INTRODUCTION AND IMPORTANCE OF PROGRAM BUDGETING IN THE
REPUBLIC OF SERBIA

1. Activities concerning the improvement of budget planning and preparation processes began with the introduction of program budgeting. The part of expenditures and outlays planned according to the program model has shown that the planning is more appropriate due to the fact that in that way expenditures and outlays – costs – are linked with the Government’s priorities and policies.

Program budgeting:
- is a more transparent mechanism for monitoring budget expenditures and outlays;
- allows for more efficient allocation of funds for the purpose of fulfilling concrete responsibilities, and enables decision-makers to easily understand the connection between the required, that is approved funds and strategies, programs and outcomes.

In this way, the budget becomes a more efficient instrument for public finance management. Program budgeting improves the manner in which the financial plans of budget beneficiaries are made as well as the manner in which those plans are analyzed. It also enables finding and analyzing of various program measures for discovering the most efficient manners, that is methods for solving perceived problems and roles of different participants, i.e. defining competence and accountability for solving problems and/or achieving desired objectives. Most importantly, it allows for continuous monitoring of achieving planned results in terms of both financial and non-financial reporting.

In line with the Budget Law of the Republic of Serbia for 2008 ("Official Gazette of the Republic of Serbia", No. 123/07), five direct budget beneficiaries made for the very first time their financial plans for this year according to the program model. These are: Ministry of Health; Ministry of Public Administration and Local Self-Government; Ministry of Education; Ministry of Trade and Services; Ministry of Religion.

Shifting to the program budgeting means that appropriation becomes linked to a certain program, that is a project, and it will be executed through the budget in that way.

In this respect, one of the priorities is the strengthening of the Treasury functions by providing accurate and reliable information on meeting planned objectives and outcomes of budget beneficiaries within the program budgeting, i.e. building capacities for monitoring, evaluating and reporting on program budgeting efficiency.
Providing an institutional framework for those activities at the Treasury is necessary since it allows for the efficient and effective usage of financial sources, financial and human capacities, which is important for creating conditions for estimating objectives and performance of the program budgeting. In this way, continuous development of procedures for monitoring and estimating the efficiency of attaining objectives and results through the program budgeting will be achieved in order to make connections between planned results and fund requests for the next year/years.

Program budgeting does not replace the existing model, but improves it. In contrast to recent models, the program model shows purposes for which funds are spent, how such spending is connected to Government priorities, achieved results and how the accomplished can be measured, shown in reports and published.

Program budgeting is not an alternative way of budget preparation, but a progressive, modern approach to public finance management.

2. Program budgeting throughout the world is becoming an increasingly widespread practice in managing and planning public finance. Such a preparation is characteristic for a lot of modern public finance systems in developed and transition countries and even in many developing countries. Nowadays, the number of countries that present and execute budget using some kind of the program model is increasing.

Such big popularity is based both on indirect and middle-term, that is long-term benefits, which program budgeting provides in comparison to other traditional budgeting formats, such as the one which has been in process in the Republic of Serbia.

The benefits are:

- Program budgeting enables elected politicians to improve the legitimacy of public spending since the program model is a more transparent form of planning and managing public funds. In line budgeting, which has been in process in the Republic of Serbia, the legitimacy of public spending is hidden in “black boxes” of the budget by institutions (ministries and other authorities). Such a budget does not provide a clear image of spending areas and objectives to ministers, the Parliament and the public;

- Since it represents a more transparent form of planning and managing public spending, the program model is a better means for achieving a quality dialogue between politicians and organized interest groups in the society. Program budgeting, on one hand, enables politicians to provide interest groups in the society with detailed and comprehensive explanation of priorities and objectives they stand for, and, on the other hand, such a model
allows civil society and its interest groups to express their position and participate in a public policy execution process in a more obvious and transparent way. If it is used correctly, the program model provides an opportunity for improving a dialogue and relation that politicians may have with organized interest groups in the society;

- Program budgeting represents a key instrument for connecting political promises and a priority list in the budget. Therefore, the program model is of essential importance for politicians who work on establishing a system which allows them not only to translate their promises into the budget, that is into “real money”, but to monitor their achievement;

- Stronger monitoring capacity leads to the better reporting capacity. This is of great importance not only for the greater efficiency of the Government, but also for the politicians who can report to the public in this way about the fulfilment of their promises. Program model provides politicians with more better quality information that they can use in their communication with the public;

- Given the fact that the program model is more advanced in terms of providing better information and containing clearer public spending goals, it enables Ministers to make better decisions. Public funds are always limited and the making of right decisions is the game in which everybody wins, both the politicians and the society and its interest groups. Program budgeting format is the tool that facilitates the creation of win-win conditions;

- In addition, this format provides politicians with greater opportunities to incite the civil servants to work towards the achievement of promises given during the election campaigns or during the public office terms. Being more transparent, this model reduces the room for “games and elusion” and results in the situation where civil servants are bound to take responsibility for the outcome of their work;

- Program budgeting model can be a powerful tool for improving the programs of political parties. In the program budgeting political parties can observe the content and principle of the present public consumption and on the basis of that, they can draw conclusions what amount of funds could be allocated for new initiatives, i.e. what are the spots of inefficient spending or the spending that is not priority-oriented;

- Finally, without the program budgeting model, it is very difficult to ensure the efficiency of the public spending, which is one of the key objectives of the public finance management. Much better than the line budget, program budgeting facilitates planning, management, monitoring and reporting on the implementation of public policies and their efficiency.
3. Republic of Serbia began the introduction of the program budgeting model in 2006. Until now, five pilot ministries have presented their budgets in accordance with the program format. In the beginning of 2008, a team of international experts for public finances has conducted the evaluation of the experience and progress made by the Republic of Serbia with the introduction of this advanced model of budget preparation. Their evaluation concluded that from the moment when the first steps had been made towards the introduction of the program model, significant progress has been made in almost all pilot ministries. Experts have recommended that the implementation of this more modern approach to budgeting should continue and that it should be introduced to all other Ministries by 2011. Another recommendation is to further build the capacity of the Ministry of Finance-Treasury to make it capable of managing the entire process. Alongside the successful implementation of other public finance reforms, this model would enable Republic of Serbia to set up a modern public finance system by 2013/2015. However, in order for this objective to be achieved – greater activity and political dedication are necessary right now.