



Do We Want to Know How Public Money Is Spent in BiH?

Naida Trkić

The Rationale of Public Administration Reform in BiH

Four years ago, Bosnia and Herzegovina (BiH) Governments committed to the Peace Implementation Council, representing fifty five countries and international organisations, to undertake a reform that would create public administration which would function in accordance with principles of efficiency, transparency and accountability. It is therefore the appropriate time to review the progress made so far and to give recommendations as to what homework authorities in Bosnia and Herzegovina still need to do if they are serious about making public administration better.

Despite the fact that problems relating to public administration in BiH have been known for several years now, countless studies, analyses, projects, task forces and action plans that were created on this topic have resulted in little substantial action.

One of the key reasons for this was and still is the complex Government structure of BiH and the fact that each level of Government is responsible for its own public administration. As a consequence, more than two years have passed before a joint office with a mandate to develop a state-wide reform strategy was formed (see chart at the bottom).

Given BiH began its transition to a market economy later than other countries in the region and under exceptionally difficult circumstances, it is under heavy pressure to align its procedures with international practices. The multitude of Government layers created a difficult fiscal position, with public expenditures exceeding those of other countries in the region and those with similar income per capita. At the same time, the quality of services provided to citizens tends to be substantially poorer, which is why it is **crucial that BiH strengthens the quality of public administration and championship while reducing costs and public employment and withstands fiscal pressures**. Various more advanced countries have witnessed that performance-based budgeting can be a useful tool in reaching the above-mentioned goals (*the main characteristics of which are presented in the textbox on the next page*).

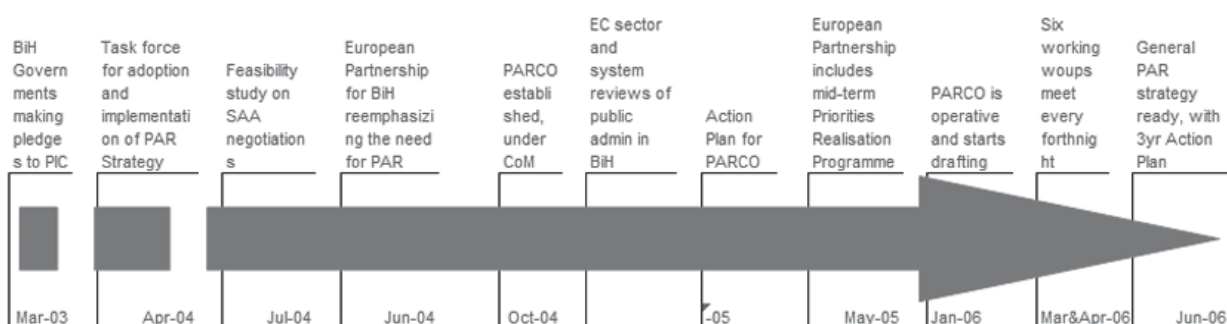
Rationale of Programme Budgeting

Apart from its aspect of managing financial matters of public administration, public finance plays a key role in BiH due to its importance for the EU accession processes. International practice has showed that to be effective, a budget must cover the medium term, must be comprehensive,

Summary

Public administration reform (PAR) that is currently being implemented in BiH aims to significantly increase efficiency and effectiveness of public sector services at all levels. A critical component of this reform is the introduction of performance-based budgeting. This method of budget planning and preparation demands a wide range of improvements in decision-making, management performance and access to information for all interested parties, if the reform is to be implemented in full and citizens are to receive the services they require. This brief focuses on the range of actions required to move from the current situation to one where the citizens would receive better value for their money.

CHRONOLOGY OF PAR STRATEGY DEVELOPMENT



The Main Characteristics of Programme Budgeting

Performance-Based Budgeting focuses on efficiency and provides answers to questions such as what a work unit does, how frequently it does it and at what cost. The easiest way to prepare performance-based budgets is according to programmes, which can be measured against benchmarks and over a period of time. The benefit of this approach is that it provides relevant information for legislative consideration and administrators and links costs to programme goals and justification both in terms of citizen needs and government policies. Finally, it presents information in a clear and widely-recognised line-item way, while being the golden middle between the costly-but-accurate zero-based budgeting method and the inexpensive but often ineffective incremental budgeting method. However, gathering outcome indicators and making comparisons requires time and to be fully effective, objective and independent evaluation.

must be reconciled with earlier forecasts and must be presented on administrative, economic and sectoral basis to facilitate assessment of trade-offs between different policy options.

According to existing legislation, budgets in BiH are regulated along these lines but **why is it then that public administration is still not efficient, accountable and transparent? The answer lies, to a great extent, in the way budget information is collected, recorded and presented.**

Generally speaking, budgets are in BiH not regarded as a tool that can support senior management in setting priorities and making informed policy choices. Budget users often submit their requests without reference to funds available and/or justifying what Government priorities their activities would contribute to. If public finance management in BiH is to mature, this practice must be overcome and **BiH must shift the focus from financial inputs toward programme outcomes. Also, managers must start basing their operational goals on known Government policies and must start measuring performance of programmes for which budget resources were used.**

Introduction of Programme Budgeting

Being aware of the benefits of programme budgeting, Ministries of Finance have decided to start introducing this method. In 2005, two budget users were selected at each level to test this approach on a pilot basis. Very soon, it became clear that budget users involved in this exercise had sufficient capacity to prepare the requested information and in 2006, the reform was widened to all budget users. The next step has also been made. In 2006, Federation of BiH has included a provision of programme budgeting in its organic budget law. Also, Budget Coordination Group (recently-formed technical advisory body to the National Fiscal Council) has agreed to introduce equivalent amendments to legislation at other levels in BiH, in order to embed programme budgeting further in BiH budget practice.

Nevertheless, **the introduction of this key element of public administration reform, which, if implemented correctly, leads to improved organisation and management, funding, capacity, procedures and quality of services, is very much influenced by the preparedness to change, the culture and the capacity of staff working on it.** Unless budget users (and Ministries of Finance, who are processing the information and suggesting budget allocation) have sufficient staff for analysis, it is questionable how much they can facilitate informed decision-making.

Commitment to Programme Budgeting

Statements made by Ministries of Finance in BiH indicate that programme budgeting is viewed as a useful tool for reporting and proposing educated budget allocation. The fact that all Ministries of Finance in BiH have adopted this practice and have also convinced budget users, extra-budgetary funds and municipalities to provide relevant information proves that they are committed to this reform and see its short-term and long-term benefits.

Acceptance by budget users directly is somewhat weaker than with Ministries of Finance. The main reason for this is the lack of experience in collecting and grouping performance information but also other limitations they are facing (both in terms of staff numbers - often, there is less than a handful of staff working in the budget departments - and in terms of skills). Also, fiscal discipline is relatively weak and it is still possible to get high appropriations without disclosing the purpose. Although all budget users in BiH have been trained in preparing their budgets on programme basis, not all of them are using the opportunity to request and justify their budget allocation in this way.

Despite the fact that it was planned that programme budget information would be sent along with the 2007 budget to Governments and Assemblies, this has not happened, partially due to delays in establishing new Governments and adopting budgets. Various Governments and members of the Parliaments have attended pro-



gramme budgeting trainings though, in order to understand the information once available. Citizens should also benefit from this information and budgeting practice given public funds will be spent more efficiently and transparently. Stronger budget scrutiny and decision-making should result in lower opportunity costs and more money will be available for highest priorities of the country (e.g. social protection, war veterans, education or infrastructure).

What Remains to be Done by BiH Authorities

Given the encouraging findings from the introduction phase, it is crucial that BiH authorities carry on with this effort in a mindful way. Training and lobbying with all parties involved will play a crucial role in that. Also, legislation amendments will need to be prepared very carefully to allow for efficient implementation. Governments and Assemblies will need to adopt the amendments as soon as available and in a form that will allow for efficient budgeting. Finally, once all formal arrangements are in place, changes will have to be made to the way performance is being controlled and audited, with accounting systems and practices changing too.

All the above will require significant resources (in terms of money, skills and training, time, people etc.) and given the fiscal pressures BiH is under, it is questionable if it will be able to continue the reform once donor support has decreased in a few years. This is why BiH authorities will need to show sufficient evidence of progress if they want donor funding to continue.

Recommendations for Action

Given all the above, public finance reform in BiH is an imperative. Years have been spent contemplating what public administration should be like and resources were wasted with extremely high opportunity cost. The cornerstone to improving public administration has been laid though - programme budgeting has been introduced in 2006

on a full scale and all public expenditure units (including budget users, funds and municipalities) are complying with this requirement.

However, in order to reap the full benefit from this method, **BiH authorities still need to:**

- Raise awareness about the importance of shifting the focus from inputs to outcomes
- Lobby with Governments/Assemblies to request and use performance information
- Demand operational goals for each budget user, based on known Government policies
- Increase the number and capacity of staff involved in budgeting, and train them to manage change
- Limit budget user requests by expenditure ceilings and maintain the ceilings consistently
- Adopt legal amendments formalising effective programme budgeting at all levels
- Anticipate changes in internal and external performance and financial controls and accounting systems and procedures
- Be able to prove that further financial and technical support to this reform would be a good investment for donors.

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Naida Trkić is a highly experienced economist and financial management reform consultant who has worked on a range of projects in Bosnia and Herzegovina funded by the international community and aiming to strengthen economic development and public sector financial management. This included support to SMEs, business incubation and regional economic development, strengthening of corporate governance, reform of business registration, capacity building of labour unions, and project evaluations. In these positions Ms Trkić has gained extensive experience in economic research and analysis and building skills and capacities of senior government officials. Since 2004, Ms Trkić has been engaged as a Budget Advisor and Donor Initiatives Coordinator on DFID's Strengthening Public Expenditure Management Project. In this role, Ms Trkić has been involved in providing technical support on budget preparation to national and sub-national Ministries of Finance within BiH. Ms Trkić holds a Masters Degree in Finance from the University of Maastricht (The Netherlands).

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A "Policy Development Fellowship Program" has been launched by the Open Society Fund BiH in early 2004 with the aim to improve BiH policy research and dialogue and to contribute to the development of a sound policy-making culture based on informative and empirically grounded policy options.

The program provides an opportunity for selected fellows to collaborate with the Open Society Fund in conducting policy research and writing a policy study with the support of mentors and trainers during the whole process. Twenty seven fellowships have been granted in three cycles since the starting of the Program.

All policy studies are available at www.soros.org.ba