quality Control	Miomir Peruničić	Assistant to Director
45	Administration for Public Works	Investment Project Contracting and Financing	Milica Bakić	Assistant to Director
46	Administration for Public Works	Investment Project Preparation	Maja Đurović	Assistant to Director
47	Parliament	Parliamentary Board for Economy, Finance and Budget	Filip Vuković	Member of the Board
48	Parliament	Parliamentary Board for Economy, Finance and Budget	Boris Mugoša	Member of Parliament

No	Institution	Department	Person	Position
49	Parliament	Parliamentary Board for Economy, Finance and Budget	Demir Mujović	Secretary of the Board
50	Parliament	Parliamentary Board for Economy, Finance and Budget	Ana Nikolić	Member of Parliament
51	Parliament	Parliamentary Board for Economy, Finance and Budget	Goran Nikolić	Parliamentary Service
52	Parliament	Parliamentary Board for Economy, Finance and Budget	Anđela Globarević	Advisor
53	Parliament	Parliamentary Board for Economy, Finance and Budget	Bojana Bulut	Parliamentary Service
54	Secretariat for Development Projects		Dejan Medojević	Secretary
55	Secretariat for Development Projects	Sector for Project Status and Dynamics Monitoring	Željko Vidaković	Assistant to the Secretary
56	Monstat	Macroeconomic Statistics	Branka Šušić	Assistant Director
57	State Commission for the Control of Public Procurement Procedures		Tomo Miljić	Member
58	Administration for Inspection Affairs	Public Procurement	Ivan Milićević	Public Procurement Inspector
59	Administration for Inspection Affairs	Public Procurement	Ana Žugić	Public Procurement Inspector
60	Public Property Administration	Accounting	Vojka Raspopović	Head of Accounting
61	Public Property Administration		Rajka Žižić	Advisor
62	Public Property Administration		Suad Čikić	Advisor
63	Central Bank	Payment Operations Sector	Marina Žižić	Advisor
64	Central Bank	Financial and Banking Operations Sector	Team	
65	Central Bank	Direction for Accounting, Finances and Controlling	Team	
66	Ministry of Transport and Maritime Affairs		Angelina Živković	State Secretary
67	Ministry of Transport and Maritime Affairs	Unit for Highway Project Implementation	Miroslav Mašić	Advisor for Highways, Head of Unit for Highway Project Implementation
68	Ministry of Transport and Maritime Affairs	Unit for Highway Project Implementation	Ljubinka Ivanović	Advisor for Highways, Unit for Highway Project Implementation
69	Delegation of European Union	Cooperation Section	Audrone Urbanoviciute	Deputy Head of Cooperation
70	Delegation of European Union	Public Administration Reform and Public Finance Management	Eleonora Formagnana	Attacheé – Programme Manager

No	Institution	Department	Person	Position
71	Delegation of European Union	Horizontal Issues	Nuria Ballesteros Menendez	Programme Manager
72	Delegation of European Union	Financial Sector	Dragan Radanović	Programme Manager
73	Delegation of European Union	Customs, IPR, Union Programs and Horizontal Issues	Nina Marković	Programme Manager
74	Delegation of European Union	Economic Governance, Statistics, Competition policy and State Aid	Tjasa Zivko	Programme Manager

Annex 3C: Sources of information used to extract evidence for scoring each indicator

Indicator/dimension	Data Sources
Budget reliability	
PI-1. Aggregate expenditure outturn 1.1. Aggregate expenditure outturn	Annual Budget Laws for 2016 (Official Gazette 79/15), 2017 (Official Gazette, 83/16), 2018 (Official Gazette, 90/17) Annual budget execution reports for 2016, 2017, 2018 SAI Audits of Draft Laws on Final Accounts for 2016 and 2017 (available at Law on Budget and Fiscal Responsibility (Official Gazette 4/18)
PI-2. Expenditure composition outturn 2.1. Expenditure composition outturn by function 2.2. Expenditure composition outturn by economic type 2.3. Expenditure from contingency reserves	Annual Budget Laws for 2016 (Official Gazette 79/15), 2017 (Official Gazette, 83/16), 2018 (Official Gazette, 90/17) Annual budget execution reports for 2016, 2017, 2018 SAI Audits of Draft Laws on Final Accounts for 2016 and 2017 Law on Budget and Fiscal Responsibility (Official Gazette 4/18)
PI-3. Revenue outturn 3.1. Aggregate revenue outturn 3.2. Revenue composition outturn	Annual Budget Laws for 2016 (Official Gazette 79/15), 2017 (Official Gazette, 83/16), 2018 (Official Gazette, 90/17) Annual budget execution reports for 2016, 2017, 2018 SAI Audits of Draft Laws on Final Accounts for 2016 and 2017 (available at Law on Budget and Fiscal Responsibility (Official Gazette 4/18)
Transparency of public finances	
PI-4. Budget classification 4.1 Budget classification	Law on Budget and Fiscal Responsibility (Official Gazette 4/18) 2018 Budget Law and the Law on the Final Account Rulebook on Uniform Classification of the Budget, Extra-budgetary Funds and Municipal Accounts
PI-5. Budget documentation 5.1 Budget documentation	Law on Budget and Fiscal Responsibility (Official Gazette 4/18), with explanations
PI-6. Central government operations outside financial reports 6.1. Expenditure outside financial reports 6.2. Revenue outside financial reports 6.3. Financial reports of extra-budgetary units	Government Finance Statistics Manual 2014 Laws on incorporation of regulatory agencies (Regulatory Agency for Telecommunications, Broadcasting Regulatory Agency, Insurance Supervision Agency, Securities Commission, Agency for Drugs and Medical Supplies and Regulatory Agency for Energy) Financial plans and financial reports of regulatory agencies for 2018 Law on Investment and Development Fund (Official Gazette, 40/10) Financial reports of the Investment and Development Fund for 2018 Law on Final Account of Montenegro's Budget (Official Gazette 84/18)
PI-7. Transfers to subnational governments	Law on Financing of Local Self-Governments (Official

7.1. System for allocating transfers 7.2. Timeliness of information on transfers	Gazette, 92/17) Law on Budget and Fiscal Responsibility (Official Gazette 4/18) SAI audit of the distribution of Equalization Fund “My City about My Money”, publication of the Alternativa Institute Decisions on Final Accounts of municipalities (e.g. Bijelo Polje, Pljevlja, Kotor, Budva) Rulebook on Distribution and Use of Equalization Fund (Official Gazette 50/12) Law on Regional Development (Official Gazette, 26/11) Decision on Distribution of Equalization Fund (Official Gazette 02/18, Official Gazette 12/19)
PI-8. Performance information for service delivery 8.1. Performance plans for service delivery 8.2. Performance achieved for service delivery 8.3. Resources received by service delivery units 8.4. Performance evaluation for service delivery	Law on Budget and Fiscal Responsibility (Official Gazette 4/18) Decision on the Manner of Preparation and Content of the Program Budget of the Spending Units (Official Gazette 70/17) SAI performance audit reports SAI Instructions on Carrying Out Performance Audits Medium-term Work Program of the Government of Montenegro 2018-2020 Reports on GoM Medium-term Work Program Implementation Decree on the Modalities and Procedure of Drafting, Alignment and Monitoring of the Implementation of Strategy Documents (Official Gazette 13/18) Methodology for Medium-Term Planning of Ministries Methodology for Policy Development, Drafting and Monitoring of Strategic Planning Documents In-year and annual budget execution reports of the main service delivery units (MoE, MoH)
PI- 9. Public access to fiscal information 9.1. Public access to fiscal information	Law on Budget and Fiscal Responsibility (Official Gazette 4/18) Budget Proposal (Draft Budget) for 2019 Budget Law for 2019 In-year and annual budget execution reports Law on Final Account of Montenegro’s Budget for 2017 (Official Gazette 84/18) Guidelines for macroeconomic and fiscal policy for 2018 Various SAI audit reports
Management of assets and liabilities	
PI-10. Fiscal risk reporting 10.1. Monitoring of public corporations 10.2. Monitoring of sub-national government 10.3. Contingent liabilities and other fiscal risks	Law on Final Account of Montenegro’s Budget (Official Gazette 84/18) Law on Budget and Fiscal Responsibility (Official Gazette 4/18) Analysis of Consolidated Public Expenditure for 2018 (MoF) 2018-2020 Economic Reform Program of Montenegro Annual Public Debt Report (MoF)

	Registry of Financial Reports of Tax Administration and Securities and Exchange Commission of Montenegro Rulebook on the Manner of Preparation, Design and Submission of Financial Reports of State Funds and Local Self-Governments (Official Gazette 12/07) Law on Financing of Local Self-Governments (Official Gazette 92/17) SAI Audits of Draft Laws on Final Accounts for 2016 and 2017 Law on Accounting and Audit (Official Gazette 52/16) Rulebook on Design and Submission of Financial Reports of Independent Regulatory Bodies, Legal Entities, Joint Stock Companies, and other Companies where the State of Local Self-Governments Hold Majority Stake 2018 and 2017 financial reports of public corporations 2018 and 2017 Decisions on final accounts and financial reports of local self-governments
PI- 11. Public investment management 11.1. Economic analysis of investment proposals 11.2. Investment project selection 11.3. Investment project costing 11.4. Investment project monitoring	Decision on Capital Budgeting (Official Gazette 53/09) Decision on Capital Budgeting and Setting and Evaluation of Criteria for Selection of Capital Projects (Official Gazette 42/18) Guidelines for macroeconomic and fiscal policy for 2018 Instructions for capital budget preparation for 2018 Draft Capital Budgets for 2018 (MoMT, Directorate for public works and Directorate for Traffic) Annual Budget Law for 2018 Fiscal Strategy 2017-2020 Plan for Reconstruction of State Roads Report on Implementation of the Plan for Reconstruction of State Roads Law on Budget and Fiscal Responsibility (Official Gazette 4/18) Montenegro Strategy for Traffic Development
PI-12. Public asset management 12.1. Financial asset monitoring	Discussion with the State Audit Office Discussion with the Property Administration SAI performance audit report on asset management (2019)
12.2. Nonfinancial asset monitoring 12.3. Transparency of asset disposal.	Discussion with the Ministry of Finance and Treasury Audit Report of the Proposed Law on the Financial Statement of Accounts of the State Budget of Montenegro for 2017: http://www.dri.co.me/1/index.php?option=com_k2&view=item&id=559:objavljen-izvje%C5%A1taj-o-reviziji-prijedloga-zakona-o-zavr%C5%A1nom-ra%C4%8Dunu-bud%C5%BEeta-crne-gore-za-2017-godinu&lang=en

	FY2018 and FY2017 Activity Report of the Property Administration: http://www.uzi.gov.me/biblioteka/izvjestaji State Audit Institution: Performance audit report on state property, June 2019: http://www.dri.co.me/1/doc/Izvje%C5%A1taj%20o%20reviziji%20uspjeha%20Uspje%C5%A1nost%20uspostavljanja,%20vodenja%20i%20kontrole%20evidencije%20drdavne%20imovine%20kod%20Dr%C5%BEavnih%20organa.pdf Ministry of Finance Biannual Report on Implementation of the Action Plan for Implementation of the 2016-2020 Public Finance Management Reform Programme January – September 2018, October 2018
PI-13. Debt management 13.1. Recording and reporting of debt and guarantees 13.2. Approval of debt and guarantees 13.3. Debt management strategy	Law on Budget and Fiscal Responsibility (Official Gazette 4/18) 2018 Annual Decision on Borrowing of Montenegro 2018-2020 Debt Management Strategy In-year and annual debt management reports Annual Budget Law for 2018 Decision on structure, conditions and manner of opening and closing transactional accounts (Official Gazette 42/18)
Policy-based fiscal strategy and budgeting	
PI-14. Macroeconomic and fiscal forecasting 14.1. Macroeconomic forecasts 14.2. Fiscal forecasts 14.3. Macro-fiscal sensitivity analysis	•Budget documentation for 2016, 2017, and 2018, available at http://skupstina.me/index.php/me/sjednice/zakoni-i-drugi-akti; •Macro-Fiscal Guidelines 2018-2021. Available at http://www.gov.me/sjednice_vlade_2016/87; •Macro-Fiscal Guidelines 2017-2020, available at www.mif.gov.me; •Economic Reform Programmes 2016-2018, 2017-2019, 2018-2020, 2019-2021 available at http://www.gov.me/en/homepage/Montenegro_Economic_Reform_Programme/
PI-15. Fiscal strategy 15.1. Fiscal impact of policy proposals 15.2. Fiscal strategy adoption 15.3. Reporting on fiscal outcomes	•Fiscal Strategy 2017-2020, available at http://www.gov.me/pretraga/176343/Fiskalna-strategija-Crne-Gore-2017-2020.html; •Budget documentation for 2016, 2017, 2018, available at http://skupstina.me/index.php/me/sjednice/zakoni-i-drugi-akti; •Macro-Fiscal Guidelines 2018-2021. Available at http://www.gov.me/sjednice_vlade_2016/87; •Macro-Fiscal Guidelines 2017-2020, available at www.mif.gov.me; •Economic Reform Programmes 2016-2018, 2017-2019, 2018-2020, available at http://www.gov.me/en/homepage/Montenegro_Economic_Reform_Programme/
PI-16. Medium-term perspective in expenditure budgeting	

16.1. Medium-term expenditure estimates 16.2. Medium-term expenditure ceilings 16.3. Alignment of strategic plans and medium-term budgets 16.4 Consistency of budgets with previous year's estimates	•Budget documentation for 2016, 2017, and 2018, available at http://skupstina.me/index.php/me/sjednice/zakoni-i-drugi-akti; •Macro-Fiscal Guidelines 2018-2021. Available at http://www.gov.me/sjednice_vlade_2016/87; •Macro-Fiscal Guidelines 2017-2020, available at www.mif.gov.me; •Economic Reform Programme 2016-2018, 2017-2019, 2018-2020, 2019-2021 available at http://www.gov.me/en/homepage/Montenegro_Economic_Reform_Programme/; •MoF annual budget instruction on the preparation of budget to the spending units; •Decree on the Manner and method of preparation, alignment and monitoring of strategic documents alignment, Official Gazette of Montenegro 54/2018, available at http://www.gsv.gov.me/stratesko_planiranje/strategije; •Methodology of developing policies, preparing and monitoring implementation of strategic documents, available at http://www.gsv.gov.me/stratesko_planiranje/strategije; •Public Administration Reform Strategy 2016-2020, available at http://www.mju.gov.me/en/library/strategije
PI-17. Budget preparation process 17.1. Budget calendar 17.2. Guidance on budget preparation 17.3. Budget submission to the legislature	Law on Budget and Fiscal Responsibility (Official Gazette 4/18) Fiscal Strategy 2017-2020 Guidelines for macroeconomic and fiscal policy for 2018 Instructions for 2019 budget preparation Financial plans (draft current budgets) of key spending units Instructions for 2019 capital budget preparation Draft capital budgets of key spending units Preliminary and Draft Budget Law for 2019
PI-18. Legislative scrutiny of budgets 18.1. Scope of budget scrutiny 18.2. Legislative procedures for budget scrutiny 18.3. Timing of budget approval 18.4. Rules for budget adjustments by the executive	The Constitution of Montenegro Law on State Administration National Assembly Rules of Procedure Law on Budget and Fiscal Responsibility Minutes of the Assembly's Budget Committee proceedings Proposal of the Law on State Budget (FY 2016, 2017, 2018) Evidence presented under PI-5
Predictability and control in budget execution	
PI-19. Revenue administration 19.1. Rights and obligations for revenue measures 19.2. Revenue risk management 19.3. Revenue audit and investigation 19.4. Revenue arrears monitoring	Applicable laws on tax and customs policy, administration and procedures Applicable laws on individual tax and non-tax revenue streams SAI Annual Audit Reports (2015-2018) MoF Report on Implementation of Tax Policy in 2018 (2019) SAI performance audit reports on efficiency in

	customs collections (2018), efficiency in tax arrears management (2015), efficiency of tax arrears recovery from taxpayers in bankruptcy proceedings (2018) Customs Administration activity report (2018) Tax Administration activity report (2018) Tax Administration and Customs Administration corporate strategies Data generated by the MoF and TA for the needs of the PEFA assessment
PI-20. Accounting for revenues 20.1. Information on revenue collections 20.2. Transfer of revenue collections 20.3. Revenue accounts reconciliation	MoF Order on the Payment of Public Revenues (2018) SAI Annual Audit Reports (2015-2018) Data generated by the MoF for the needs of the PEFA assessment
PI-21. Predictability of in-year resource allocation 21.1. Consolidation of cash balances 21.2. Cash forecasting and monitoring 21.3. Information on commitment ceilings 21.4. Significance of in-year budget adjustments	Rulebook on Uniform Classification of Accounts for the Budget of Montenegro and Municipal Budgets (2016) Sample Annual cash flow forecast for Ministry of Agriculture Data generated by the MoF and TA for the needs of the PEFA assessment Evidence used for assessment under PI-2
PI-22. Expenditure arrears 22.1. Stock of expenditure arrears 22.2. Expenditure arrears monitoring	Data generated by the MoF, Treasury Directorate for the needs of the assessment SAI Annual Audit Report (2016-2018)
PI-23. Payroll controls 23.1. Integration of payroll and personnel records 23.2. Management of payroll changes 23.3. Internal control of payroll 23.4. Payroll audit	Instruction on Operations of the State Treasury (2015) SAI Annual Audit Report (2016-2018) Sample MoF data (payroll calculation and reports) generated for the need of the PEFA Assessment CHU Annual Report on Implementation of Public Internal Financial Control (2016-2018)
PI-24. Procurement 24.1. Procurement monitoring 24.2. Procurement methods 24.3. Public access to procurement information 24.4. Procurement complaints management	Law on Public Procurement (OG of MNE 42/11) and the Amendments to the PPL (OG of MNE 57/14 and 28/15 Public Procurement System Development Strategies (2016 - 2020) Annual Report for 2018 on realization of the measures of the Action Plan for implementation of the Strategy for Development of the Public Procurement System in Montenegro for the period 2016-2020 PPA annual report for 2017 and 2018 Discussions with PPA and State Commission
PI-25. Internal controls on non-salary expenditure 25.1. Segregation of duties 25.2. Effectiveness of expenditure commitment controls 25.3. Compliance with payment rules and procedures	Law on Management and Control (2018), with corresponding by-laws Instruction on Operations of the State Treasury (2015) CHU Annual Report on Implementation of Public Internal Financial Control (2016-2018) SAI Annual Audit Reports (2016-2018)
PI-26. Internal audit 26.1. Coverage of internal audit 26.2. Nature of audits and standards applied 26.3. Implementation of internal audits and reporting	Law on Management and Control (2018), with corresponding by-laws Internal Audit Manual (2017) CHU Annual Report on Implementation of Public

26.4. Response to internal audits	Internal Financial Control (2016-2018) SAI performance audit report on internal audit efficiency (2017)
Accounting and reporting	
PI-27. Financial data integrity	Discussion with the State Audit Office Discussion with the Ministry of Finance and Treasury Audit Report of the Proposed Law on the Financial Statement of Accounts of the State Budget of Montenegro for 2017: http://www.dri.co.me/1/index.php?option=com_k2&view=item&id=559:objavljen-izvje%C5%A1taj-o-reviziji-prijedloga-zakona-o-zavr%C5%A1nom-ra%C4%8Dunu-bud%C5%BEeta-crne-gore-za-2017-godinu&lang=en
27.1. Bank account reconciliation	
27.2. Suspense accounts	
27.3. Advance accounts	
27.4. Financial data integrity processes	
PI-28. In-year budget reports	Discussion with the State Audit Office Discussion with the Ministry of Finance and Treasury SIGMA Report on the Principles of Public Administration in Montenegro, November 2017 MoF budget execution reports: http://www.mif.gov.me/organizacija/sektor-za-ekonomsku-politiku-i-razvoj
28.1. Coverage and comparability of reports	
28.2. Timing of in-year budget reports	
28.3. Accuracy of in-year budget reports	
PI-29. Annual financial reports	Discussion with the State Audit Office Annual Laws on Final Account (2016-2018) Discussion with the Ministry of Finance and Treasury Audit Report of the Proposed Law on the Financial Statement of Accounts of the State Budget of Montenegro for 2017: http://www.dri.co.me/1/index.php?option=com_k2&view=item&id=559:objavljen-izvje%C5%A1taj-o-reviziji-prijedloga-zakona-o-zavr%C5%A1nom-ra%C4%8Dunu-bud%C5%BEeta-crne-gore-za-2017-godinu&lang=en MoF budget execution reports: http://www.mif.gov.me/organizacija/sektor-za-ekonomsku-politiku-i-razvoj
29.1. Completeness of annual financial reports	
29.2. Submission of the reports for external audit	
29.3. Accounting standards	
External scrutiny and audit	
PI-30. External audit	The Constitution of Montenegro Law on State Audit Institution Rules of Procedure of the SAI Applicable manuals and operating procedures SAI Strategic Development Plan Annual Laws on Final Account (2016-2018) Annual Government reports on follow-up undertaken as per SAI recommendations SAI audit reports
30.1. Audit coverage and standards	
30.2. Submission of audit reports to the legislature	
30.3. External audit follow up	
30.4. Supreme Audit Institution independence	

PI-31. Legislative scrutiny of audit reports	Evidence used for scoring of PI-18 Protocol on Cooperation of the National Assembly and the SAI Annual Government reports on follow-up undertaken as per SAI recommendations
31.1. Timing of audit report scrutiny	
31.2. Hearings on audit findings	
31.3. Recommendations on audit by the legislature	
31.4. Transparency of legislative scrutiny of audit reports	

Annex 4: Tracking change in performance based on previous versions of PEFA

Indicator/Dimension	2013 score	2019 score	Description of requirements met in current assessment	Explanation of change (include comparability issues)
A. PFM OUT-TURNS: Credibility of the Budget				
PI-1 Aggregate expenditure out-turn compared to original approved budget	B	A	Excluding donations, aggregate expenditure outturn was 101.8 percent in 2017, while it was 94.2 percent in 2016 and 104.9 percent in 2018.	The score improved, since actual expenditure deviated by more than 5 percent in only one of the last three fiscal years.
PI-2 Composition of expenditure out-turn compared to original approved budget	B+	B+	Scoring method M1 (WL).	--
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	B	B	Variance in expenditure composition by function was 27.3 percent in 2016, 4.3 percent in 2017, and 7 percent in 2018	No change in score and performance.
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	A	A	Actual expenditure charged to contingency vote (the budget reserve) was on average 1.2 percent over the last three completed fiscal years (2016, 2017, and 2018)	No change in score and performance.
PI-3 Aggregate revenue out-turn compared to original approved budget	C	A	Actual revenue was in the range of 100.9 percent to 102.2 percent over the last three completed fiscal years.	Higher score resulting from improved performance. The range of revenue variation was reduced significantly.
PI-4 Stock and monitoring of expenditure payment arrears	C+	C	Scoring method M1 (WL).	--
(i) Stock of expenditure payment arrears and a recent change in the stock	C	NR	Information about the stock of arrears is generated from self-reported data by spending units, which is not considered sufficiently reliable to assign a higher score.	Scored NR in line with Secretariat 2011 guidance (page 12). No evident change in performance. Judgment on reliability of the self-reported data from the spending units was reassessed compared to 2013 assessment.

(ii) Availability of data for monitoring the stock of expenditure payment arrears	B	C	Data on the stock of arrears is generated quarterly, but may not be complete and does not include an age profile. The age profile is available annually. There are concerns with respect to data reliability.	No evident change in performance, see also PI-4 (i) above.
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5 Classification of the budget	A	A	Scoring method M1. (WL)	No change in score and performance.
PI-6 Comprehensiveness of information included in budget documentation	A	A	Scoring method M1. (WL)	No change in score and performance.
PI-7 Extent of unreported government operations	D+	A	Scoring method M1. (WL)	--
(i) Level of unreported government operations	B	A	The amount of expenditures of budgetary and extrabudgetary units unreported in the annual financial report (the Final Account) for 2017 were 0.66 percent of the total budget expenditures.	Higher score due to improved performance.
(ii) Income/expenditure information on donor-funded projects	D	A	Financial activities of all donor-funded projects flow through the STA. EU (IPA) funds are not shown explicitly as separate projects but detailed information is provided in the narrative part of the annual Budget Law.	Higher score due to improved performance.
PI-8 Transparency of inter-governmental fiscal relations	D	C	Scoring method M2 (AV).	--
(i) Transparency and objectivity in the horizontal allocation among SNGs	D	D	Although the system for most transfers is transparent and rule-based, it was not applied in the last completed fiscal year (2018).	No change in score. In terms of performance, the system has improved since the last assessment and steps are being taken to further strengthen it; however, it was not applied in 2018 due to data consistency issues.
(ii) Timeliness and reliable information to SN Governments on their allocations	D	D	Information on transfers to municipalities was not available before they were required to submit draft budgets to local parliaments.	No change in score and performance.

(iii)	Extent of consolidation of fiscal data for general government according to sectoral categories	D	A	SNG fiscal data are collected quarterly, consolidated, and published annually, within 3 months from year-end.	Higher score due to improved performance.
PI-9 Oversight of aggregate fiscal risk from other public sector entities		C+	C+	Scoring method M1 (WL).	--
(i)	Extent of central government monitoring of autonomous entities and public enterprises	C	C	MoF, as the monitoring agency of public corporations, receives financial reports from most public corporations within nine months of the fiscal year end. No consolidated fiscal risk report is being prepared.	No change in score and performance.
(ii)	Extent of central government monitoring of SN government's fiscal position	A	C	During the last completed fiscal year, MoF received audited financial statements from 15 out of 23 municipalities within nine months from the end of previous fiscal year. There is no consolidated report.	Score and performance deteriorated.
PI-10 Public access to key fiscal information		A	A	The government makes available five out of six of the required types of information.	No change in score and performance.
C. BUDGET CYCLE					
C(i) Policy-Based Budgeting					
PI-11 Orderliness and participation in the annual budget process		B+	B+	Scoring method M2 (AV).	--
(i)	Existence of, and adherence to, a fixed budget calendar	A	C	Clear budget calendar is prescribed by the organic budget law. However, it was not adhered to during preparation of the last budget submitted to the parliament.	Score and performance deteriorated.
(ii)	Guidance on the preparation of budget submissions	C	A	The budget circular is comprehensive and clear. It covers total expenditure for the entire fiscal year and sets out expenditure ceilings for budget users.	Higher score due to improved performance.
(iii)	Timely budget approval by the legislature	A	A	Parliament approved the Budget before the beginning of fiscal year in all of the previous three years.	No change in score and performance.

PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting		C+	C+	Scoring method M2 (AV).	--
(i)	Multiyear fiscal forecasts and functional allocations	C+	C+	The annual budget presents estimates of expenditure for the budget year by economic, functional, and administrative classifications and aggregates estimates for the two following years by economic classification only.	No change in score and performance.
(ii)	Scope and frequency of debt sustainability analysis	A	A	DSA is still conducted by IMF staff as part of the Article IV-related staff report.	No change in score and performance.
(iii)	Existence of costed sector strategies	C	C	Statements of sector strategies exist for several major sectors but costed strategies are inconsistent with aggregate fiscal forecasts.	No change in score and performance.
(iv)	Linkages between investment budgets and forward expenditure estimates	C	D	Investment projects' budgets do not include estimates of recurrent costs.	Lower score due to deteriorated performance.
C(ii) Predictability and Control in Budget Execution					
PI-13 Transparency of taxpayer obligations and liabilities		A	A	Scoring method M2 (AV).	--
(i)	Clarity and comprehensiveness of tax liabilities	A	A	Legislation and procedures are clear for all major revenue streams and the revenue collecting agencies have strictly limited discretionary powers.	No change in score. Performance improved inasmuch that tax legislation has been further aligned with international best practice.
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	A	A	TA and CA use multiple channels and outreach efforts to provide comprehensive and timely information on revenue rights and obligations across both revenue streams and payers.	No change in score. As for performance changes, the use of IT services has increased, further reducing potential discretionary treatment and transaction costs.
(iii)	Existence and functioning of a tax appeal mechanism	B	B	The tax appeals system is functional and transparent with room for improvement in automation of processes to ensure full fairness (less	No score and performance changes.

			discretion) in the appeals administration.	
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	B	B+	Scoring method M2 (AV).	--
(i) Controls in the taxpayer registration system	B	B	Payers are registered in comprehensive systems by type of payer, but data exchange between the entities that carry out the registration is still not fully automated.	No change in score. Performance improvements with more linkages between taxpayer data bases and registries.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	B	Effectiveness of penalties for large taxpayers improved relative to 2013. Administration of penalties needs to be made consistent to ensure minimum discretion making.	Improvement in performance and score.
(iii) Planning and monitoring of tax audit and fraud investigation programs	A	A	TA and CA manage and report tax audits and investigations against documented and risk-based audit plans.	No change in score. Performance improvements with the roll out of risk-based approach beyond the large taxpayers office in TA.
PI-15 Effectiveness in collection of tax payments	D+	D+	Scoring method M1 (WL).	--
(i) Collection ratio for gross tax arrears	D	D	Total amount of tax arrears remains significant.	Performance on tax arrears management is improving but without impact on score.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	Revenues from TA and CA accounts are transferred to the Treasury on daily basis.	No change in score and performance.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury	D	D	There is no regular reconciliation of arrears.	No change in score and performance.
PI-16 Predictability in the availability of funds for commitment of expenditures	A	A	Scoring method M1 (WL).	--
(i) Extent to which cash flows are forecasted and monitored	A	A	The annual cash flow forecast prepared at the beginning of the year is updated monthly on the basis of actual cash inflows and outflows.	No change in score and performance.

(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure	A	A	Spending units can normally make commitments at least six months ahead.	No change in score and performance.
(iii)	Frequency and transparency of adjustments to budget allocations above the level of management of MDAs	A	A	In the last completed fiscal year (2018), the government proposed two supplementary budgets (March and July), which followed a clear and predictable approval procedure in the parliament.	No change in score and performance.
PI-17 Recording and management of cash balances, debt and guarantees		B+	A	Scoring method M2 (AL).	--
(i)	Quality of debt data recording and reporting	B	A	All central government debt and guarantees transactions are accurate, updated, and reconciled monthly. G debt reports are published quarterly. Comprehensive reports, including data on guarantees and local governments' debts, are produced annually.	Performance improved resulting in higher score.
(ii)	Extent of consolidation of the government's cash balances	B	B	Balances are consolidated in the STA, but there are resources related to the externally funded projects, health and education institutions which are kept outside the STA. Cash balances related to these accounts are regularly reported.	No change in score and performance.
(iii)	Systems for contracting loans and issuance of guarantees	B	A	The organic budget law, annual Budget Law, and the annual Decision on Borrowing prescribe criteria and rules for undertaking new debt and issuing guarantees, while authority to borrow is granted to MoF.	Performance improved leading to higher score.
PI-18 Effectiveness of payroll controls		B+	C+	Scoring method M1 (WL).	--
(i)	Degree of integration and reconciliation between personnel records and payroll data	A	B	No direct link exists between personnel documentation (held at individual institutions) and the payroll (held at the MoF), but the sampled	No change in performance. The 2013 assessment did not take into account that there is no direct link between

				payroll is supported by full documentation for all changes to the personnel records.	personnel and payroll data.
(ii)	Timeliness of changes to personnel records and the payroll	A	A	Changes are made in a timely way, minimizing retrospective adjustments.	No change in performance.
(iii)	Internal controls of changes to personnel records and the payroll	A	C	Controls are considered sufficiently effective, based on information documented in the SAI reports.	Score deteriorated, performance was validated against SAI findings.
(iv)	Existence of payroll audits to identify control weaknesses and/or ghost workers	B	C	No dedicated payroll audit was carried out encompassing all CG units within the last three years, but payroll audits carried out by the SAI and some IAUs have been carried out in stages.	Score deteriorated as the framework requirement in the 2019 assessment was met through payroll audits carried out in stages over the past three years.
PI-19 Competition, value for money and controls in procurement		B	B+	Scoring method M2 (AV).	--
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework.	A	A	For fiscal 2018 the legal framework met all six listed requirements for this dimension.	No change in score.
(ii)	Use of competitive procurement methods	B	B	The rating remains unchanged. In the 2018 PPA report, the percent of open procedures is still below 80 percent (79 percent).	Improvement in performance not captured by scoring. According to the 2018 PPA report, the level of noncompetitive procedures is only 3 1.3 percent marking a decrease of 4 points in comparison to the 5.3 percent of 2013 assessment.
(iii)	Public access to complete, reliable and timely procurement information	A	A	Annual procurement reports and all public procurement documents prepared by contracting authorities are published at the PPA portal. Publications include regulations and other information (public procurement plans, tender documents, decisions on qualification of candidates, decisions on selection of the most advantageous bid, decisions on suspension of a	No change in score.

				public procurement procedure, decisions on annulment of a public procurement procedure, public procurement contracts, changes or amendments of a plan, tender documents, decisions, and contracts).	
(iv)	Existence of an independent administrative procurement complaints system	D	B	Five out of six criteria are met. The CCPP is an independent body not involved in any procedure leading to contract award decisions, but its rulings are not issued in the indicated timeline.	Improvement in score and performance. The benchmark that was not meet during the previous assessment (it should not be involved in any capacity in procurement transactions or in the process leading to contract award decisions) is now met and the CCPP is an autonomous government body responsible for reviewing and considering appeals in connection with public procurement procedures.
PI-20 Effectiveness of internal controls for non-salary expenditure		D+	C+	Scoring method M1 (WL).	--
(i)	Effectiveness of expenditure commitment controls	D	C	MoF does not exercise centralized ex-ante commitment control against available budgetary authority in the course of annual budget execution.	Score improved, with effectiveness of multi-annual commitment controls taken into account.
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/procedures.	B	A	Other internal control rules and procedures are relevant, and implementation is supported with institutional structures (Financial Management and Control coordinators) and documents (Financial Management and Control Improvement Plans) and widely understood.	Improvement in score and performance (better understanding of internal control rules and procedures) as a result of progress made in PIFC implementation.

(iii)	Degree of compliance with rules for processing and recording transactions	B	A	Irregularities are not quantified but it is understood that the instances of non-compliance with payment rules and procedures are contained.	Score and performance improvements as a result of internal and external compliance and regularity audit.
PI-21 Effectiveness of internal audit		C+	B+	Scoring method M1 (WL).	--
(i)	Coverage and quality of the IA function	C	A	Despite staffing concerns, IA is operational for all CG entities and substantially meets professional standards.	Improvement in score and performance with double the IA staff, updated manuals and methodologies, and substantial effort underway to improve quality.
(ii)	Frequency and distribution of reports	B	A	Reports are issued in accordance with the annual audit plan and distributed to the audited entity and to the MoF and CHD/SAI upon request.	Performance largely the same, but the score improved as more units are considered operational.
(iii)	Extent of management response to IA function.	C	B	Management takes comprehensive action on IA findings but there is room for improvement in full implementation.	Score and performance improvement. In 2013, 59 percent of recommendations were implemented and 11 partially implemented. In 2019, 60 percent were implemented and 31 percent partially implemented.
C(iii) Accounting, Recording and Reporting					
PI-22 Timeliness and regularity of accounts reconciliation		A	A	Scoring method M2 (AV)	--
(i)	Regularity of bank reconciliation	A	B	Daily reconciliation except for donor funds which are kept in commercial banks.	No change in effective performance. Score deteriorated as donor funds taken into account.
(ii)	Regularity and clearance of suspense accounts and advances	A	A	The system of reconciliation and clearance of advance accounts is satisfactory. No suspense accounts are used.	No change in score and performance.
PI-23 Availability of information on resources received by service delivery units		A	A	Information on resources (funds) managed by service delivery institutions is shared regularly with both line ministries and MoF. An aggregate report is	No change in score and performance.

			produced and published annually.	
PI-24 Quality and timeliness of in-year budget reports	D+	D+	Scoring method M1 (WL).	--
(i) Scope of reports in terms of coverage and compatibility with budget estimates	D	D	The in-year reports continue to show comparison with the latest revised budget, not the original budget. The reports are aggregated, based only on the economic classification. Any functional or administrative breakdown or comparability with the budget classification is absent.	No change in score and performance.
(ii) Timeliness of the issue of reports	A	A	Reports are prepared monthly and issued shortly after the end of month.	No change in score and performance.
(iii) Quality of information	B	B	No financial information on non-financial and financial assets and liabilities is disclosed.	No change in score and performance.
PI-25 Quality and timeliness of annual financial statements	D+	D+	Scoring method M1 (WL)	—
(i) Completeness of the financial statements	C	C	The annual financial statements are focused on cash flows and budget execution reports, with additional data only on outstanding liabilities/arrears. No additional financial information on non-financial and financial assets and liabilities is presented	No change in score and performance.
(ii) Timeliness of submissions of the financial statements	A	A	The annual financial statements are submitted in timely manner.	No change in score and performance.
(iii) Accounting standards used	D	D	Accounting standards are not disclosed.	No change in score and performance.
C(iv) External Scrutiny and Audit				
PI-26 Scope, nature and follow-up of external audit	C+	B+	Scoring method M1 (WL).	—
(i) Scope/nature of audit performed (including adherence to auditing standards)	C	B	Scope of the audit performed by the SAI as part of the Final Account covers revenue and expenditure of all CG entities but not assets and liabilities, as these are not	Score and performance have improved, including increased audit capacity and refined methodologies for audit of regularity, financial statements,

				comprehensively captured in the financial statements.	and performance in line with the ISSAIs. The scope in the 2013 assessment was calculated based on the sample of transactions (see 2011 Framework guidance).
(ii)	Timeliness of submission of audit reports to the Legislature	A	A	Audit reports on the Final Account have been provided to the parliament within four months of receiving the draft financial statements by the SAI.	No change in score and performance.
(iii)	Evidence of follow up on audit recommendations	A	B	Despite a timely formal response from the executive, data on recommendations implemented within 12 months in the 2016 and 2017 audit reports indicate only part of the effectiveness and timeliness of follow-up by the executive required for a score of A.	No change in performance, with deterioration in the score attributed to the ability of the executive to fully address recommendations within 12 months, that is by the time of the next year's audit report.
PI-27 Legislative scrutiny of the annual budget law		B	B+	Scoring method M1 (WL).	--
(i)	Scope of the legislature scrutiny	B	A	Explanation to the annual Budget Law contains the medium-term budget framework with overview of CG revenues, expenditures, budget deficit/surplus, debt servicing and budget financing for a three-year period now. The Explanation is scrutinized by the parliament.	Score and performance improved. Directly comparable to Dimension PI-18.1 2016 Framework score.
(ii)	Extent to which the legislature's procedures are well established and respected	B	A	General procedures are firmly established in the parliament's Rules of Procedures. Internal organizational arrangements include technical support and sector-specific committees that increasingly scrutinize the budget proposal.	Score and performance improved with increased technical capacity of the CEBF to analyze the budget proposal.
(iii)	Adequacy of time for the legislature to provide a	B	B	The legislature had around a month and a half to	No improvement in score and performance

	response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)			complete the scrutiny in two of the last three years, but significantly less for fiscal 2017 budget proposal.	despite enabling conditions created in the LBFR.
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	A	In-year reallocations by the executive are limited by law and these rules enforced in practice. The report on executed reallocations is scrutinized by the parliament as a part of the annual Final Account.	No effective change in performance. The limits on reallocation (10 percent on administrative classifications, with government approval, and 10 percent on programmatic reallocations with MoF approval) have been reinterpreted by the assessment team as setting “strict limits on extent and nature of amendments” by the executive. Directly comparable to Dimension PI-18.4, 2016 Framework score.
PI-28 Legislative scrutiny of external audit reports		C+	C+	Scoring method M1 (WL).	--
(i)	Timeliness of examination of audit reports by the legislature	A	A	The audit report has been tabled and scrutinized in the plenary within three months from the date of receipt.	No change in score. Deadlines have been extended and 15 additional days made available for scrutiny since 2014.
(ii)	Extent of hearing on key findings undertaken by the legislature	C	C	Control hearings by the CEBF were held occasionally involving audited entities, MoF and SAI, in 2016, but not in 2017-2018.	No change in score. Regarding performance, routine hearings were evidenced in 2016, but deterioration was recorded in 2017/18, with only occasional in-depth hearings.
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	B	B	Actions are recommended by the legislature, but a number of high-profile recommendations have been repeating, implying that only some of the actions are implemented.	No change in score and performance since the last assessment.

Annex 5: Calculations for PI-1, PI-2 and PI-3

Calculation sheets for PFM Performance Indicators PI-1, PI-2.1 and PI-2.3

Table 1 - Fiscal years for assessment

Year 1 =	2016
Year 2 =	2017
Year 3 =	2018

Table 2

Data for year =	2016					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
1	127,472,596	145,034,407	118,158,361	26,876,046	26,876,046	22.7%
2	41,104,968	41,380,309	38,101,488	3,278,820	3,278,820	8.6%
3	137,114,025	159,089,030	127,095,306	31,993,724	31,993,724	25.2%
4	401,307,092	165,799,937	371,984,174	- 206,184,237	206,184,237	55.4%
5	5,122,290	3,230,757	4,748,011	-1,517,255	1,517,255	32.0%
6	4,405,555	5,888,979	4,083,648	1,805,331	1,805,331	44.2%
7	183,528,940	235,444,534	170,118,751	65,325,782	65,325,782	38.4%
8	43,039,874	42,331,293	39,895,014	2,436,279	2,436,279	6.1%
9	170,270,358	176,834,356	157,828,954	19,005,402	19,005,402	12.0%
10	528,109,162	546,501,112	489,521,005	56,980,107	56,980,107	11.6%
allocated expenditure	1,641,474,859	1,521,534,713	1,521,534,713	0	415,402,984	
interests	76,488,356	81,576,081				
contingency	14,429,278	18,897,864				
total expenditure	1,732,392,493	1,622,008,658				
aggregate outturn (PI-1)						93.6%
composition (PI-2) variance						27.3%
contingency share of budget						1.1%

Table 3

Data for year =	2017					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
1	129,608,911	125,796,070	130,307,665	-4,511,595	4,511,595	3.5%
2	44,041,398	44,546,488	44,278,837	267,651	267,651	0.6%
3	140,680,997	155,932,401	141,439,444	14,492,957	14,492,957	10.2%
4	364,422,065	380,396,121	366,386,755	14,009,366	14,009,366	3.8%
5	5,020,139	4,694,872	5,047,204	-352,332	352,332	7.0%
6	4,437,556	5,253,847	4,461,480	792,367	792,367	17.8%
7	199,268,547	204,250,663	200,342,854	3,907,810	3,907,810	2.0%
8	43,644,978	40,865,662	43,880,279	-3,014,617	3,014,617	6.9%
9	173,837,981	177,916,876	174,775,185	3,141,691	3,141,691	1.8%
10	570,750,112	545,093,871	573,827,169	-28,733,298	28,733,298	5.0%

allocated expenditure	1,675,712,684	1,684,746,870	1,684,746,870	0	73,223,683	
interests	95,363,626	98,705,379				
contingency	14,298,674	19,683,830				
total expenditure	1,785,374,984	1,803,136,079				
aggregate outturn (PI-1)						101.0%
composition (PI-2) variance						4.3%
contingency share of budget						1.1%

Table 4

Data for year =	2018					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
1	135,783,049	144,105,508	141,259,295	2,846,213	2,846,213	2.0%
2	49,778,225	71,609,199	51,785,824	19,823,375	19,823,375	38.3%
3	158,386,213	169,178,018	164,774,064	4,403,954	4,403,954	2.7%
4	379,872,141	367,954,450	395,192,708	-27,238,258	27,238,258	6.9%
5	6,085,489	8,160,004	6,330,922	1,829,082	1,829,082	28.9%
6	4,577,767	5,044,584	4,762,392	282,192	282,192	5.9%
7	208,710,019	245,574,838	217,127,472	28,447,367	28,447,367	13.1%
8	47,941,882	46,678,212	49,875,419	-3,197,207	3,197,207	6.4%
9	177,260,309	189,290,673	184,409,368	4,881,305	4,881,305	2.6%
10	555,464,983	545,789,336	577,867,359	-32,078,023	32,078,023	5.6%
allocated expenditure	1,723,860,076	1,793,384,822	1,793,384,822	0	125,026,977	
interests	85,472,700	97,597,309				
contingency	13,057,693	23,887,500				
total expenditure	1,822,390,469	1,914,869,632				
aggregate outturn (PI-1)						105.1%
composition (PI-2) variance						7.0%
contingency share of budget						1.3%

Table 5 - Results Matrix

	for PI-1.1	for PI-2.1	for PI-2.3
year	total exp. Outturn	composition variance	contingency share
2016	93.6%	27.3%	1.2%
2017	101.0%	4.3%	
2018	105.1%	7.0%	

Calculation sheets for calculation of expenditure variance by economic classification (PI-2.2)

Table 1 - Fiscal years for assessment

Year 1 =	2016
Year 2 =	2017
Year 3 =	2018

Table 2

Data for year =	2016					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	425,826,589	433,396,879	398,693,955	34,702,924	34,702,924	8.7%
Use of goods and services	89,310,882	86,667,222	83,620,209	3,047,013	3,047,013	3.6%
Consumption of fixed capital	0	0	0	0	0	-
Interest	76,488,356	81,576,081	71,614,704	9,961,376	9,961,376	13.9%
Subsidies	20,493,800	27,120,821	19,187,985	7,932,836	7,932,836	41.3%
Grants	22,891,600	11,467,951	21,433,003	-9,965,052	9,965,052	46.5%
Social benefits	532,392,220	554,983,220	498,469,483	56,513,737	56,513,737	11.3%
Other expenses	564,989,046	426,796,484	528,989,318	-102,192,834	102,192,834	19.3%
Total expenditure	1,732,392,493	1,622,008,658	1,622,008,658	0	224,315,773	-
composition variance						13.8%

Table 3

Data for year =	2017					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	448,431,587	455,992,688	452,892,631	3,100,058	3,100,058	0.7%
Use of goods and services	80,509,784	89,632,661	81,310,703	8,321,958	8,321,958	10.2%
Consumption of fixed capital	0	0	0	0	0	-
Interest	95,363,626	98,705,379	96,312,313	2,393,065	2,393,065	2.5%
Subsidies	24,921,800	27,664,106	25,169,725	2,494,381	2,494,381	9.9%
Grants	36,800,028	22,817,329	37,166,118	-14,348,789	14,348,789	38.6%
Social benefits	570,918,105	538,050,896	576,597,657	-38,546,761	38,546,761	6.7%
Other expenses	528,430,054	570,273,019	533,686,931	36,586,088	36,586,088	6.9%
Total expenditure	1,785,374,984	1,803,136,079	1,803,136,079	0	105,791,100	-
composition variance						5.9%

Table 4

Data for year =	2018					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	451,629,950	472,972,915	474,560,227	-1,587,312	1,587,312	0.3%
Use of goods and services	105,676,918	106,753,261	111,042,375	-4,289,114	4,289,114	3.9%
Consumption of fixed capital	0	0	0	0	0	-
Interest	85,472,700	97,597,309	89,812,343	7,784,967	7,784,967	8.7%
Subsidies	27,011,800	28,234,112	28,383,250	-149,138	149,138	0.5%
Grants	15,762,019	18,961,484	16,562,293	2,399,192	2,399,192	14.5%
Social benefits	551,408,690	544,485,571	579,404,960	-34,919,388	34,919,388	6.0%

Other expenses	585,428,392	645,912,713	615,151,919	30,760,794	30,760,794	5.0%
Total expenditure	1,822,390,469	1,914,917,367	1,914,917,367	0	81,889,905	-
composition variance						4.3%

Table 5 - Results Matrix

year	composition variance
2016	13.8%
2017	5.9%
2018	4.3%

Annex 5a: Calculations for PI-1, PI-2 and PI-3 (2011)

Calculation sheets for PFM Performance Indicators PI-1, PI-2.1 and PI-2.3						
Table 1 - Fiscal years for assessment						
Year 1 =	2016					
Year 2 =	2017					
Year 3 =	2018					
Table 2						
Data for year =	2016					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General Public Services	127,472,596	145,034,407	118,926,307	26,108,100	26,108,100	22.0%
Defense	41,104,968	41,380,309	38,349,121	3,031,187	3,031,187	7.9%
Public Order and Safety	137,114,025	159,089,030	127,921,336	31,167,694	31,167,694	24.4%
Economic Affairs	378,415,492	154,331,987	353,044,956	-198,712,970	198,712,970	56.3%
Environmental Protection	5,122,290	3,230,757	4,778,870	-1,548,113	1,548,113	32.4%
Housing and Community Amenities	4,405,555	5,888,979	4,110,188	1,778,790	1,778,790	43.3%
Health	183,528,940	235,444,534	171,224,403	64,220,130	64,220,130	37.5%
Recreation, culture and religion	43,039,874	42,331,293	40,154,303	2,176,990	2,176,990	5.4%
Education	170,270,358	176,834,356	158,854,731	17,979,625	17,979,625	11.3%
Social Protection	528,109,162	546,501,112	492,702,546	53,798,566	53,798,566	10.9%
allocated expenditure	1,618,583,259	1,510,066,763	1,510,066,763	0	400,522,166	
interests	76,488,356	81,576,081				
contingency	14,429,278	18,897,864				
total expenditure	1,709,500,893	1,610,540,707				
aggregate outturn (PI-1)						94.2%
composition (PI-2) variance						26.5%
contingency share of budget						1.1%
Table 3						
Data for year =	2017					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General Public Services	129,608,911	125,796,070	131,429,138	-5,633,068	5,633,068	4.3%
Defense	44,041,398	44,546,488	44,659,916	-113,428	113,428	0.3%
Public Order and Safety	140,680,997	155,932,401	142,656,721	13,275,680	13,275,680	9.3%
Economic Affairs	327,622,037	357,578,792	332,223,160	25,355,632	25,355,632	7.6%

Environmental Protection	5,020,139	4,694,872	5,090,642	-395,770	395,770	7.8%
Housing and Community Amenitites	4,437,556	5,253,847	4,499,877	753,970	753,970	16.8%
Health	199,268,547	204,250,663	202,067,074	2,183,589	2,183,589	1.1%
Recreation, culture and religion	43,644,978	40,865,662	44,257,928	-3,392,266	3,392,266	7.7%
Education	173,837,981	177,916,876	176,279,361	1,637,515	1,637,515	0.9%
Social Protection	570,750,112	545,093,871	578,765,725	-33,671,854	33,671,854	5.8%
allocated expenditure	1,638,912,656	1,661,929,541	1,661,929,541	0	86,412,772	
interests	95,363,626	98,705,379				
contingency	14,298,674	19,683,830				
total expenditure	1,748,574,956	1,780,318,750				
aggregate outturn (PI-1)						101.8%
composition (PI-2) variance						5.2%
contingency share of budget						1.1%

Table 4

Data for year =	2018					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General Public Services	135,783,049	144,105,508	141,055,492	3,050,016	3,050,016	2.2%
Defense	49,778,225	71,609,199	51,711,109	19,898,090	19,898,090	38.5%
Public Order and Safety	158,386,213	169,178,018	164,536,334	4,641,684	4,641,684	2.8%
Economic Affairs	364,110,121	348,992,965	378,248,482	-29,255,516	29,255,516	7.7%
Environmental Protection	6,085,489	8,160,004	6,321,788	1,838,216	1,838,216	29.1%
Housing and Community Amenitites	4,577,767	5,044,584	4,755,521	289,063	289,063	6.1%
Health	208,710,019	245,574,838	216,814,208	28,760,630	28,760,630	13.3%
Recreation, culture and religion	47,941,882	46,678,212	49,803,461	-3,125,249	3,125,249	6.3%
Education	177,260,309	189,290,673	184,143,309	5,147,364	5,147,364	2.8%
Social Protection	555,464,983	545,789,336	577,033,634	-31,244,298	31,244,298	5.4%
allocated expenditure	1,708,098,057	1,774,423,338	1,774,423,338	0	127,250,127	
interests	85,472,700	97,597,309				
contingency	13,057,693	23,887,500				
total expenditure	1,806,628,450	1,895,908,147				
aggregate outturn (PI-1)						104.9%
composition (PI-2) variance						7.2%
contingency share of budget						1.3%

Table 5 - Results Matrix

	for PI-1.1	for PI-2.1	for PI-2.3
year	total exp. Outturn	composition variance	contingency share
2016	94.2%	26.5%	1.2%
2017	101.8%	5.2%	
2018	104.9%	7.2%	

Calculation sheets for calculation of expenditure variance by economic classification (PI-2.2)

Table 1 - Fiscal years for assessment

Year 1 =	2016
Year 2 =	2017
Year 3 =	2018

Table 2

Data for year =	2016					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	425,826,689	433,396,879	398,694,049	34,702,831	34,702,831	8.7%
Use of goods and services	76,000,282	91,122,367	71,157,728	19,964,639	19,964,639	28.1%
Consumption of fixed capital	0	0	0	0	0	-
Interest	76,488,356	81,576,081	71,614,704	9,961,376	9,961,376	13.9%
Subsidies	20,493,800	27,120,821	19,187,985	7,932,836	7,932,836	41.3%
Grants	0	0	0	0	0	-
Social benefits	532,392,220	554,983,220	498,469,483	56,513,737	56,513,737	11.3%
Other expenses	601,191,146	433,809,290	562,884,709	-129,075,419	129,075,419	22.9%
Total expenditure	1,732,392,493	1,622,008,658	1,622,008,658	0	258,150,838	
composition variance						15.9%

Table 3

Data for year =	2017					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	Percent
Compensation of employees	448,434,387	456,012,432	452,895,459	3,116,974	3,116,974	0.7%
Use of goods and services	82,621,864	95,905,310	83,443,795	12,461,516	12,461,516	14.9%
Consumption of fixed capital	0	0	0	0	0	-
Interest	95,363,626	98,705,379	96,312,313	2,393,065	2,393,065	2.5%
Subsidies	24,921,800	27,803,826	25,169,725	2,634,102	2,634,102	10.5%
Grants	0	0	0	0	0	-
Social benefits	570,918,105	538,050,896	576,597,657	-38,546,761	38,546,761	6.7%
Other expenses	563,115,202	586,658,235	568,717,131	17,941,104	17,941,104	3.2%
Total expenditure	1,785,374,984	1,803,136,079	1,803,136,079	0	77,093,522	
composition variance						4.3%

Table 4						
Data for year =	2018					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percen t
Compensation of employees	451,526,950	473,008,080	474,440,171	-1,432,090	1,432,090	0.3%
Use of goods and services	96,236,909	111,868,186	101,120,554	10,747,632	10,747,632	10.6%
Consumption of fixed capital	0	0	0	0	0	-
Interest	85,472,700	97,597,309	89,810,104	7,787,205	7,787,205	8.7%
Subsidies	27,011,800	30,560,885	28,382,543	2,178,342	2,178,342	7.7%
Grants	0	0	0	0	0	-
Social benefits	551,408,690	544,485,571	579,390,516	-34,904,945	34,904,945	6.0%
Other expenses	610,733,420	657,349,599	641,725,744	15,623,855	15,623,855	2.4%
Total expenditure	1,822,390,469	1,914,869,632	1,914,869,632	0	72,674,070	
composition variance						3.8%

Table 5 - Results Matrix	
year	composition variance
2016	15.9%
2017	4.3%
2018	3.8%

Calculation sheets for PFM Performance Indicator PI-3

Table 1 - Fiscal years for assessment	
Year 1 =	2016
Year 2 =	2017
Year 3 =	2018

Table 2						
Data for year =	2016					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percen t
Tax revenues						
Taxes on income, profit and capital gains	143,948,730	168,386,193	146,769,975	21,616,218	21,616,218	14.7%
Taxes on payroll and workforce			0	0	0	-
Taxes on property			0	0	0	-
Taxes on goods and services	689,951,417	758,621,992	703,473,745	55,148,247	55,148,247	7.8%
Taxes on international trade and transactions	22,977,583	24,283,643	23,427,920	855,723	855,723	3.7%
Other taxes	8,682,270	9,199,395	8,852,433	346,962	346,962	3.9%
Social contributions						
Social security contributions	483,156,218	462,885,204	492,625,576	-29,740,372	29,740,372	6.0%

Other social contributions			0	0	0	-
Grants						
Grants from foreign governments			0	0	0	-
Grants from international organizations	29,255,213	11,579,771	29,828,585	-18,248,814	18,248,814	61.2%
Grants from other government units			0	0	0	-
Other revenue						
Property income	3,755,233	4,322,643	3,828,831	493,812	493,812	12.9%
Sales of goods and services	56,528,324	28,877,426	57,636,220	-28,758,795	28,758,795	49.9%
Fines, penalties and forfeits	12,833,078	14,232,344	13,084,593	1,147,751	1,147,751	8.8%
Transfers not elsewhere classified			0	0	0	-
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes			0	0	0	-
Sum of rest	7,378,738	4,662,621	7,523,353	-2,860,732	2,860,732	38.0%
Total revenue	1,458,466,804	1,487,051,231	1,487,051,231	0	159,217,425	
overall variance						102.0%
composition variance						10.7%

Table 3						
Data for year =	2017					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	172,506,080	161,210,943	174,135,621	-12,924,679	12,924,679	7.4%
Taxes on payroll and workforce			0	0	0	-
Taxes on property			0	0	0	-
Taxes on goods and services	761,135,410	794,287,867	768,325,312	25,962,554	25,962,554	3.4%
Taxes on international trade and transactions	24,426,744	25,424,801	24,657,486	767,315	767,315	3.1%
Other taxes	9,657,643	9,199,739	9,748,872	-549,132	549,132	5.6%
Social contributions						
Social security contributions	492,156,792	494,952,632	496,805,846	-1,853,213	1,853,213	0.4%
Other social contributions			0	0	0	-
Grants						
Grants from foreign governments			0	0	0	-

Grants from international organizations	35,200,000	25,281,470	35,532,509	-10,251,039	10,251,039	28.8%
Grants from other government units			0	0	0	-
Other revenue						
Property income	5,060,784	6,376,911	5,108,590	1,268,321	1,268,321	24.8%
Sales of goods and services	31,518,619	29,705,648	31,816,353	-2,110,705	2,110,705	6.6%
Fines, penalties and forfeits	14,644,009	13,253,455	14,782,340	-1,528,886	1,528,886	10.3%
Transfers not elsewhere classified			0	0	0	-
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes			0	0	0	-
Sum of rest	5,310,584	6,580,212	5,360,749	1,219,463	1,219,463	22.7%
Total revenue	1,551,616,663	1,566,273,677	1,566,273,677	0	58,435,307	
overall variance						100.9%
composition variance						3.7%
Table 4						
Data for year =	2018					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percen t
Tax revenues						
Taxes on income, profit and capital gains	184,015,440	193,070,860	188,084,331	4,986,529	4,986,529	2.7%
Taxes on payroll and workforce			0	0	0	-
Taxes on property			0	0	0	-
Taxes on goods and services	893,088,524	866,347,357	912,836,214	-46,488,857	46,488,857	5.1%
Taxes on international trade and transactions	25,140,855	26,634,892	25,696,762	938,130	938,130	3.7%
Other taxes	10,048,570	9,313,631	10,270,761	-957,130	957,130	9.3%
Social contributions						
Social security contributions	511,548,395	524,440,114	522,859,591	1,580,524	1,580,524	0.3%
Other social contributions			0	0	0	-
Grants						
Grants from foreign governments			0	0	0	-
Grants from international organizations	24,510,000	26,709,415	25,051,957	1,657,458	1,657,458	6.6%
Grants from other government units			0	0	0	-
Other revenue						

Property income	4,475,232	39,748,823	4,574,187	35,174,636	35,174,636	769.0%
Sales of goods and services	35,857,117	35,522,632	36,649,979	-1,127,346	1,127,346	3.1%
Fines, penalties and forfeits	14,734,746	12,944,617	15,060,556	-2,115,939	2,115,939	14.0%
Transfers not elsewhere classified			0	0	0	-
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes			0	0	0	-
Sum of rest	4,827,211	11,285,945	4,933,949	6,351,996	6,351,996	128.7%
Total revenue	1,708,246,091	1,746,018,287	1,746,018,287	0	101,378,545	
overall variance						102.2%
composition variance						5.8%

Table 5 - Results Matrix

year	total revenue deviation	composition variance
2016	102.0%	10.7%
2017	100.9%	3.7%
2018	102.2%	5.8%

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This report was prepared for the Montenegrin Government, Ministry of Finance by the World Bank (Governance Global Practice) under the Strengthening Accountability and Fiduciary Environment (SAFE) Trust Fund. SAFE is a Trust Fund program administered by the World Bank and was established by the Swiss State Secretariat for Economic Affairs (SECO) and the European Commission with the aim of improving public financial management in the Europe and Central Asia region.

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