



**Ka održivom i jednakopravnom  
finansiranju *visokog obrazovanja*  
u Bosni i Hercegovini, Crnoj Gori i Srbiji**

**Towards Sustainable and Equitable Financing of Higher Education in  
Bosnia and Herzegovina, Montenegro and Serbia**



## **WP 5. INSTITUTIONAL FUNDING STRATEGY**

**Report from the Working Group in Montenegro**

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## Part 1. INTRODUCTION

### 1.1. Background

The countries involved in this project, namely Serbia, Bosnia and Herzegovina and Montenegro, have all developed their own individual higher education systems. Still, they share a common transitional setting and similar challenges.

Although it shares many common features, financing of higher education in Montenegro is very specific with respect to all the other republics (now independent states) in former Yugoslavia. The singularity of Montenegro's position with respect to financing higher education lies in the fact that it has only **one public university**, so that the system-level funding is here equivalent to the institutional funding. Complying with the formal structure of the Project's working packages, we submit this WP5 report separately from the WP4 one, with some inevitable repetitions originating from the equivalency of these two issues in our particular case.

As a part of SFRY, Montenegro was the last republic to establish a public university. Namely, although individual departments (faculties) started in 1960, the University of Montenegro was founded in 1974, as a rather loose association of the existing faculties and institutes, with an almost completely decentralized nature. The university units had full legal capacity, separate accounts and governing bodies. As the only institution of higher learning, the University of Montenegro was a subject of the state care, where the initial funding had to cover various expenses, from the staff salaries to building the new facilities and maintenance of the existing ones. Thus, for a long period of time, system-level funding was reduced to funding an individual institution, the University of Montenegro, with all the advantages and problems associated with that kind of funding model. The state was primarily concerned with opening new faculties to broaden the scope of academic fields offered to prospective students, while the existing units enjoyed a substantial autonomy to envisage its own development, within the boundaries of the prescribed annual funding. For the students that fulfilled the admission requirements, education was completely free of charge. The dissolution of the SFRY caused an overall financial disaster, and its consequences hit hard the university community. In those several years of sanctions and wars in the neighbourhood, one could hardly talk about any systematic financing of higher education, but the only issue was a bare survival. In that period, some faculties introduced tuition fees for certain vocational study programs (management, applied computer engineering, etc.) and it was approved by the Government, who was able to cover only the minimal financial requirements (salaries and part of the material expenses). This kind of organization lasted until 2004.

After signing the Bologna Declaration in 2003, a comprehensive reform and reorganization in Montenegro began by adopting the new Law on Higher Education (LHE, 2003), and continued by passing statutes of universities and faculties (2004) and secondary legislation concerning their implementation, thus creating a new normative and institutional framework of higher education. During that period, the University of Montenegro was the only post-secondary or higher education institution in Montenegro. Since private universities were allowed by the new LHE, we currently have one public and two private universities: University of Montenegro, Mediterranean University (licensed in 2006) and the University of Donja Gorica (licensed in 2010), with the additional 9 independent private faculties and one independent public faculty. Nowadays, there are about 26000 students in Montenegro, about 21000 of which receive education at the University of Montenegro, and about 5000 at private higher education institutions. About 70% of students attend studies from the group of liberal arts, whereas only 3% attend the studies of art.

## 1.2. Composition of the working group

### **Ministry of education and sports**

Mubera Kurpejovic, director of Directorate for Higher Education

Biljana Misovic, adviser for higher education

### **University of Montenegro**

Zdravko Uskokovic, Coordinator , Professor at the Faculty of Electrical Engineering<sup>1</sup>

Predrag Miranovic, Professor at the Faculty of mathematics and Natural sciences<sup>2</sup>

Mira Vukcevic, Professor and Dean at the Faculty of metallurgy and Technology<sup>3</sup>

### **University of Montenegro Student parliament**

Milos Vujosevic , President of Student Parliament

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<sup>1</sup> Former vice rector (2008-2014)

<sup>2</sup> Former rector (2008-2014)

<sup>3</sup> Former vice rector (2008-2014)

### 1.3. Scope of the Report

Higher education financing is one of the most important issues, and it is widely discussed and reconsidered all over the world. It is of particular importance for a state like Montenegro, whose size and population (about 650 000) call for a wise and efficient use of public resources. Participation in the FINHED project coincides with the plans of the Montenegro Government to improve higher education overall conditions, that would result in better quality of teaching and research in the higher education system. This plan states that the goals are to increase the population group aged 30-34 with a higher education degree to 40 percent (in accordance with the EU2020 target), to strengthen links between higher education institutions and the labour market, to raise the research capacity of the top universities, and to promote a lifelong learning system<sup>4</sup>.

Realization of these ambitious goals largely depend on the formulation of a viable strategy of higher education financing that would stimulate more investments, both public and private, and a more efficient allocation of the available resources. University of Montenegro joined the FINHED project with a goal to provide a contribution to the formulation of a better financing strategy. Ministry of education and sports (now Ministry of education) is included as a project partner, while the Student parliament, although not a formal partner due to legal limitation, also actively participated in all the phases of the project.

The goal of this report is to address some questions open during the course of the project, regarding the institutional financing, i.e. financing of a single public university, the University of Montenegro. It will present the constraints of the current system and the ongoing reforms that should result in a new system of financing starting with the 2017/2018 academic year. We will also offer suggestions that might help the Government of Montenegro and the management structure of the University of Montenegro to meet the prescribed goals regarding the quality of teaching and research as well as the efficiency of the management of public funds. Also, the undergoing reforms should be considered from the point of view of accessibility of various social groups to higher education and equity in the distribution of various students' aid schemes.

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<sup>4</sup> Source: Ministry of Education

## Part 2. INSTITUTIONAL FINANCING OF HIGHER EDUCATION IN MONTENEGRO

### 2.1. Legal framework for institutional financing of higher education in Montenegro

As mentioned earlier, there is a single public university, two private universities and nine independent private faculties and one independent public faculty in Montenegro. Institutional funding of higher education was, and still is, basically reduced to funding a single public university, the University of Montenegro, and one independent public faculty.

Higher education system in Montenegro is regulated by the Constitution of Montenegro 2007, [1], that guarantees all citizens the right to education, and by the Law on higher Education (LHE) 2014, [2], as a general base for this part of education system. The LHE states that all citizens with completed secondary education have access to higher education, without any kind of discrimination. Note that the current Law is a refinement of the one adopted in 2003 upon signing the Bologna Declaration, and amended in 2010. At the beginning of the current decade, the Montenegrin Government adopted two documents: *Strategy on Development and Financing of Higher Education in Montenegro 2011-2020* (2010), [3], and, *Regulation on Norms and Standards for Financing Public Higher Education Institutions and Financing of Students at the Higher Education Institution* (2012), [4]. These two documents, together with the LHE, represent the legal and strategic base for institutional development of higher education at the national level.

At the university level, a general base for regulating academic and financial matters is the University Statute 2014, [5]. In 2015, the University Governing Board adopted a document that regulates distribution of self-generated funds *Regulations of allocation of own funds generated from tuitions, consulting activities and other sources* [6].

The latter document originates from yet another specificity of Montenegro's higher education system and it requires additional explanation. Namely, from its foundation, the single public university in Montenegro is mainly funded by the State. Like in many other countries in the region, the public university budget is supposed to be conceived through negotiations between the Government and the University representatives, and it was traditionally based on the salaries of academic and administrative staff and minimal material expenses. Note that there were periods (before 1990) when the university budget was composed of several elements: salaries, amortization of the equipment and infrastructure maintenance. In 1995 some of the faculties started to

charge limited tuition fees for certain study programs (management, computer engineering, etc) and it was approved by the Government, since this self-generated income was used to partially bridge the existing gap between the real running expenses and the funds provided by the state budget. At the point of when the tuition fees were introduced for the first time, faculties were characterized by full legal capacity, with separate accounts and governing bodies who independently made decisions about allocation of the additional earnings originating from tuition fees and from other sources.

Although the government transferred the assigned funds to the central University account, only some funds necessary for the operational costs of the Rectorate would remain there, and the rest would be immediately transferred to the individual university units' accounts, according to a rather complicated formula that took into account many variables: space, number of students and study groups, number of academic and non-academic staff, material expenses, etc. The tuition fees at that period were charged only for the newly established type of study, the applied study programs (vocational or professional). It is important to note that these study programs were (and still are) organized and implemented within the existing faculties, with the available human and lab resources. Thus, there existed two possible avenues a prospective student could take: applied studies and academic studies, where from the former a student could have earned a professional degree, while the latter offered an academic degree. This fact represents another point of difference of higher education in Montenegro with respect to other countries in the region.

Financially, for the first period (until 2004), the funds generated by the tuitions belonged fully to the Faculty that charged them, and they were allocated by the deans and by the respective governing bodies of the faculties. Contributions to the central university level were strictly voluntary, without any regulations that would oblige faculties to do so. The applied studies were at first organized just by two faculties (Economy and Electrical Engineering) but gradually they become more popular and many other faculties started to offer them. With the growing demand for higher education, the academic study programs at many faculties were under pressure to enrol more students than than it was defined by the quotas covered by the state budget, and the faculties with higher demand introduced tuition fees for those students willing to study, but with the academic merit insufficient to qualify for the prescribed budget quotas. Thus, the self-generated funds gradually became more prominent part of the overall university budget, and that kind of situation imposed an urgent need to regulate these matters at the university level.

Fortunately, this situation coincided with Montenegro signing the Bologna Declaration in 2003, when a comprehensive reform and reorganization in Montenegro began by adopting the new Law on Higher Education (LHE, 2003), and continued by passing statutes of universities and faculties (2004) and secondary legislation concerning their



implementation, thus creating a new normative and institutional framework of higher education. In the University Statute of 2004<sup>5</sup> it was defined (Articles 109,110) that 20% of the funds generated from the tuitions, and (10-15)% of the funds generated by other activities (projects, consulting, etc), should be transferred to the central University account and distributed by the University management. This was in line with the centralization introduced by the new legislature: the University itself became the only subject with full legal capacity, governing bodies of the faculties were abolished and all the governing authority was vested in the central organ, the Governing Board. Taking into account the previous status of the faculties, this was a big step towards a centralized and integrated public university, but the result was not a fully integrated university. Namely, a fairly atypical model was designed, where the faculty retained some of the previous autonomy, with the right to have sub-accounts and to realize autonomously the contracts whose value did not exceed certain prescribed fixed limits.

This way, a kind of a nonconventional hybrid system was gradually established, where under the same roof there were two lines of study:

- applied studies, with the original duration of two years; in 2004 they were extended to three years leading to bachelor degree, and the possibility to proceed to a specialist degree (one year), or a applied master degree (two years);
- academic studies, with three-cycle scheme eventually leading to a PhD degree.

Earnings of the academic and supporting staff were composed of two parts: classical salary for the realization of academic studies, and additional income from the realization of the applied study programs (for those who took part in it). Additional income was distributed according to Regulations proposed by each individual faculty, and approved by the rector.

This kind of atypical hybrid system lasted about five years (2004-2009) and was characterized by some positive and some negative features. On the positive side, the amount funnelled to the central account was used to iron out the existing imbalances between individual faculties in terms of basic salaries and material expenses. The remaining part was used to establish incentive funds for various activities, both at the faculty level and at the university level: assigned funds were used for acquiring missing laboratory equipment and for improving the IT infrastructure at all levels, each member of the academic staff was rewarded for publishing a paper in renowned international journals, members of both academic and administrative staff could apply for internal university grants dedicated for specialization abroad that would be realized through a study visit arranged with a foreign institution in the duration of several months. Also,

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<sup>5</sup> Source: <http://www.upisi.me/userfiles/file/Statut.pdf>

funds were allocated for regional and international scientific conferences, for subscription to scientific journals, for publishing activities, for renewal of personal IT equipment, and for many other useful activities. On the negative side, less affluent faculties complained about discrepancy in the cumulative earnings, when compared to the teachers of the faculties in high demand.

Starting from 2009, the described steady-state was disturbed by consecutive decline in the University budget assigned by the state, and another mini transition period began. Struggling with the available budget, the university management asked the Government to approve the Statute amendment allowing a higher percentage from the individual faculties' own income to be transferred to the central account. Since the Statute could not be changed without a Government approval, and the Government had not responded for several years, the University management retreated to borrowing the missing funds from the faculties, thus accumulating an internal debt both to the faculties and to academic staff. The new Statute was finally approved in 2014. It prescribes that University unit is obliged to give to the University budget 45% of tuition fees income. These funds are used for the missing funds for the realization of teaching under the Collective Agreement, material costs and University development. Allocation of resources is determined in accordance with the financial plan, taking into account the unevenness of the organizational units' revenue. The remaining funds from tuition fees are allocated to the sub-account of the University organizational units.

Another umbrella document affecting higher education and its financing is the so called Collective Agreement. It represents a trilateral act, signed by the Government, by the University and by the representatives of the University Trade Union. It is an important heritage from the past that regulates rights and obligations in the employment process. There is a general Collective Agreement at the national level, and particular collective agreements for various areas (education, health care, etc). The University Collective Agreement is one of the specific ones that provide a general framework for regulating the employer-employee relations. Among other things, it specifies the teaching norms, working hours, over-time and over-norm work and all the other elements that essentially affect the salary of the University employee. The existing University Collective Agreement dates back to 2006, and now it appears that, after a long trilateral negotiation process, the three parties are close adopt a new Collective Agreement whose draft version may be retrieved from the University Trade Union web site<sup>6</sup>. It introduces a major change in the way the academic staff is paid for their work. Namely, the existing two separate lines of income, reflecting the engagement in realization of applied and academic study programs is now proposed to be abolished and both of these teaching loads are treated equally through a comprehensive formula.

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<http://www.sucg.me/system/documents/158/original/NACRT%20KU%20ZA%20UNIVERZITET%20OCRNE%20GORE.pdf?1444999920>

Finally, coinciding with this FINHED project, some initial steps towards the reform of higher education funding system have already been taken. Namely, in order to create appropriate funding model Ministry of Education prepared a document<sup>7</sup> named *Analysis on Financing with Possible Financing Models of Higher Education, based on Report on Current Situation in the Field of Financing of Higher Education in Montenegro*. Report has been done by the engaged expert Mr Jamil Salmi, within the Project “Higher Education and Research for Innovation and Competitiveness”, financed by World Bank loan. In choosing a new financing model that supports the development needs of the higher education system, the Government should have considered the following two options:

- Scenario 1 - direct funding model that transfers the total amount of funds to the University of Montenegro; This scenario provides direct funding of the University of Montenegro, whereby the level of funding would be directly dependent on compliance with national policy objectives and the level of achieved results at the University.
- Scenario 2 - model based on demand by which the major part of public funding is allocated to students who choose where to study by themselves. Through this scenario the allocation of funds based on the students is predicted, respectively the allocation of funds is based on vouchers.

Government adopted the first option - full funding of the University and commissioned the Ministry of Education, in cooperation with the Ministry of Finance, until May 2016, to conduct activities for the implementation of a new funding model. Also, the Ministry is obliged, by the end of 2016, to prepare a draft agreement on achieved results which would define the mutual obligations of the Government and the University as well as the dynamics of the fulfillment of obligations and implementation of the activities. In order to complete all of those activities at the best way, within the noted Project, an expert will be engaged to work on the draft agreement between the Government and the University of Montenegro. The predictions are that all the necessary steps will be completed for the academic year 2017/18 to start with a new, contract based, model.

## **2.2. The existing institutional financing of higher education in Montenegro**

Presently, the institutional funding in Montenegro is basically related to the University of Montenegro, although the LHE allows financing of study programmes of public interest carried out at private institutions that are not implemented at any public institution. It is characterized by an ever-lasting transition, since a systematic and coherent model is still to be designed. Even a superficial analysis will show that the goals

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<sup>7</sup> Source: Ministry of Education

set by the first two documents mentioned in the preceding section of this report are far from realization.

Presently, funding of higher education by the Government may be roughly divided into the following categories:

- direct funding, reflected by the annual budget of the public university
- indirect funding, reflected by the grants and loans allocated to the selected student population based on merit criteria;
- occasional capital investments aimed to the infrastructure improvement for the public university and its students (buildings, sport hall, etc);
- there is no core funding for research, but the Ministry of Science, established in 2010, is providing relatively modest funds for research projects on a competitive basis, for the scientists from public and private universities.

For the sake of general assessment of the existing higher education funding, let us first note the fact that spending on higher education in Montenegro, expressed as a share of GDP (never reaching 1%), is inadequate. When one takes into consideration that for the OECD countries the average percentage is 1.1%, and that some countries in the region go beyond the OECD average (for instance Slovenia's percentage is 1.3), it is clear that it is absolutely necessary to increase this percentage if any of the goals set by the Montenegro government are to be achieved. Additional argument for this is that the available figures show that the budget cutbacks are relatively larger when compared to the reduction in GDP.

When the size of Montenegro economy is taken into account, and when the data are expressed as the allocation of public funds per student of the University of Montenegro, we arrive at the figures of about 10% of the average per-student spending in EU countries. Taking into consideration only those University of Montenegro students who benefit from a government grant, per student expenditure for them would be 2,650 Euros (down from 2,814 Euros in 2007), representing about a quarter of the average level of funding in EU countries.

When considering research funds, we find it even lower than the preceding figures. In 2013 Montenegro spent 0.38% of GDP for this purpose. It is much below the EU25 average of 1.9%, not to mention the 3% target set by the Lisbon Agenda announced in 2000 by the European Union. Development agenda of the Montenegro government calls for encouraging the new industries that heavily rely on knowledge, but this amount of funds will make it very difficult for the University of Montenegro to make a significant contribution towards this ambitious goal.

About 79% of the University of Montenegro students pay tuition fees and only 21% of the students are fully covered by the government budget. The fees paid by the students represent 41% of the University's total budget.

## **Direct Funding**

As explained earlier, the bulk of direct funding from the State goes to the University of Montenegro, determined on the basis of historical trends and the number of students supported officially by the State. The amount that the University receives every year reflects the long-standing commitment of the Government to the development of the University of Montenegro as the country's main institution of higher learning and research. The resources transferred to the University have covered traditionally the salary costs of academic and administrative staff loosely linked to standard student/teacher ratios, as well as basic investment costs. The budget allocation does not include core funding for the research activities of the University, not even for the training of doctoral students.

At the same time, the amount going to the University should be equivalent to the value of the education grants given to the most academically qualified students, selected on the basis of their high school grades and/or examination scores. In practice, as still happens in many post-socialism societies in Eastern Europe and Central Asia, the Government of Montenegro offers funding for higher education to only a minority of students in the country, about 18% of the total higher education population if the private sector is included. From an equity viewpoint, it means that the majority of students are not eligible for public subsidies, contrary to the practice in almost all OECD countries, as well as in Slovenia and now Croatia.

Until recent years, the Government of Montenegro transferred the budget of the University of Montenegro as a block grant. Since 2011, however, funding for the institutions has been determined through a line-budget approach, whereby public resources are allocated directly to a small number of salary-related categories. While this change has introduced more restrictions and rigidities in the way the University of Montenegro can use the resources it receives from the State, it is not as dramatic as what sometimes happens in other countries, mainly because the government contribution covers only part of the resource needs of the University of Montenegro. But as a general rule international experience indicates that the block grant approach is more flexible for modern financial management purposes in an institutional autonomy context.

The main drawback of the present funding approach is that the Government has little leverage to orient and stimulate the development of the University of the Montenegro. On the one hand, the fact that the Government's budgetary contribution has been shrinking in recent years has made it increasingly difficult to make the University accountable for its performance and demand more transparency in the use of resources. The University of Montenegro budget for the last decade is summarized in the table below

**Table 1 – University of Montenegro budget<sup>8</sup>**

<b>Year</b>	<b>Budget (euro)</b>
2006	12,900,000
2007	14,840,000
2008	16,300,000
2009	17,400,000
2010	14,800,000
2011	13,500,000
2012	13,200,000
2013	12 600 000
2014	13,300,000
2015	14,100,000

Note the peak in 2009 and the steady decline until 2013, when the budget fell below the 2006 level. Note also that in 2014 and 2015 the Government on two occasions transferred the additional funds to cover the accumulated debts to the faculties and staff, so that the real budget figures for these two years are, 15,910,00 and 15,420,000, respectively.

### **Indirect Funding**

The Ministry of Education offers a comprehensive student aid package consisting of grants and scholarships. As Table 2 indicates, about 1.5% of the students receive a scholarship, and 13% of the students are able to take a loan. About 12% of student loan beneficiaries are enrolled in private universities, whereas the students attending one of the two private universities represent 15% of the total university enrolment.

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<sup>8</sup> Source: University of Montenegro, Ministry of education

**Table 2 – Student Aid from the Ministry of Education<sup>9</sup>**

	<b>2007/08</b>	<b>2012/13</b>
University of Montenegro Enrolment	17,224	21,623
Private Universities Enrolment	n.a.	3,985
Budget-Funded Students	5,245	5,571
Student Loan Recipients UM – grant students	4,361	770
Student Loan Recipients UM – fee paying students	0	2,312
Student Loan Recipients Private Institutions	0	200
Scholarships	350	300
Total Amount of Scholarships	152,400 Euros	271,800 Euros
Total Amount of Loans	1,500,000 Euros	1,200,000 Euros

Having a student loan system in place is in itself a positive achievement. In fact, Montenegro is the only country from the former Yugoslav republic—and one of only a few in Eastern Europe with a functional student loan system, but it nonetheless can be significantly improved. In its current form, it is organized with very generous rules for payment exemption for the best students (full exemption for the 10% of students who get top grades, 80% exemption for those with good grades). Overall, only 40% of the loan beneficiaries are supposed to repay their loan in full.

Despite some positive effects, this scheme is somewhat in contradiction with the idea of the student loan system. In theory, the student loan system is supposed to allow successful graduates to repay almost in full the cost of their studies, thereby alleviating the financial burden on the State. Presently, this scheme leans more towards a grant system than to an effective loan system.

### **2.3. Resource allocation within the University of Montenegro**

The internal financing model of the University of Montenegro has evolved under the combined influence of two challenging factors: the transformation of what were once independent faculties into a conglomerate of loosely related entities under a common university framework, and the downward trend of public subsidies in a context of

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<sup>9</sup> Source: Ministry of Education

growing enrolment. As a result, the allocation of resources within the University is shaped at the same time by the reinforcement of historical trends to protect the basic budget allocation for salaries of each faculty and smaller contributions from the richest faculties able to charge fees to a large proportion of their students to those who are less in demand. The net effect of this approach is that it tends to punish the best performers and keep afloat faculties that are less efficient or relevant. This encouraged a return to the old status of full independence of the various faculties, instead of promoting increased integration into the common university framework. Recent University Statute<sup>10</sup> changes significantly increased contributions from the faculties to the central account, but the long term effect of this measure may result in discouragement of the richest faculties to create the self-generated income from tuition fees. In this respect, a compromise should be achieved which would benefit all the involved parties in the process.

Currently, resource allocation within the University of Montenegro is governed by the **Statute**, the existing **Collective Agreement**, and the **Regulations of allocation of own funds generated from tuitions, consulting activities and other sources**. Generally, 45% of the income generated by tuition fees and 10% of the ones generated by the projects is used to cover the existing gap between the budget from the state and the running expenses originating from the obligations generated by the provisions of the Collective agreement. The last document elaborates in detail distribution of the remaining 55% left to the individual faculties. Half of the available funds (27.5% of total tuition fee income) is used for covering teaching and administration of study programs with self-paying students. Additional salary for teachers and administrators is paid monthly, and is calculated according to the formula that takes into account various relevant elements: teaching load, title, repeated lectures, etc. The remaining half of the funds allocated to the faculties, should be distributed in the following way:

- at least 30% for investments, maintenance, equipment, libraries, publishing, etc;
- at least 30% for mobility and research, participation at scientific and professional conferences and their organization;
- at least 15% for material running expenses;
- at least 5% for popularization of study programs and for financing student activities with proposed programs.

This spending scheme makes it much easier for the university management to control individual units' distribution of the available funds. However, it may be overregulated with a tiny margin left to respond to the individual faculty's specific needs. Also, it does not offer any financial incentives to stimulate collaborative efforts between faculties

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<sup>10</sup> University Statute, Article 158, <http://www.ucg.ac.me/fajlovi/Statut>



that may lead to interdisciplinary programs and research projects, thus enabling more efficient use of scarce human and financial resources.

It is important to note that the mentioned activities on designing new funding model and new Collective agreement will induce inevitable changes in the current set of regulations, and will even render some of the provisions obsolete. The new legislative framework is expected to be rounded-off by the beginning of 2017/18 academic year.

## Part 3. FUNIDING MODELS

### 3.1. Funding model for Montenegro

The issue of financing higher education is among the most intensively discussed issues within the sphere of higher education policy. There is no a one-fits-all universal model that can be simply applied to different countries, with different history, culture and tradition in developing higher education.

As mentioned earlier, history of higher education in Montenegro is relatively short. The landmark periods from the last century are early 60's (foundation of individual faculties), mid 70's (foundation of the University of Montenegro), early 90's (dissolution of SFRY), and late 90's with growing student enrolment. In 2003 Montenegro joined the Bologna process, accompanied by the appropriate legal framework, and in 2006 Montenegro became an independent state with the increased need for new higher education institution. Now, higher education financing emerges as a great challenge because of the efforts made by Montenegro in the process of joining the EU and its education standards.

As shown in the previous analysis, the present funding model in Montenegro has reached the point where it should be seriously reconsidered. It combines elements of direct funding to the University of Montenegro with criteria of indirect funding based on the number of students qualified to receive an educational grant/loan or to be exempted from tuition fees. But, from the viewpoint of effectiveness, efficiency and equity, it does not serve the country properly either in its direct form or in its indirect dimension. It fails to provide sufficient funding to the University for running expenses and for research, it does not incorporate any performance incentive, and it fails to finance the majority of Montenegrin students. Research is underfunded, and what is even more important, research funds are not systematically associated with the national development priorities. Although there are some recent efforts in this direction, majority of the most valuable research articles published by our researchers in prestigious journals, are only superficially associated with the proclaimed strategic priorities.

Presently, the University Governing Board establishes the proposal for the number of enrolled students for each faculty of public university. The students are divided in two groups, based on the source of funding. One group does not pay fees and is thus funded by the state and the other group pays fees. The final decision is made by the Government. Experience shows that the assigned budget does not depend on the number of tuition-free students, but rather on the current overall budget limitations and on projected amount of own income by the individual faculties. Thus, with some

elements of demand-driven funds, the general funding scheme of higher education in Montenegro corresponds to the planned, input based funding model. The funds that university receives are based on inputs and outcomes are not taken into consideration. This funding model does not take into account the quality of teaching and research and does not urge for the quality improvement. Funds received in the last couple of years by the private university are so relatively small that they may not influence the general assessment.

Note that transferring a part of the cost of study to students has been an increasing trend in the countries considered in this project. This has been caused mainly by the inability of the state budgets to financially cope with the growing enrolment into higher education institutions. Tuition fees became a significant source of funding all across the region. None of the examined state is an exception in this respect.

The described state of affairs definitely identifies a lack of systematic approach that would stimulate and enable public university to depend less on the government, more actively cooperate with other social and economic spheres in order to respond to the needs of the society. European education system showed that financing of higher education from the budget is successful if it has a healthy financing core budget funds, enabled access to education, teaching quality and additional funds gained through own efforts of the institution.

Taking into account all the above mentioned drawbacks of the existing funding scheme in Montenegro, tradition, culture and socio-economic dimension, we suggest that the improvement of the existing model is most likely to be achieved if the core funding is kept for the public university, but accompanied with a contract with the university that will straighten out present discrepancies. Namely, according to national policy goals, each year the Government would determine the number and structure of students that are covered by the state budget, while the remaining part of student population that does not qualify for the budget, will have to pay tuition fee. As opposed to the present situation, this measure would, as an absolute prerequisite, require definition of the realistic per-student cost for various study programs. This cost should take into account all the relevant factors distinguishing various study programs among themselves (space, lab equipment, material expenses, etc). From our experience, the study programs may be roughly divided into three categories: Liberal arts and social sciences; Natural sciences and technology and Art or programs requiring individual lectures. Parity relation of per student cost of should be introduced, with special consideration for the studies of medicine, because of its specific position and duration of study. The price should be considered as a standard of teaching provided to a student and prescribed by the law, which relates to conditions of studying, personnel, international network and student mobility.

Higher education financing implies a dialogue between the Government and a higher education institution, which is followed by signing contract on financing in line with regulations. This renewable performance contract would bind both the Government and the University.

As the institution is expected to fulfil its obligations considered in the contract, on the basis of measurable indicators, which can be accomplished only if the teaching process is adequately financed, it is necessary to establish balance and provide the stability of financing. The formula for financing study programs of public interest at institutions should provide that the amount of resources from the budget for financing these programmes, as a rule, does not depend on income generated by institutions, i.e. it is neither increased nor reduced depending on the income of institutions.

In accordance with the principle of universities' financial autonomy the entire amount for all study programmes of public interests should be transferred as a lump sum to the institution that organises them, enabling in that manner independent alleviation of differences which inevitably exist between different study programmes.

In this way, one of the problems, i.e. the present uncertainty of funding, would be solved by reaching mutually determined performance-based objectives measured on the basis of carefully selected quantitative and qualitative targets. Also, other desirable features such as transparency, accountability and long-term stability and quality of teaching may be much easier to accomplish.

Introduction of contract based funding is followed by higher freedom of internal management of budgetary funds at the institutional level. In this scheme, the State transfers budgetary funds as a lump sum (block grant) and University need to expand internal mechanisms and rules for optimal management of funds in order to fulfil determined goals and targets. The ultimate goal of contract based funding is to connect expenditures with desired results and outcomes of education and research process. Hence, adoption of indicators related to improvement of efficiency, effectiveness and equity of higher education is a necessary element of contract based funding implementation.

In addition for financing the teaching process at public interest study programmes, the Government should provide additional new sources of financing higher education which should be available to all researches and all students in Montenegro, on a competitive basis. This primarily refers to funds that can be established in Montenegro, as well as creating prerequisites that will provide all our students and researchers with access to international funds. As a measure of stimulation of the best research professors, the relation between teaching and scientific (or artistic) work carried out during full working hours at higher education institutions, should be clearly defined, with the possibility of proper redistribution of the teaching and research loads.

For the Government, the main advantage of this approach is that it would constitute a stronger instrument to steer the development of the University of Montenegro in a transparent manner, provided the level of resources included in the performance contract is commensurate with the needs of the University. The performance contract would increase the effectiveness of public spending, align the institutional objectives of the University of Montenegro with public policy objectives, promote public accountability, and link improvements in institutional performance with financing. For the University of Montenegro, this approach would represent increased public resources and funding stability over a larger number of years, which should serve as a strong incentive to modernize and consolidate the University and raise its performance. It would include resources for research, which has not been explicitly funded by the State in the past decade.

Student aid system should also be reconsidered. Although Montenegro ranks high in the region in this respect, and the EUROSTUDENT survey conducted within the framework of the FINHED project shows relative satisfaction of the student population with the conditions of study, it will be useful to look this problem from the point of view of equity and accessibility of larger student population to higher education. Namely, all of the considered reforms are in vain if the prospective students cannot access higher education for various reasons. The proclaimed goals in the Government strategy cannot be achieved if the population is bound to social groups without upward mobility in the society, and higher education is certainly one of the most important factors in this respect.

When considering the students' aid reforms, it is important to carefully assess possible sources of their income. In our case it is usually parental support, scholarships, loans or rewards from either public or private sector, and own income if a student is employed (full or part time) during studies.

The most important source in our culture is parental support. As opposed to some other European cultures, in our region it is taken for granted that parents provide financial help for their children during studies. Thus, with this kind of tuition fees, social status plays a very important role in possible accessibility of some social groups to higher education.

The present student aid scheme may be used as a good basis for improvement. Firstly, the rationale behind the very idea of student aid should be changed. Instead of rewarding the most academically qualified students who are highly likely of becoming successful graduates receiving important economic rewards on the job market, grants and scholarships for undergraduate students in Montenegro should be primarily addressed to young and talented people facing financial problems due to their family background and/or personal conditions. A careful targeting system should be designed

to implement this change. In order to modernize the student loan system and increase its efficiency, the government would need to reduce the present exemption provisions to some extent to generate funds for more prospective recipients. Also, provisions should be made to protect those who are, after graduation, faced with employment difficulties caused by various objective adverse circumstances

The existing subsidies for food and housing system (Student houses with dining facilities) is a good legacy and it should be more carefully controlled to enhance equity and accessibility to the underprivileged layer of student population.

As for the best graduates who intend to pursue academic career and are qualified for teaching assistants, it is absolutely necessary to provide funds for the tuition fees for their PhD studies. Presently, it is left to the University and respective faculties, but the Government should take a significant part in the financial aid of the junior academic staff. We suggest that the practice of subsidizing our PhD students studying at foreign universities at the expense of the Government should be completely abandoned. Namely, if they are highly qualified, they should be able to get grants from various international programs and from the respective institutions abroad. Instead of supporting the ongoing brain-drain, these funds should be diverted to a scheme that would support the brightest PhD students here, thus enabling a gradual renewal of the scientific personnel in Montenegro.

### **3.2. Conclusions and recommendations**

Analysis of the present funding scheme of higher education in Montenegro implies that it reached the point where a comprehensive reform is long overdue. As noted earlier in this report, Montenegro Government put up several strategic documents dealing with the general framework for higher education funding, but the general guidelines originating from these documents are still to be translated into a coherent a systematic specific measures that can develop a sustainable and equitable funding.

We hope that the following recommendations can be incorporated in further steps of the Montenegro Government and the University of Montenegro management toward defining a new funding policy and specific measures:

- increase the percentage of GDP for higher education
- estimate a realistic per-student cost of study for various fields
- introduce a contract-based funding, accompanied by performance indicators that will help to associate the available funds with the goals and targets in teaching and research. The prescribed funds should be allocated in a block-grant manner
- based on the present model, redefine the student aid scheme to take into account socio-economic position of the prospective recipients, which will lead to

- a more equitable higher education. In line with this facilitate different affirmative actions toward the equitable enrolment
- include into the University regulations incentives for joint effort of various faculties in research projects and multi-disciplinary programs creation

We hope that the above mentioned recommendations, if implemented, may represent a solid base for improving the higher education funding schemes in Montenegro, taking into account prescribed targets as well as social equality.

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