EUROPE

MONTENEGRO

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 13 810 km^2
Population: 0.622 million inhabitants (2017), an increase of 0.1% per year (2010-2015)
Density: 45 inhabitants / km^2
Urban population: 66.5 % of national population (2017)
Urban population growth: 0.5% (2017 vs 2016)
Capital city: Podgorica (28.5% of national population)

ECONOMIC DATA

GDP: 12.0 billion (current PPP international dollars), i.e. 19 352 dollars per inhabitant (2017)
Real GDP growth: 4.7% (2017 vs 2016)
Unemployment rate: 16.1% (2017)
Foreign direct investment, net inflows (FDI): 560.3 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 24.8% of GDP (2017)
HDI: 0.814 (very high), rank 50

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

According to the 2007 constitution, Montenegro is a unitary state with a republican form of government and a one-tier structure of government. Between 1992 and 2003, Montenegro was part of the Federal Republic of Yugoslavia. From 2003 to 2006, the country was part of the State Union of Serbia and Montenegro. During the Referendum of 21 May 2006, the Montenegrin population voted in favour of independence from the union and on 3 June 2006, the Montenegrin Parliament declared its independence followed by the proclamation of the new Constitution of Montenegro on 22 October 2007. The President of Montenegro is elected by direct universal suffrage for a five-year period. The Prime Minister who is the head of the government is proposed by the president to the Parliament. The Parliament is a unicameral system, consisting of 81 members elected for a four-year period by direct universal suffrage.

Article 22 and chapter 4 of the Constitution guarantee the right of local self-government and specifies the intergovernmental structure. The Constitution established the municipalities as the basic form of local self-government, enshrining their independence in carrying out their functions, drafting their own budgets and financing said functions with own-source revenues and resources provided by the state.

Besides the Constitution, other legal provisions dealing with subnational government matters include the Law on Local Self-Government and the Law on Local Self-Government Financing, both promulgated in 2010 and amended subsequently. The Law on Local Self-Government regulates the functioning of the municipalities, whereas the law on local financing lays out the financial autonomy of the municipalities as well as fiscal regulations.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	21 municipalities *(opština)* 2 urban municipalities			
	Average municipal size: 27 060 inhabitants			
	23			23

OVERALL DESCRIPTION. Montenegro has a one-tier system of local government, comprising 23 municipalities (*opština*) of which 21 are local administrative units, and two are urban municipalities (i.e., the Capital City of Podgorica and the Historic Royal Capital of Cetinje).

MUNICIPALITIES. Municipal authorities consist of the Municipal Assembly and the mayor. The assembly, whose members are elected for four years, is the representative body of the citizens whereas the mayor, elected by the assembly by the majority vote of a total number of councillors for a period of 4 years, is the executive body of the municipality.
The average size of municipalities (around 27 000 inhabitants) is high by international comparison (9 700 inhabitants in the OECD and 5 900 in the EU) but the median size is lower (18 300). However, five municipalities (22% of total) have fewer than 5 000 inhabitants. Municipalities are further subdivided into approximately 1 310 settlements, which are urban localities (around 50) and rural communities (villages). These local communities (*mjesna zajednica*) are bodies in which the citizens participate in decisions on matters of relevance to the local community.

The capital city of Podgorica is part of the metropolitan area of the city of Podgorica. With almost 200 000 inhabitants in 2017, the capital city accounts for around 32% of the total population. It is made up of two "city municipalities" (*gradska opština*) created in 2006. These two districts of Golubovci and Tuzi have the status of a municipality according to the Capital City Law and the Podgorica City Charter. The second largest city is Nikšić with 70 000 inhabitants, followed by two cities having around 43 000 inhabitants (Bar and Bijelo Polje).

INTER-MUNICIPAL CO-OPERATION. Municipalities may freely enter into an association, in accordance with the law on Local Self-Government (Article 16 of the Law on Local Self-Government). In 2011, the Montenegrin government adopted the 2011-2016 development strategy for inter-municipal co-operation, along with the 2011-2013 action plan for its implementation. Inter-municipal co-operation is also addressed in the Law of Local Self-Government. Article 131 of said law stipulates that municipal assemblies may establish inter-municipal communities in order to perform, in a more economic and efficient manner, certain affairs related to public administration and public service delivery.

Additionally, the "Regional Development Law" divided the country into three regions for statistical purposes. They do not have legislative or other power.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Primary education, kindergartens, social assistance and elderly care, which often fall under the responsibilities of local governments in the OECD countries, are handled by central authorities in Montenegro. The 2010 Law on Local Self-Government (last amendments in 2014), in its articles 32 and 33, assigns relevant competencies to the municipalities. They mainly intervene, both in terms of provision and regulation, in economic and social development areas, including the development of community affairs, entrepreneurial development, issuance of land and business permits, protection of local environment and preservation of natural resources, local public transportation, sport, and recreational activities, development of library and archive activities, as well as the prevention and management of natural disasters.
In addition, Montenegrin municipalities are owners of public utility companies dealing with waste management, water distribution and local public transportation.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Municipal administration
2. Public order and safety	Protection of the local population and rescue services; Prevention of natural disasters, fires, explosions, damages; Local law enforcement
3. Economic affairs/transports	Local public transport; Local economic development including entrepreneurial development; Agricultural land; Tourism; Management of construction land; Investment policy
4. Environmental protection	Environmental development and protection
5. Housing and community amenities	Urban and spatial planning at local and regional level; Urbanism (building permits); Land development and management, protection of buildable land; Water management
6. Health	
7. Recreation, culture & religion	Culture; Sport; Development of libraries; Protection of monuments of local importance; Recreation for children, youth, and adults
8. Education	Construction and maintenance of education facilities (primary and secondary education); Provision of social care for pupils; Co-financing of investment and material expenditure
9. Social protection	Home care; Help at home for the elderly and disabled people; Child welfare; Consumer protection

SUBNATIONAL GOVERNMENT FINANCE

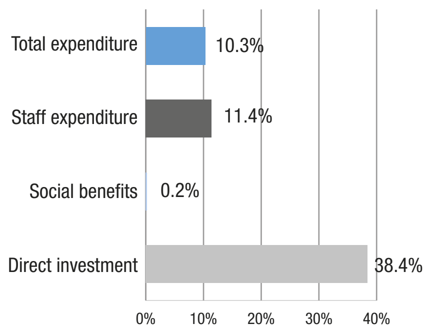
Scope of fiscal data: 23 local government units.	SNA: Other	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. Municipalities of Montenegro finance their assigned responsibilities through local taxes and fees, shared taxes, subsidies and grants from the State Budget and other resources that fall within the legal boundaries. Besides the Constitution, which contains provisions relating to local finance, the 2010 law on local government describes the different types of resources, the financial equalisation mechanisms and the use of conditional grants.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**991**	**5.6%**	**100%**
Inc. current expenditure	808	4.6%	81.5%
Staff expenditure	221	1.3%	22.3%
Intermediate consumption	96	0.5%	9.7%
Social expenditure	5	0.0%	0.5%
Subsidies and current transfers	188	1.1%	19.0%
Financial charges	276	1.6%	27.8%
Others	22	0.1%	2.3%
Incl. capital expenditure	183	1.0%	18.5%
Capital transfers			
Direct investment (or GFCF)	183	1.0%	18.5%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. In 2016, SNG total expenditure amounted to 5.6% of GDP and 10.3% of public expenditure in 2016, a level below the average of OECD unitary countries where SNG expenditure reached 9.2% of GDP and 29% of public expenditure. Among the current spending lines, financial charges (including the repayment of interest) accounted for close to 28% of total SNG expenditure followed by staff compensation with 22.3%. Subsidies and transfers to institutions, individuals, NGOs and the public sector came in third with 19% of total SNG expenditure. SNGs are not big public employers, accounting only for around 11% of total public spending.

DIRECT INVESTMENT. Although public investment recovered in 2014-2015, the share of direct investment by the municipalities continued to decline to amount to less than 40% in 2016 (i.e., 1.0% of GDP). These levels are below the average for OECD (50.7% in 2016) and EU (46.1% in 2017) unitary countries. Investment however represented 18.5% of total SNG expenditure, which is higher than in OECD and EU unitary countries (respectively 13.8% and 10.9%).

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UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

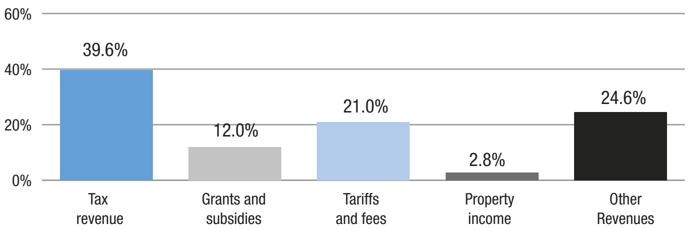
Municipalities have few competencies in the social and education sectors. Most of their spending are in housing and community amenities, economic affairs and transport, environment and municipal administration.

% GDP | % SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**1 107**	**6.3%**	**11.6%**
Tax revenue	438	2.5%	11.1%
Grants and subsidies	133	0.8%	
Tariffs and fees	233	1.3%	
Property income	31	0.2%	
Other revenues	272	1.5%	

% SNG REVENUE



OVERALL DESCRIPTION. Municipalities are mainly financed through own-source revenues (i.e., taxes, tariffs and fees and other sources). Taxes, in particular, are the most important revenue source, representing close to 40% of total SNG revenues. This share is on par with OECD and EU28 unitary averages (38.7% and 36.8% respectively), a high ratio if compared to other countries in the South East Europe. By contrast, the share of transfers from the central government is particular low, amounting to 12% of SNG revenue (vs 49% in the OECD and EU unitary countries). According to the Network of Associations of Local Authorities of South-East Europe (NALAS), Montenegro's intergovernmental finance system – and its very high share of own revenues - is unique in the region.

Yet, the distribution of local revenues varies significantly across municipalities: while tax revenues are significant in some municipalities, central government transfers make up a large share of other municipal budgets.

The government plans to change the distribution of funds from the central government to promote the distribution of revenues according to needs and incentivise own-source revenues where possible.

TAX REVENUE. Although tax revenues account for a large share of SNG revenue, in line with OECD and EU averages, the weight in GDP and public tax revenue is well below OECD and EU averages for unitary countries (respectively 4.5% and 4.7% of GDP; and 16% and 20% of public tax revenue).

Tax revenues are composed of shared taxes and own-source taxes, the latter being the main source of tax revenue.
Concerning shared taxes, municipalities receive 12% of the PIT (13% for Podgorica and 16% for Cetinje) and 80% of the real estate transfer collected within their jurisdiction by the central government. The transfer tax on real estate accounted for 10.8% of municipal tax revenue and 4.3% of municipal revenue.

Municipal own-source taxes include a surtax on the personal income tax (PIT) and the property tax.

A municipality may impose a PIT surtax on local individuals and legal entities at a maximum rate of 13% (or up to 15% for the Capital City of Podgorica and the Historic Royal Capital of Cetinje). The surtax on PIT shall be paid on the personal earnings tax, self-employment tax, tax on property and property rights, and capital gains tax.

The property tax was decentralised in 2003 and constitutes the main source of revenues. In 2016, it accounted for 50.5% of municipal tax revenue, 20.0% of municipal total revenue and 1.3% of GDP, a figure significantly higher than in many OECD and EU countries (the OECD average is 1.1% of GDP in 2016). As of 2018, the property tax rates are set between 0.25% and 1.00% of market value (from 0.08% and 0.8% in 2003). Local governments are responsible for tax assessments based on data from the State Statistics Office and/or State Tax Authority on the market value of a square meter of property in each jurisdiction. In the absence of such data, the municipal governments can hire experts to define the market value.

Overall, the PIT (as a share and a surtax) represented a significant source of revenue: 38.7% of SNG tax revenue, 15.3% of SNG revenue (i.e., 1.0% of GDP).

GRANTS AND SUBSIDIES. The grant system comprises two categories of funds: an Equalisation Fund and conditional grants. In 2016, the Equalisation Fund constituted the bulk of intergovernmental transfers, amounting to 94.1% of total grants and 11.3% of SNG total revenue.

The Equalisation Fund is composed of resources coming from different budget lines: 11% of the PIT, 10% of the tax on real estate transfers, 100% of the tax collection on the use of motor vehicles, boats and planes and 40% of the revenues collected from concession fees of gambling. The allocation is formula-based and considers the fiscal capacity of the municipality (60%) and the budgetary needs (40%). To benefit from the Equalisation Fund, a municipality should have an average fiscal capacity (per capita) in the last three fiscal years that is lower than the average fiscal capacity of all other municipalities, also over the same three-year period. Recently the Ministry of Finance proposed amendments to the equalisation mechanisms to improve the current weaknesses of this fund, in particular its disincentive effect on tax collection and accuracy of data on own-source revenues (to obtain a larger share of the Equalisation Fund).

Other direct transfers or grants from the central government budget to municipalities account for a small percentage of total municipal revenue, and are mostly intended for co-financing of European funds for projects aimed at municipal infrastructure development. Municipalities are also entitled to conditional grants from the State Budget with the objective of financing investment projects that involve one or more municipalities. To receive the grant, municipalities must agree to a multi-annual investment plan. Funding is limited to 50% of the estimated project cost.

OTHER REVENUES. Other income includes revenues from tariffs and fees, property income and other revenues accounting for almost 50% of SNG revenues, which is particularly high by international standards.

In 2016, tariffs and fees constituted the third most important revenue source for SNGs and represented 21% of their total revenues, and 1.3% of GDP. They include user charges on local public administration services and utilities such as waste management and water provision; fees for utility equipment of construction land and for the use of municipal roads; fines stemming from misdemeanour convictions. There is also a land development fee, which is regulated by the Law on spatial planning and construction and paid by the investor before construction can begin. This fee is the most substantial local capital revenue; it remains very relevant to the municipal budget despite a decline due to the economic downturn in 2009.

Municipalities also receive a percentage of fees transferred from the central government, including: 70% of the revenue from concessions and other fees for using natural resources awarded by the State; revenue from annual fees for the registration of motor vehicles, tractors and trailers; and 30% of the public revenues collected on the use of motor vehicles and their trailers.

In 2016, property income reached 2.8% of SNG total revenue, a ratio that is much higher than the averages for OECD (1.1% in 2016) and EU28 (1.2% in 2017). Municipalities are entitled to resources from the sale and rental of municipal properties, income from capital (interests, stakes and shares, etc.) and from concessions.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**638**	**3.6%**	**5.7%**	**100%**
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. Municipalities were hit hard by the crisis and continue to struggle with fiscal consolidation. According to the 2014 Law on Budget and Fiscal discipline, which applied to central and subnational governments, the budget deficit of a SNG in any given year shall not exceed 10% of its revenues in that year. If the SNG exceeds the budget deficit ceiling in a given year without the Ministry of Finance's approval, the Minister shall be obliged to withhold the transfer of the appropriated part of the funds from the State Budget to the SNG. The amount withheld is equal to size of deficit.

DEBT. According to the law on local self-government financing, municipalities are legally enabled to issue debt securities and take out long-term loans, provided they obtain the consent of the central government. Long-term loans are only approved for the financing of capital infrastructure projects or for the purchase of capital assets, in compliance with approved Perennial Capital Investment Plan, and shall not be used to finance current expenditure ("Golden Rule"). Municipalities may also take out short-term loans in order to meet short-term liquidity needs. There is, however, a debt ceiling. To receive an approval for any further borrowing, the total payments of principal and interest, the payments under a leasing contract, repayment of obligations for the prior period and any other debt obligations may not exceed 10% of the actual current income of the municipality in the year preceding the year of borrowing.

In 2016, total outstanding debt (unconsolidated) for SNGs reached 3.6% of GDP and 5.7% of total public debt, which is below the OECD average for unitary countries (14.5% of GDP and 11.8% of public debt in 2016) and the EU28 average 14.3% of GDP and 14.4% of public debt in 2016).

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO // MONSTAT Statistical Office of Montenegro (2017) Statistical Yearbook of Montenegro 2017.
Fiscal data: Union of Municipalities of Montenegro // Ministry of Finance of Montenegro: Report on the General Government Debt as of 31 December 2016 // Central Bank of Montenegro – Fiscal Development // OECD (2018) Subnational Government in OECD countries: key data.
Other sources of information: Network of Associations of Local Authorities of South-East Europe - NALAS (2018) Fiscal Decentralization Indicators for South-East Europe// Committee of the Regions (2016) Division of powers // Government of Montenegro (2016) Public Administration Reform Strategy in Montenegro (2016-2020) // Council of Europe Chamber of Local Authorities (2015) Local Democracy in Montenegro // Kraan, D. et al. (2012) Budgeting in Montenegro, OECD Journal of Budgeting.