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Projekat za bolje uslove poslovanja
Business Enabling Project

Improving public resource management in Serbia

Serbia is at economic and institutional crossroads: it needs to complete key infrastructure and invest in the private sector growth and job creation, but the government cannot borrow much more at this time. The sustainable level of public debt (presently assessed at 45 percent of GDP) is very close and should not be exceeded if the country wants to credibly pursue the EU integration path. Some relief may come through bilateral infrastructure investments and additional capital flows attracted by the prospective EU membership, but the brunt of resources must come from savings in the public sector which presently spends more than half of value added.

The necessary fiscal space has to be created from existing budgetary resources by improving the efficiency and economic usefulness of existing spending, and by saving and eliminating wasteful expenditures. By achieving more with less as a recent World Bank report put it.

Worldwide experience shows that performance-based budgeting and performance measurement are essential tools for identifying spending priorities and improving economic usefulness of public expenditures. It offers enormous benefits for advancing the transparency, accountability, and efficiency of public spending. It reduces the scope for political interference and exploitation of public funds for private or partial political interests.

The adoption of this approach has been in the works since 2005. After initial successes in introducing program budgeting in five pilot ministries, the progress has been slow due to capacity constraints and loss of political leadership. The political cost of doing nothing has been relatively low despite the explicit legal commitment to complete budget reforms by 2015.

After recent EU candidacy status this is no longer the case. The impetus for change has never been stronger. Performance-based budgeting offers a path Serbia can easily follow to improve growth opportunities, offer prosperity and better quality of living for its citizens, and strengthen its own image.

As usual with any new approach there is always potential for fear of the unknown, but measuring the performance of government spending is in practice all around the world and it is part of a wave of reforms that have been taking hold for more than 20 years. There are important lessons to learn. Serbia has the benefit of learning from what works and what doesn't to create a workable budget framework.

What are the key steps to implement performance-based budgeting? Reforms are needed at every level of the government, from the legislature to the line ministries, to the local governments, to the state enterprises. Changes are needed in the process of budget preparation

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and review, in the type of information that is collected, in the format of budget presentation, and in the decision making processes that follow.

There are many resources available from USAID and other donors to help the government implement these reforms. Coordination of donor efforts and consolidation of financial support should be a priority to achieve the widespread changes that are needed throughout the government.

But the success of budget reforms hinges on political will and attitudes of government official in discharging the responsibilities of a public office. A slogan “OBLITI PRIVATORUM, PUBLICA CURATE” (“*Forgetting private, tend to public (interest)*”) inscribed in stone over the entrance to Major Council Hall (Veliko vijeće) reminded public officials of Dubrovnik Republic of their responsibilities.



This slogan remains relevant to this date. It captures the most relevant accountability principle Serbian officials should follow in improving its budget and public sector performance, the essential task that would enable the country to respond to many challenges posed by the extended global economic turmoil.

In short, budget reform rooted in responsible and accountable behavior of politicians, government officials, and all citizens is now needed more than ever to deal with the consequences of the 2008 crisis and brace for another major economic slowdown forecast for 2012. Program budgeting can easily identify areas where performance can be improved with existing resources, and where resources can be saved. It provides grounds for greater transparency and more participatory budget process.

Most importantly, performance budgeting introduces improved, robust, and tangible accountability mechanism of all future ministers and elected public officials to: document every dinar of public monies spent under their responsibility; realize possible efficiency gains; and achieve stated policy and development objectives.

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The recent EU candidacy created a unique window of opportunity to mobilize political will and reignite the implementation of program budgeting in line with earlier legal commitments and prevailing performance budgeting standards in the EU and OECD countries.

If budget reforms are done things will get better. Or they will get worse in the absence of reforms – the current fiscal situation is not sustainable.

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