

**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**

**WP4. FINANCING AND EQUITY
POLICY FRAMEWORK
Report from the Working Group in Montenegro**

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Part I INTRODUCTION

I.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. As a part of SFRY, Montenegro was the last republic to establish a public university. Namely, although individuals 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. 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.

I.2. Composition of the Working Group

The Ministry of Education and Sports

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Biljana Misovic, adviser for higher education

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I.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 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 system⁴.

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 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. It will provide the analysis of the current system of higher education financing in Montenegro and point out its drawbacks and limitations, with the suggestions that might help the Government of Montenegro to achieve the higher education development objectives, taking into account the history and present state of the affairs in the country, and the specifics of the institutions of higher education.

⁴ Source: Ministry of Education

Part II FINANCING OF HIGHER EDUCATION IN MONTENEGRO

II.1. The existing funding system of higher education in Montenegro

As mentioned earlier, there is a single public university, two private universities and 9 independent private faculties in Montenegro. From the very beginning of higher education in Montenegro up to the emergence of first private institutions there was only one university, the public one. Thus, the system-level funding was essentially equivalent to funding a single institution. The single public University 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 expenses and the funds provided by the state budget. From then on, the University of Montenegro had its ups and downs, but the characteristic budget cuts occurred from 2009, when the consecutive downsizing of the budget followed. Irrelevant to the assigned budget, one may say that this period could not be described as coherent and systematic financing, but rather as an ad hoc approach to the problem. In 2010 the Government started to adopt several documents that were aimed at introducing certain amount of order and regulations into the problem of higher education funding⁵:

Strategy on Development and Financing of Higher Education in Montenegro 2011-2020, and Regulation on Norms and Standards for Financing Public Higher Education Institutions and Financing of Students at the Higher Education Institutions.

Analysis of the available data shows that the goals set by these two documents are far from realization and that a viable and sustainable model is still to be formulated and applied.

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 and by the financing of study programmes of public interest carried out at private institutions that are not

⁵ Source: Ministry of Education

implemented at any public institution . Following the opinion provided by the Council, the Government determines the number of students and the amount of funds for financing students attending study programmes of public interest at private institutions which are not implemented at any public institution;

- 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, is inadequate. It is obvious from the available data given in Table 1.

Table 1 – Public Expenditures on Higher Education as a Share of GDP⁶

Year	Public Resources	Share of GDP
2007	19,634,800	0.70%
2008	24,564,600	0.80%
2009	26,018,300	0.87%
2010	22,722,400	0.73%
2011	20,171,000	0.62%
2012	20,142,200	0.59%

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 the data expressed as the allocation of public funds per student of the University of Montenegro, we have the following summary presented in Table 2.

⁶ Source: Ministry of Education and Ministry of Finance

Table 2: Per-Student Budget Allocation between 2007 and 2013 (Euros)⁷

Year	Budget & Student Aid	Number of Students	Per Student Allocation
2007/08	14,662,400	17,224	851
2008/09	18,332,800	4,104	953
2009/10	19,567,700	20,745	943
2010/11	16,780,600	21,481	781
2011/12	14,969,000	21,760	688
2012/13	14,761,800	21,623	683

Even taking into consideration the additional income that the University of Montenegro receives from tuition fees, per-student spending was less than 1,000 Euros in 2013, which is about 10% of the average per-student spending in EU countries. Annual per student spending at the University of Donja Gorica is around 1,780 Euros; while at the Mediterranean University is about 1,588 Euros per student. 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 we come to the 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, as well as for the private universities, 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

⁷ Source: Ministry of Education, University of Montenegro

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.

Indirect Funding

The Ministry of Education offers a comprehensive student aid package consisting of grants and scholarships. As Table 3 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.

Table 3 – Student Aid from the Ministry of Education⁸

	2007/08	2012/13
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.

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 growing enrolment. As a result, the allocation of resources within the University is shaped at the same time by the reinforcement of

⁸ Source: Ministry of Education

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. University Statute⁹ 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.

As pointed out by many external experts that were involved in the University of Montenegro assessment or accreditation, the University does not appear to have clear goals and incentives to stimulate collaborative efforts across faculties. In practice, most of the faculties continue to operate in almost total isolation, even when they share a building. Not only does this state of affairs not make for an efficient use of scarce financial and human resources, but it also prevents the University from modernizing its curriculum approach through more multi-disciplinary teaching programs and research projects.

⁹ University Statute, Article 158, <http://www.ucg.ac.me/fajlovi/Statut>

Part III FUNIDING MODELS

III.1. General considerations

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.

Here we will examine various funding schemes that may shed some light on possible improvement of higher education funding in Montenegro.

Different countries have adopted different kinds of higher education funding schemes. Thus, Denmark has adopted the taximeter model, England's higher education institutions are funded by two main sources: block grants and tuition fees, while in Germany funding allocation is based on institutional budget requests in a process of budget negotiations that complicates the process of higher education financing. The starting point for budget assessment is the amount an institute received in the previous year. This bears a significant resemblance to the situation in Montenegro.

Funding models and mechanisms can be analysed through different dimensions. Albrecht and Ziderman (1992, 1995) had identified three main criteria: performance-based, cost-based and negotiated. Other dimensions include input-orientation and outcome-orientation (Jongbloed and Koelman, 2000), demand-side and supply-side (Kaiser et al., 2001), performance-basis and unit-cost-basis (Johnstone, 1998). From the funding methods previously mentioned, it has been found that student enrolment (that is input-orientation) is an essential element in many funding models.

Very few countries use performance as a major criterion. As almost all institutes receive funding directly from governments or funding agencies, public authorities maintain a strong influence on institutes through funding negotiations and controlling student intake quotas. Block grants are commonly used in many countries, but they can only increase the flexibility of internal

allocation of funds; they do not provide institutes with enough autonomy to decide their own directions.

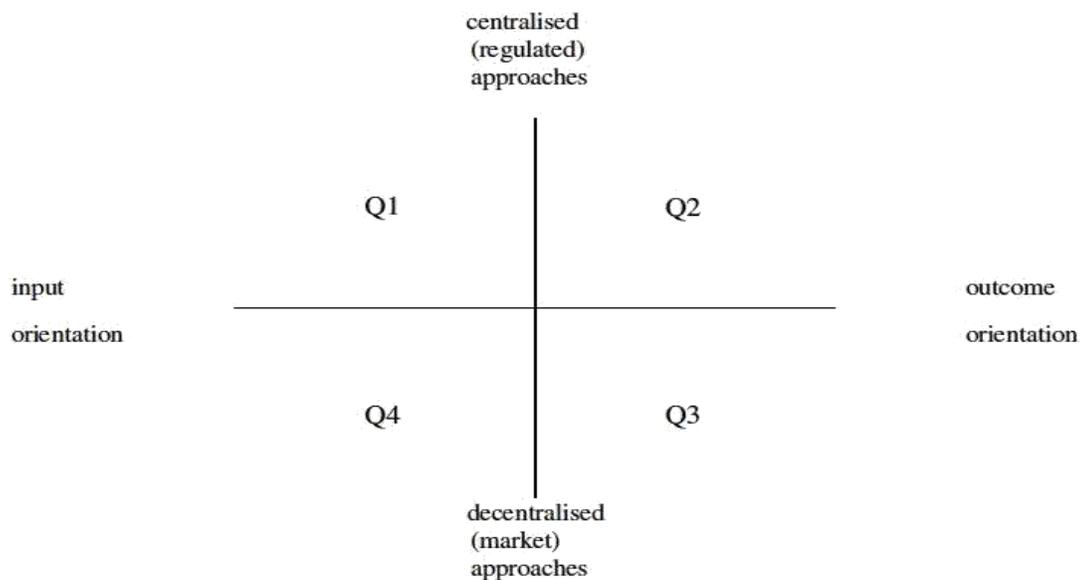
Moreover, some governments are trying to reduce their fiscal burden by increasing student tuition fees and encouraging institutes to seek more self-generated funds. There is often a discrepancy between the way in which funds are supposed to be allocated and the ways in which they are actually transferred (Albrecht and Ziderman, 1992). Different funding mechanisms have different effects on business running of Universities and institutes.

However, authors like Jongbloed & Koelman (2000) claim that there are four different funding mechanisms for higher education, so they have raised two important questions for the classification:

- (a) What does the government fund?
- (b) How is it funded?

The first question is concerned with the funding base, whereas the second question speaks to the degree of market orientation in the funding arrangements. Based on four possible models that the two of them are suggesting for funding of higher education, which are presented below, it is possible to perceive the funding model that is in use in Montenegro.

In the graph below, Jongbloed & Koelman (2000) have presented a funding mechanism; the vertical axis is used for depicting the degree of (de-)centralisation and the horizontal axis for expressing the degree to which governments are paying for the results (outcomes) instead of the efforts (inputs). It is possible to notice four quadrants (Q1, Q2, Q3, Q4), that present four types of funding arrangements.



Q1: planned, input-based funding through providers

The north-west portion of the diagram represents a centralised system of funding. It shows a more traditional type of budgeting, where allocations are based on requests (activity plans; budget proposals) submitted to budgetary authorities. This is known as negotiated funding. In this mechanism, the budget allocation is often based on the previous year's allocation of specific budget items. Separate budget items then are negotiated between representatives of educational institutions and the funding authorities (i.e. the ministry, or funding council). Annual changes (usually increases) in each budget item are treated individually, with discussion taking place on the basis of cost projections. In this case, budget items are likely to include categories like staff salaries, material requirements, building maintenance costs, and investment. Funding is line item based, and shows different expenditure items as separate lines of the budget. These line items are determined by referring to norms with respect to indicators like unit costs (or unit cost increases) or capacity (e.g. funded number of students).

Q2: performance-based funding of providers

In this example of a performance-based funding system, a formula is used that generates funds for institutions that are successful in terms of their students passing exams, publishing record of faculty members, degree of internationalization achieved etc. Let us focus, e.g., on the first of these performance measures. Depending on the number of credits (i.e. weighted number of passed courses) accumulated by their students and the subject categories concerned, a budget is flowing to the higher education institution. This type of model is operating in Denmark (taximeter model), while in Sweden a mix of enrolment numbers and credits determines the funds allocated to higher education institutions. In the Netherlands, a mix of the number of first-year students ('freshmen') and the number of Master's degrees conferred determines the funds allocated to the universities (see Jongbloed & Vossensteyn, 2002). Other examples can be found in the UK, where research is funded in proportion to a measure of research quality. Research quality is assessed and rated every five years (in Research Assessment Exercises). Funding may, also, explicitly aim at attracting foreign students and faculty members and creation of study programs in English (internationalization).

Q3: purpose-specific purchasing from providers

In this example of a market-oriented funding system, higher education institutions are invited to submit tenders for a given supply of graduates or research activities. The tenders that are selected by the funding agency are the ones that are the most price-competitive. In this tendering process, higher education institutions are encouraged to compete with one another to provide education, training and research to meet national needs. Another example is research funds awarded by research councils. The system will make use of contracts that are signed between the funding agency and higher education institutions, with the latter agreeing to deliver graduates for targeted labour market needs, or research outputs targeted at strengthening the innovative capacity of the country. When entering into a contract, the

funding agency will make sure it obtains the services it wants for a reasonable price. In this way the cost-effectiveness of the delivery is stressed. In the contract, both parties express that they will obey certain criteria. Only if these criteria are fulfilled, the higher education institution will receive core funding. The criteria may concern the types and qualifications of students admitted to the higher education institution, the (maximum) level of tuition fees (if any) charged by the institution, and the commitment made by the higher education institution towards its students in the instruction and teaching processes.

Q4: demand-driven, input-based funding through clients

This funding system makes use of vouchers. The core funds of higher education institutions are supplied through the clients of higher education institutions. Students obtain vouchers, which can be traded for educational services (i.e. educational consumption), at the higher education institution of their own choice. For the higher education institution the vouchers represent a certain value - they can be cashed at the Ministry of Education. Each (prospective) student is given a limited number of vouchers, representing a value which can be used up in a flexible way (during a certain period of time and for programs supplied by a given number of accredited education providers). In this funding system, it is the consumer that drives the system - the system is demand-driven. The client (student) decides what institution to attend to and what programs to enrol in. The higher education institutions will have to look after the quality of their teaching and their supply of courses, because unattractive programs will not receive sufficient funding. The voucher system can be combined - like many other funding variants - with a system of differentiated course fees. The higher education institutions then will charge the students a certain percentage of the course costs. Tuition fees may be regulated to some extent by the government. Charging fees will make students pay attention to the quality of the service they get from the higher education institution. So, combining vouchers and fees may result in a system which is responsive to individual students' demands.

III.2. Funding model for Montenegro

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 Q1 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, the Government would each year 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.

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 to 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. First, 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.

III.3. 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, Montenegrin 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 Montenegrin Government toward defining a new funding policy and specific measures:

- increase the percentage of GDP for higher education and research
- 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.

With the aim to assess the strategic prospective of the present management of the institutions of higher education in Montenegro, the Working Group conducted a small survey with the aim to create the potential base for the design of new funding scheme. Unfortunately, the small number of institutions in combination with low respond-rate was not relevant for any serious statistical analysis. From the partial response (only two institutions returned the questionnaire) we found encouraging that some of the performance indicators were emphasized as important ingredients of the future funding scheme.

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.

Finally, we should mention that the 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 document¹⁰ 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 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 fulfilment 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

¹⁰ Source: Ministry of Education

agreement between the Government and the University of Montenegro.

There is no doubt that the FINHED project contributed not only to explore and elaborate the existing financing models in Montenegro, Serbia, Bosnia and Herzegovina, determine the level of access and equity of higher education, but also initiated finding new funding model in order to ensure wider base from which future specialists are recruited, bigger number of highly educated individuals, which directly affect the overall quality of the social relations.

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