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Implementing Program Budgeting in the Serbian Ministry of Defense

ROBERT M. MCNAB

The Republic of Serbia's Ministry of Defense (MoD) is attempting to implement a program-oriented, multi-year budgeting system in 2010. This paper reveals several challenges that threaten the success of this initiative. First, we find that the proposed budget system confuses organizations and programs. Second, there does not appear to be a centrally coordinated effort to implement program budgeting, leading to significant disparities in comprehension, organization, and implementation amongst the subordinate commands in MoD. Finally, there is a distinct lack of communication within the MoD regarding the necessity of a program budget and how the process should move forward. These issues inhibit the implementation of program budgeting in the MoD and diminish the possible gains associated with the multi-year, programmatic allocation of defense resources.

INTRODUCTION

The Republic of Serbia's Ministry of Defense (MoD) is currently planning to implement a Planning-Programming-Budgeting-Execution (PPBE) system in 2010. The impetus for the implementation of a program budgeting in the MoD appears to have begun in 2003 with the discussion of the transition from the cash-accounting, Soviet-legacy budget system to a multi-year, program-oriented budget system. The intent to implement program budgeting became significant with the development of initial plans and programs in 2008 and the designation of the MoD as one of the pilot ministries for the government-wide introduction of program budgeting.

A flawed implementation could have national and international ramifications given the importance of the Serbian Armed Forces (SAF) in the Balkans region and the observed need to realign the SAF to the MoD's strategic goals. With the Serbian Ministry of Finance's (MoF) development of a Medium-Term Expenditure Framework (MTEF), the Government of the Republic of Serbia (GoRS) is clearly attempting to adopt internationally accepted norms in the area of public financial management. The

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MoF, for example, has issued medium-term macroeconomic projections for 2010–2012 and has established ministerial expenditure ceilings for this period. The MoF has also stated a clear intent to move ahead with the implementation of program budgeting, with the express desire of linking expenditures to desired outcomes. The MoF views the shift as necessary due to the increasing impact of globalization on the Serbian economy and the need to bring transparency and accountability to the use of public funds. As one of the lead ministries in this effort, the success (or failure) of budget reform in the MoD is likely to influence the implementation of program budgeting across the GoRS. Furthermore, given the need to shift resources and personnel, the effort to implement program budgeting will undoubtedly redistribute scarce resources within the MoD, influencing the effort to modernize the SAF. The question of whether program budget reform is likely to succeed therefore is of concern to policymakers and practitioners alike.

This paper evaluates the Serbian MoD's effort to implement program budgeting. We argue that the current state of program budgeting in the SAF appears to be significantly flawed in several areas, suggesting that the benefits normally promised from implementing program budgeting may not occur in the Serbian case. First, we find that the proposed budget system confuses organizations and programs. Second, there does not appear to be a centrally coordinated effort to implement program budgeting; this leads to significant disparities in comprehension, organization, and implementation amongst the subordinate commands in the MoD. Finally, there is a distinct lack of communication amongst the MoD members regarding the necessity of a program budget and how the process should move forward. We argue that these issues may inhibit the implementation of program budgeting in the MoD and detract from the possible gains associated with the multi-year, programmatic allocation of defense resources.

The remainder of the paper is structured as follows. The next section briefly discusses the political and economic climate driving the implementation of program budgeting in the Serbian MoD. The third section examines the debate in the literature as to the appropriate basis for a program structure. The fourth section analyzes the strategic framework for program budgeting implementation and investigates whether the program budgeting system's design reflects the MoD's strategic goals. The fifth section compares the Serbian case with the implementation of program budgeting in Bosnia and Herzegovina MoD. The final section considers the prospects for an effective implementation of program budgeting in the MoD and concludes with recommendations to improve the prospects for success.

THE CLIMATE FOR BUDGET REFORM IN SERBIA

To place the Serbian MoD's implementation of program budgeting in context, it is important to first briefly review the political and macroeconomic environment in the Republic of Serbia. First, unlike the United States and other developed countries, Serbia

does not have an established history of democratic governance. Transparency and accountability remain weak, although progress in these areas is a priority of the current government. Second, while the implementation of program budgeting in the United States occurred in a relatively stable political and economic climate, uncertainty and instability characterizes the Serbian macroeconomic environment.¹ Third, questions of Kosovo's independence continue to shape political and economic policy, directly affecting the prospects for reform.

The Political Climate for Program Budget Reform in Serbia

The political challenge for reform in Serbia is significant as it is simultaneously undergoing four major transitions: post-communist/authoritarian political reforms, economic transition, post-conflict recovery, and an attempt to further integrate into the European Union.² The legacy of the Milosevic regime, coupled with the unresolved issue of Kosovo, impedes reform efforts and complicates relations with its neighbors. This section briefly reviews the political climate in Serbia with regards to the proposed budgeting reforms in the MoD.

Democratic governance is a relatively new phenomenon to Serbia; following the President Slobodan Milosevic resignation in September 2000, the first democratically elected government formed in January 2001. Voters approved replacement of the dated Socialist-era constitution with a new, democratically oriented constitution in 2006. The 2006 constitution, however, explicitly states in the preamble that Kosovo is “an integral part of the territory of Serbia.”³ In the most recent elections in 2008, Serbian voters narrowly reelected President Boris Tadic of the pro-Western Democratic Party in a run-off, beating ultranationalist Tomislav Nikolic.⁴ Current Prime Minister Mirko Cvetkovic is also a member of the Democratic Party. As such, the current government's security policy has focused on two main goals—integration with the European Union and hindering international recognition of Serbia's former Kosovo province.

An inherent political tension exists between these two goals. The first goal seeks to further integrate Serbia into Europe; the second attempts to thwart Kosovo's independence by opposing European foreign policy. A latent Albanian separatist movement in

1. There have been several attempts at explaining post-communist divergence based on legacies in economic, political or cultural structures, see H. Kitschelt, “After the Collapse of Communism: Comparative Lessons of Transitions,” *Perspectives on Politics* 3, no. 3 (2005): 674–675; H. Kitschelt and E. Malesky, “Constitutional design and post-Communist economic reform. Presented at Midwest Political Science Conference. Chicago, IL, 2000; J. Møller, *Post-communist regime change: a comparative study* (London: Routledge, 2009) for a discussion.

2. A. Watkins, *Security sector reform and donor assistance in Serbia 2000-2010* (Brussels: Initiative for Peacebuilding, 2010). Available from: http://www.initiativeforpeacebuilding.eu/pdf/Serbia_Report_Feb.pdf.

3. For the full text of the 2006 Constitution of the Republic of Serbia. Available from: http://www.srbija.gov.rs/cinjenice_o_srbiji/ustav.php?change_lang=en; accessed 2 August 2010.

4. S. Woehrel, *Serbia: Current issues and policy*. Congressional Research Service Report 7-5700 RS22601 (Washington, D.C.: Congressional Research Service, 2010).

the Presevo Valley region further complicates the Kosovo question.⁵ This tension is reflected, in part, in a revisionist campaign where Serbia portrays itself as a victim of the “West.”⁶ The rampant corruption of the Milosovic regime also continues to haunt the political process in Serbia. Respondents to a recent survey on perceptions of corruption in Serbia stated that political parties are those most affected by corruption and that the government’s anti-corruption campaign is largely ineffective.⁷ Political inequality and its attendant rent-seeking behavior have also distorted growth and contributed to political instability.⁸

The GoRS national security policies reflect the disagreement between the external and internal goals of Serbia. Serbia joined NATO’s Partnership for Peace (PfP) program in 2006 and, some suggest, aspires to ascend to NATO membership status (along with most of the countries in the region). The MoD also adopted the Strategic Defense Review (SDR) in 2006, providing organizational guidance on the MoD’s reform through 2015. The Serbian Parliament, on the other hand, did not pass the National Security Strategy (NSS) and Defense Strategy (DS) until October 2009. The discussion of whether Kosovo was a strategic challenge to Serbia, in part, delayed the passage of these strategy documents. This led to the somewhat curious situation where Parliament passed two laws in December 2007 (the Law on Defense and the Law on the Armed Forces of Serbia), which the NSS and DS should have been preceded.⁹ In other words, documents relying on the NSS and DS were passed into law before the NSS and DS. This continues to be a pressing issue in that, at the time of writing, senior members of the Serbian government continue to insist that Serbia will not accept the “self-proclaimed independence” of Kosovo.¹⁰ As we discuss later in this paper, the national security guidance of the Serbian

5. Presevo Valley, a regional home to Serbia’s largest ethnic Albanian minority, is situated in southern Serbia bordering Macedonia to the south and Kosovo to the west. Of the approximately 86,000 inhabitants of Presevo Valley, 89% are Albanian, yet ethnic Serbs dominate the public administration and security institutions. See, B. Huszka, *The Presevo Valley of Southern Serbian alongside Kosovo: The Case for Decentralisation and Minority Protection*. Center for European Policy Studies (CEPS) Policy Brief, No. 120. Brussels: CEPS, 2007.

6. S. Ramet, “The Denial Syndrome and its Consequences: Serbian Political Culture since 2000,” *Communism and Post-Communist Studies* 40, no. 1 (2007): 41–58. Retrieved from: doi: 10.1016/j.postcomstud.2006.12.004.

7. Transparency International, *Global Corruption Barometer 2009* (Berlin: Transparency International, 2009). Available from: http://www.transparency.org/news_room/in_focus/2009/gcb2009#dnld.

8. J. A. Gould and C. L. Sickner, “Making Market Democracies? The Contingent Loyalties of Post-Privatization Elites in Azerbaijan, Georgia and Serbia,” *Review of International Political Economy* 15, no. 5 (2008): 740–769.

9. See A. Watkins, *Security sector reform and donor assistance in Serbia 2000–2010* (Brussels: Initiative for Peacebuilding, 2010). Available from: http://www.initiativeforpeacebuilding.eu/pdf/Serbia_Report_Feb.pdf and National Security Strategy. Republic of Serbia (2009).

10. Radio Serbia (2010, 27 April). Ivanovic: Belgrade continues with pressure. Available from http://glassrbije.org/E/index.php?option=com_content&task=view&id=10715&Itemid=26: accessed 2 August 2010. According to the *Associated Press*, Boris Tadic, current President of Serbia, recently stated “Serbia does not recognize and will never recognize Kosovo.” *Associated Press* (April 8, 2010). “Serbia tells US it will never recognize Kosovo.”

government reflects these political issues. The tension between external aspirations and internal instability influences the proposed program budget reforms.

The Economic Climate for Program Budget Reform in Serbia

By 2000, due to multiple conflicts and economic sanctions, Serbian Gross Domestic Product (GDP) had fallen by over 50% since 1989; inflation was over 100% per annum, and external debt exceeded 130% of GDP.¹¹ From this base, successive governments embarked on a path of economic reform that saw significant progress in economic reconstruction through 2008.¹² The global economic crisis, however, dramatically affected economic growth in Serbia. GDP growth fell from 5.8% in 2008 to –2.8% in 2009.¹³

A direct result of the financial crisis has been a decline in government revenues and a corresponding increase in demand for social protection expenditures. The Serbian government implemented, with the support of external donors, a policy program to promote macroeconomic and financial stability. Specifically, the program attempted to address the core problems facing the Serbian economy: low capacities to produce, save, and export.¹⁴ For 2010, projections suggest a modest recovery with GDP growth estimated to be approximately 2%. The government has continued to freeze nominal public sector wages and salaries but has yet to shed a sizable amount of public sector jobs that are widely seen as unproductive.¹⁵ The financial crisis also highlighted the need for a sound and credible fiscal strategy, specifically by increasing public sector productivity and reducing ministerial budgets. These adjustments are likely to result in continued pressure to reduce defense expenditures, a fact noted by the Chief of the General Staff in 2009.¹⁶

With respect to public financial management, the government has made significant advances since 2000. The Budget System Law (BSL) of 2002, along with recent amendments,

11. Statistical Office of the Republic of Serbia. Available from: <http://webrzs.stat.gov.rs/axd/en/index.php>; accessed 19 May 2010.

12. J. Litwack, and T. Price, (2003). *OECD Economic Surveys: Federal Republic of Yugoslavia—Economic Assessment*, 2002(3), 1–181.

13. International Monetary Fund (IMF), Republic of Serbia: Stand-by arrangement—Second review mission, aide memoire, (2009). Available from: <http://www.imf.org>; accessed 2 August 2010, and S. Woe-hrel, Serbia: Current issues and policy. Congressional Research Service Report 7-5700 RS22601 (Washington, D.C.: Congressional Research Service, 2010).

14. International Monetary Fund (IMF), IMF executive board concludes 2010 Article IV consultation with Serbia. Public Information Notice (PIN), 10(47), (2010, 7 April). Available from: <http://www.imf.org/external/np/sec/pn/2010/pn1047.htm>; accessed 2 August 2010.

15. International Monetary Fund (IMF), Republic of Serbia: Staff report for the 2010 Article IV Consultation: Third review under the stand-by arrangement and financing assurances review, 10(93), 2010. Available from: <http://www.imf.org/external/pubs/ft/scr/2010/cr1093.pdf>; accessed 2 August 2010.

16. A. Watkins, Security sector reform and donor assistance in Serbia 2000-2010. Initiative for Peacebuilding, 2010. Available from: <http://www.initiativeforpeacebuilding.eu>; accessed 2 August 2010.

has introduced a modern framework for public financial management.¹⁷ The fiscal roles of the executive, legislative, and judicial branches are clearly defined in the constitution. The Serbian MoF is piloting program budgeting in separate ministries, including the MoD. The International Monetary Fund (IMF), however, noted analytical weaknesses at the MoF and a lack of a comprehensive medium-term budgetary framework.¹⁸ While the MoD has a strategic planning capability, the planning function has an implementation deficit; there is no explicit linkage to the resourcing process. Furthermore, while the defense budget is available by economic classification, it is not publicly available either by functional classification or by organization (military service), which decreases defense expenditure accountability and transparency. These factors suggest that the environment is not as conducive for budget reform as one might desire; the paper later addresses these concerns.

DEVELOPING AN APPROPRIATE PROGRAM STRUCTURE IN PRACTICE

While efforts to create a unified theory of public budgeting are more than likely to end in failure, we can draw upon observed fact and practice, to identify important characteristics of budgeting and budgets to construct applied theory.¹⁹ With respect to the implementation of program budgeting in the Serbian MoD, the literature debates not only the efficacy of program budgeting but also how the program structure should be built and whether program budgeting implementation requires multiple budgets. The linkage between strategic plans and programs through the program structure raises significant questions of who should establish policy priorities: the president, parliament, or the ministries.²⁰ This section briefly reviews this debate and its application for the Serbian MoD.

Determining what constitutes program budgeting is an immediate problem.²¹ From one perspective, program budgets more effectively align budget information with

17. International Monetary Fund (IMF), Republic of Serbia: Report on observance of standards and codes—fiscal transparency module, 09(144), 2009. Available from: <http://imf.org/external/pubs/ft/scr/2009/cr09144.pdf>; accessed 2 August 2010.

18. International Monetary Fund (IMF), Republic of Serbia: Staff report for the 2010 Article IV Consultation: Third review under the stand-by arrangement and financing assurances review, 10(93), 2010. Available from: <http://www.imf.org/external/pubs/ft/scr/2010/cr1093.pdf>; accessed 2 August 2010.

19. L. R. Jones and J. L. McCaffery, "Reform of the Planning, Programming, Budgeting System, and Management Control in the U.S. Department of Defense: Insights from Budget Theory," *Public Finance and Management* 25, no. 3 (2005): 1–19.

20. B. M. Gross, "PPBS Reexamined: The New Systems Budgeting," *Public Administration Review* 29, no. 2 (1969): 113–137; F. C. Mosher, "Limitations and Problems of PPBS in the States," *Public Administration Review* 29, no. 2 (1969): 160–167; A. Schick, "A Death in the Bureaucracy: The Demise of Federal PPB," *Public Administration Review* 33, no. 2 (1973): 146–156; A. Wildavsky, "Rescuing Policy Analysis from PPBS," *Public Administration Review* 29, no. 2 (1969): 189–202.

21. See, for example, F.C. Mosher, *Program Budgeting: Theory and Practice* (New York: Public Administration Service, 1954); and D. Novick, . Which program did we mean in "program budgeting" (Washington, D.C.: The RAND Corporation, 1954).

strategic objectives and illustrate the consequences of budget decisions. By grouping line-items that attempt to achieve the same strategic objective into programs, the focus of senior decision makers moves from the narrow to the broad. Program budgets can thus serve four distinct (and sometimes complementary) objectives by: (1) facilitating a cost-effectiveness comparison between alternative systems; (2) improving technical efficiency by providing discretionary authority to lower-level managers; (3) clarifying the life-cycle costs of decisions; and (4) structuring planning, programming, and budgeting decisions in a multi-year framework.²²

Some critics, on the other hand, argue that program budgeting is a flawed concept that cannot be effectively implemented in any setting. Attempts to create programs independent of organizational affiliation are neither practical (as organizations typically receive appropriations) nor possible (as bureaucrats typically focus on organizational issues). In general, attempts to create and manage government-wide programs have ended in failure.²³ The effort to implement the Planning-Programming-Budgeting System (PPBS) across the U.S. federal government is one example of the difficulty associated with implementing program budgeting across organizations.²⁴ Managers frequently resist attempts to make programs independent from organizational affiliation, thereby breaking the linkage between administrative and programmatic structures. Many Latin American countries, for example, have experimented (often with the assistance of the U.S. Department of Defense) with implementing PPBS; these ventures have largely ended in failure due to the lack of trained personnel, political stability, and the absence of a credible commitment to budgetary reform.²⁵

Program structure development thus has two distinct approaches. The first approach argues that programmatic classification should reflect policy objectives across organizational boundaries. The second argues that it should closely mirror the existing organizational structure. From the first perspective, the program structure should be the dominant classification serving as the basis for policy decisions and resource allocations. From the second view, conforming programs to existing institutional boundaries

22. J.M. Kim, (ed.) *From Line-Item to Program Budgeting: Global lessons and the Korean Case* (Seoul, Korea: Korea Institute of Public Finance, 2007). Available from: <http://www1.worldbank.org/publicsector/pe/bookprogrambudget.pdf>.

23. The attempt to implement the Planning-Programming-Budgeting System (PPBS) across the U.S. Federal government is one example of the difficulty of implementing program budgeting across organizations. in *Managing Public Expenditure: A Reference Book for Transition Countries*. eds. R. Allen, and D. Tommasi, (Paris, France: Organization for Economic Cooperation and Development (OECD), 2001). Available from: <http://www1.worldbank.org/publicsector/pe/oecdpehandbook.pdf>.

24. See, for example: S. Botner, "Four years of PPBS: An Appraisal," *Public Administration Review* 30, no. 4 (1970): 423–431 and A. Schick, "A Death in the Bureaucracy: The Demise of Federal PPB," *Public Administration Review* 33, no. 2 (1973): 146–156.

25. See, for example, H. Petrei, *Budget and control reforming the public sector in Latin American* (Washington DC: Inter-American Development Bank, 1998); and A. Folscher, "Budget methods and practices," in *Budgeting and budgetary institutions: Public sector governance and accountability series*. ed. A. Shah (Washington, D.C.: The World Bank, 2007. 109–136).

simplifies the program structure and aligns it with organizational incentives. Each outlook comes with a cost; for example, programs that span organizational boundaries have proven difficult to implement. On the other hand, programs constrained within organizational boundaries diminish the government's capacity to analyze and coordinate objectives that two or more ministries might share.²⁶ Others have argued that classifying programs within organizations robs program budgeting of its essential purpose.²⁷ Curiously, advocates of both approaches argue that the resulting program structure represents policy objectives.

Recently, governments have begun to implement program budgeting based on the recognition that an organization's structure is a reflection of line ministries' policy objectives.²⁸ Several Organization for Economic Cooperation and Development (OECD) members have reclassified their budgets on the basis of programmatic criteria and have developed multi-year estimates for programs.²⁹ This approach is important for transitional countries as they typically encounter significantly greater difficulties in attempting to implement program budgeting. The transition from line-item to program budgeting requires a centralization of budget authority both in the line-ministries and at the MoF.

While inertia largely drove the previous incrementalist, input-oriented budget approach, program budgeting requires not only more staff, but also higher quality staff given the need for intra and inter-program analysis.³⁰ From the MoF's perspective, developing programs within ministries alleviates the burden of attempting to coordinate programs across institutional boundaries.³¹ For line ministries, program budgeting requires not only an increase in the numbers and capabilities of the budget staff but also improved communication within the ministry. Without clear leadership, resourcing and

26. Y.D. Kim, W. Dorotinsky, F. Sarraf & A. Schick, Paths toward successful introduction of program budgeting in Korea. in *From Line-Item to Program Budgeting: Global lessons and the Korean Case*. ed. J.M. Kim (Seoul, Korea: Korea Institute of Public Finance, 2007, 23–134). Available from <http://www1.worldbank.org/publicsector/pe/bookprogrambudget.pdf>.

27. A. Schick, "Performance Budgeting and Accrual Budgeting: Decision Rules or Analytic Tools," *Organization for Economic Cooperation and Development (OECD) Journal on Budgeting* 7, no. 2 (2007): 109–138.

28. D-J. Kraan, "Programme Budgeting in OECD Countries," *OECD Journal on Budgeting* 7, no. 4 (2007): 1–41.

29. Organization for Economic Cooperation and Development (OECD), *Performance budgeting in OECD countries* (Paris: OECD Publishing, 2007) and M. Robinson, *Performance budgeting: Linking funding and results* (United Kingdom: Palgrave, Macmillan, Houndmills, 2007).

30. For a discussion of implementing program budgeting and the need for institutional reform, see H. van Eden, (2009, 28 August). Program budgeting without institutional reform—Why it doesn't work. Public Financial Management Blog. International Monetary Fund (IMF). Available from: <http://blog-pfm.imf.org/pfmblog/2009/08/program-budgeting-without-institutional-reform-why-it-doesnt-work.html>; accessed 2 August 2010.

31. For a discussion of implementing program budgeting at the subnational level in the United States, see, among others, C. Bourdeaux, "The Problem with Programs: Multiple Perspectives on Program Structures in Program-Based Performance-Oriented Budgets," *Public Budgeting & Finance* 28, no. 2 (2008): 20–47.

communication, the implementation of program budgeting is likely to meet significant resistance at the line ministries. The next section examines the proposed budget reforms in Serbia and discusses whether these reforms exhibit the desired characteristics of design, consensus, and communication.³²

IMPLEMENTING PROGRAM BUDGETING IN THE SERBIAN MOD

This section addresses a number of questions: What are the key ingredients for implementing program budgeting in the Serbian MoD?³³ Are the proposed reforms internally consistent, comprehensive, and correctly sequenced? Does consensus exist for the proposed program budgeting reforms? Finally, has the MoD senior leadership communicated the need and the potential benefits of reform to the organization's subordinate levels?

The Serbian military that emerged from the collapse of Yugoslavia inherited a force structure designed to deter external aggression and to project force externally. In a succession of wars with Croatia, Bosnia, and within Kosovo, the Serbian military employed armor, artillery, and other mechanized forces in an attempt to maintain its perception of territorial integrity. Following the 1999 NATO intervention in Kosovo and the fall of the Milosevic government in 2000, Serbia began downsizing its military in a manner largely characterized by neglect; diminishing defense budgets led to equipment deterioration and a decline in personnel skills. Today, the SAF continues to maintain an armor-centric force of more than 200 tanks and numerous air superiority fighters.

The SAF, however, is attempting to shed the legacy of the Yugoslavian force structure. Following the separation of Serbia and Montenegro, the SAF started transitioning towards a joint force, similar to the Canadian Armed Forces. The SAF consists of three primary branches: the Serbian Land Forces, the Serbian Air Force, and the Training Command. The SAF's formation of a Joint Forces Command³⁴ (JFC) is an important component of budget reform as the JFC is responsible for managing capabilities across the three branches. A traditional, service-oriented budget structure would hinder the ability of the JFC and the MoD to align resources with capabilities. The proposed implementation of program budgeting in the Serbian MoD offers an opportunity to complement the ongoing organizational reforms to improve coordination among the various branches.

Designing the Program Structure: For the MoD to adequately implement a multi-year, program-oriented budget, its plans and programs should be linked to the strategic goals outlined in the Serbian National Security Strategy (NSS) and Defense Strategy (DS).³⁵

32. G. Koptis, "The Political Economy of Fiscal Reform in Central and Eastern Europe," *OECD Journal on Budgeting* 3 (2008): 1–11.

33. The author is aware over several technical assistance and consultative efforts with the Serbian MoD in the area of budget reform, to include NATO, the United States, and Romania.

34. The Joint Forces Command stood up in 2007 and is intended to replace Land Forces Command.

35. The Serbian Parliament adopted the DS and NSS on October 26, 2009. Available from: http://www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/newsbriefs/2009/10/27/nb-09: accessed 2 August 2010.

The DS, for example, clearly states three strategic missions for the MoD: (1) defense of the Republic of Serbia; (2) international military participation and cooperation; and (3) support to civilian authorities.³⁶ *A priori* the program structure should reflect these strategic missions. To understand these strategic missions, what follows is a brief discussion on the security challenges illuminated in the NSS and DS.

First, the NSS and DS clearly state that the danger of armed external aggression is low, suggesting that cross-border disputes are of decreased likelihood than in the past. On the other hand, security concerns appear to be focused on the possibility of internal violence, including the prospects of future violence resulting from the disputed independence of Kosovo.³⁷ Furthermore, there is an emphasis on other internal security challenges, to include terrorism, extremism, and organized crime. The documents' amplified concern for internal security issues, coupled with the MoD's desire to play a role in internal emergency response, is tantamount to a dramatic shift in the Serbian MoD's strategic mission set. With the formation of the JFC and the transition to a joint force structure where each service contributes to the three strategic missions, the program structure should be an implementing mechanism for the joint force's resources management.

Unfortunately, it appears that the Serbian MoD has confused the meaning of program with that of organization. Common to many countries, roadblocks to program budgeting often arise from a reluctance to reorient expenditures to an output- or outcome-based classification and from an inability to understand what constitutes a program. The current program structure of the Serbian MoD mirrors that of the organizational structure: (1) land forces, (2) air forces and air defense; (3) training command; (4) central administration; and (5) general staff. While the proposed program structure is comprehensive in its coverage of the entire MoD, the structure is neither aligned with the MoD's strategic missions nor amenable to strategic resources management. The program structure design is not consistent with either view of program budgeting previously discussed in this paper. In fact, the structure replicates the existing legacy budget structure and suggests the drive to implement program budgeting is not aligned with best practices.

Are the reforms correctly sequenced? The current budget structure also suggests that the Serbian MoD's strategic planning function is not sufficiently developed to support the implementation of program budgeting. First, given no true programs exist in the Serbian MoD, plans remain focused on service-specific objectives rather than on the desired capabilities or outcomes. Second, there does not appear to be a specific organization within the MoD responsible for the development and implementation of program budgeting. This has led to decentralized efforts to design, develop, and implement the proposed budget reforms. Discussions with representatives of the Serbian MoD and

36. The Government of the Republic of Serbia published the Defense Strategy in 2008 and the Serbian Parliament approved it in 2009.

37. From a defense perspective, the Republic of Serbia considers Kosovo an internal security concern; it is a matter of national policy that Kosovo is an integral part of Serbia.

SAF suggest that some, if not all, of the subordinate commands are developing their own program structures. This may lead to the development of not one program structure, but possibly up to five different structures, each at different stages of development.

The Serbian MoD is also constructing program elements, which would be necessary to institute program budgeting. It appears that the major subordinate organizations (land forces, air force and air defense, and training command) are responsible for identifying and developing their respective program elements. Evidently, there is no central coordinating function to ensure that the method of developing and using program elements is consistent amongst the subordinate commands. While the MoD does publish budget guidance, implementation remains the subordinate organization's responsibility. The Training Command, for example, has expended a significant amount of effort to catalog existing units and processes in an attempt to develop program elements; they are venturing to estimate the systems costs of developing program elements. Other commands, however, do not appear to be following with a similar endeavor in terms of developing program elements, suggesting a disparity of effort among the subordinate commands and a lack of coordination by the MoD.

Performance indicators remain a challenge for the subordinate commands. Discussions with international and Serbian MoD representatives revealed that almost all of the development metrics are aligned with resource usage and inputs rather than activities, outputs, or outcomes.³⁸ As with program elements, there is significant variation in efforts to develop these indicators; for example, some subordinate commands have developed hundreds of potential indicators and others have not yet started the development process. The lack of a central database of performance metrics casts doubt on the ability of senior leadership to track resources and performance towards the strategic missions outlined in the DS.

As noted by Diamond, there is no point in designing and implementing a program if there is a lack of data upon which to judge performance.³⁹ As with the Serbian MoF, the Serbian MoD appears to lack the financial management infrastructure to implement a program budgeting system. Although the existing financial system has the ability to track expenditures down to the battalion level, there appears to be a lack of understanding on how to use the current system to reorient expenditures to a programmatic presentation. Specifically, while expenditure codes do exist, and are employed on a regular basis, the current program structure, which is based on the organizational level, inhibited development of expenditure object codes for a programmatic presentation. Simply put, since the organization and the program are the same in the current system, the organizational view is the program view.

Sequencing is a significant issue for the Serbian MoD. The apparent lack of analytical capability at the MoD to manage the program structure and resulting program elements

38. In discussions with representatives of the international community and the Serbian MoD, common performance indicators include the cash received relative to the entire budget; personnel assigned relative to the required number of personnel and equipment on hand relative to equipment required. There does not appear to be an explicit linkage between these indicators and the goals of the organization.

39. Jack Diamond, *From Program to Performance Budgeting: The Challenge for Emerging Market Economies*. IMF Working Paper WP/03/169, 2003.

has created confusion at lower levels in the organization. The disparity of effort among the major subordinate organizations suggests an uneven implementation of the program budget reforms. The apparent rush to implement program budgeting has resulted in an attempt to simultaneously develop the institutions and capabilities necessary for reform to succeed.

Is there consensus for the proposed reforms? If the program budgeting reform effort is to succeed, there should be a modicum of institutional consensus on the need, direction, and scope of reform. If executed correctly, program budgeting should shift the senior decision maker's focus to outputs and outcomes relative to the stated strategic missions in the NSS and DS. Unfortunately, there appears to be significant resistance to the proposed reforms.

Part of the reluctance to institute this change is also the potential transparency it brings to the current force structure, relative to the strategic missions. Fiscal reform can be hindered if one (or more) of the organizations involved view it as a zero-sum game. If the NSS and DS establish, for example, that internal security missions are of relatively high importance, this bodes poorly for the air force, which is still oriented to an air superiority mission. One might expect the air force to view reform as producing an unwanted outcome while the other organizations may view it as a potential gain. Clearly such a game can lead to unwanted outcomes where the air force seeks to block reforms that might, in the long run, benefit the organization as a whole. A programmatic presentation may also bolster arguments for a reduction in the size of the ground forces and administration in support of civil support and special operations units. Given the MoD employs approximately 30,000 military personnel and 10,000 civilians, such visibility may threaten the existing allocation of resources, leading to bureaucratic resistance.

Has senior leadership communicated the need for reform? Another issue regarding the resistance to reform is the absence of a change management program and a strategic communications program. Bureaucratic resistance to implementing budget reforms is well known, especially if reform is meant to produce significant winners (civil support and special operations) and losers (air force). No clear rationale appears to exist for the proposed reforms or for the desired outcomes associated with the reforms. This may be due to the existing institutional culture that relies upon a top-down management style. While previously such direction may have been possible, the democratic reforms currently underway in Serbia require a more consensus-driven approach. Senior MoD management does not appear to have clearly stated why budget reform is necessary, what benefits there will be to the organization, or how the MoD will move forward with budget reform.

The somewhat chaotic nature of MoD's implementation of program budgeting may be attributed, in part, to a lack of leadership. Without a senior decision maker to "champion" the program budgeting effort, organizations define what constitutes program budgeting to suit organizational culture and needs. An organization's effort is highly correlated with its technical expertise. It should be no surprise that Training Command, with its specialized and well-educated staff, is the most open to change. Training Command also may be a "winner" in reform, as it will need to produce more skilled analysts capable of implementing program budgeting. The military services,

on the other hand, are more resistant to change given that they may view reform as a zero-sum game. Without a change management program and without sufficient communication from senior leadership, the prospects for reform are dim.

THE TRANSITION TO PROGRAM BUDGETING IN BOSNIA AND HERZEGOVINA

Given the current difficulties of the Serbian MoD with respect to the implementation of program budgeting, we briefly turn to the comparative case of the Bosnian and Herzegovina MoD (BiH-MoD). The BiH MoD can serve as a model for the Serbian MoD as the BiH MoD is in transition to a joint force and also continues to confront the legacies of the civil war of the 1990s. The implementation of program budgeting is also relatively recent, allowing the Serbian MoD to capitalize on the lessons learned of the BiH experience. While political and cultural constraints may inhibit the sharing of information between the BiH MoD and Serbian MoD, the lessons are practical and directly applicable to the effort in the Serbian MoD.

Unlike the Serbian MoD, the BiH MoD has, since 2005, worked to develop strategic guidance for the implementation of defense policy and program budgeting. Starting with the Law of Defense and the Law of Service in 2005, the BiH MoD developed a series of strategic documents to communicate externally and internally the reform path for the organization. Furthermore, the Ministry staff is responsible for updating these documents as part of a strategic planning cycle, avoiding the trap of many organizations of issuing strategic guidance and then not updating it as conditions and policies change. We thus observe the Security and Defense Policy (SDP) document being issued in 2006 and updated in 2008, leading to the Defense Review and Modernization Plan (DRMP) and the Defense Planning Policy (DPP) and Resource Management Policy (RMP) in 2009.⁴⁰

From the perspective of program budgeting, the 2009 DPP is important as it explicitly links the SDP to the RMP. The DPP contains, much like the U.S. Department of Defense's Strategic Planning Guidance, four sections linking policy to plans to resources: (1) identification of risks, threats, and challenges; (2) defense capabilities; (3) tasks and priorities; and (4) resources planning and programming. Simply put, the DPP is the bridge between strategic planning and program budgeting in the BiH MoD.

From the DPP, the BiH MoD issued the Planning Programming Budgeting and Execution Concept and Procedures document in 2009. There is thus, unlike in the Serbian MoD, a clear communication of strategic intent through the BiH MoD on the linkages between policies, plans, and programs. Furthermore, the MOD has centralized authority away from the subordinate organizations with regards to the control of the

40. S. Cikotić, (2010, 2 July). Minister of Defense, Bosnia and Herzegovina Ministry of Defense, "Strategic defense planning in Bosnia and Herzegovina," Presentation to the Senior International Defense Management Course, Naval Postgraduate School, Monterey, CA.

program budget system. The BiH MoD established four programs in 2009, organized by the goals stated in the preceding policy and planning documents. These four programs are: military defense, collective security operations, international cooperation, and administration. The BiH MoD is responsible for assigning program managers and thus has control over the implementation of program budgeting.

As the BiH MoD have stated their intent to transition to a joint force, the design of the BiH MoD program structure appears to be more conducive to reform than that of the Serbian MoD. First, senior level decision makers will have greater visibility on the allocation of resources' strategic goals. Second, within the Military Forces program, decision makers can allocate resources across competing subprograms: land forces, air forces, demining, and transition. This visibility is not available to Serbian MoD decision makers due to the inherent flaws in the Serbian MoD program structure.

The BiH MoD transition is not without difficulties. Personnel expenditures account for approximately 70% of total expenditures, limiting resources available for operations, procurement, and institutional reform. A gap of approximately 0.5% of GDP exists between the budget request and approved budget, further limiting the ability of the BiH MoD to progress towards its strategic goals. Execution remains a concern to senior decision makers, hence its inclusion in the design of the program budget system. Yet, Serbia shares similar weaknesses and has not made as significant of process towards implementing program budgeting. We believe that, even though there are significant historical issues between the two countries, the BiH MoD has lessons to share with the Serbian MoD.

RECOMMENDATIONS AND CONCLUSIONS

The MoD of the Republic of Serbia is attempting to pilot program budgeting in 2010. In its current form, the proposed program budget system will not produce its intended outcomes due to a flawed design, lack of consistency with best practice, and an absence of consensus and communication as to the benefits of reform. These flaws are, sadly, not uncommon and do not augur well for the implementation of program budgeting in the Serbian MoD.

The implementation of the proposed budget reforms should be halted at this point in time. While this is a somewhat dramatic step given that the MoD has been actively pursuing budget reform since 2003, and in earnest since 2008, the outcomes associated with a flawed implementation are more significant. In the worst case, the MoD could have a program structure for each subordinate organization with hundreds (if not thousands) of ill-defined program elements. The likelihood of failure is quite significant; a failure would impede future efforts to improve the efficiency and effectiveness of public resources in the MoD.

The MoD is better off returning to the flawed foundation of the program budget system to design a new program structure. Considering the guidance of the NSS and DS, the major programs for the Serbian PPBE system might be: (1) territorial defense, (2) international military cooperation, (3) support to civilian authorities, (4) training and logistics, and (5)

central administration. Given the relative small size of the SAF, a large number of programs are not necessary. An intelligence and surveillance program, for example, might consist of two-to-three program elements and be too small to merit management at the strategic level. Special operations, on the other hand, may warrant separation into a distinct program due to its high visibility in the MoD and its unique mission set.

The MoD should develop a strategic change plan to inform the organization why reform is necessary and how reform will produce a set of desired outcomes. The MoD must communicate more effectively with its subordinate organizations, else it risks creating another zero-sum game that leads to short-term resistance. If the MoD's senior leadership cannot effectively argue the why and the how of budget reform, then one should question whether the time is appropriate for such institutional change in the MoD.

Finally, the MoD and its subordinate commands must institutionalize the proposed budget reforms. The MoD, as discussed in this paper, does not have effective control over the program structure, program elements, or performance indicators. If the senior leadership believes that this environment will improve their management of the MoD's resources, they are mistaken. The MoD must, we believe, develop an analytical unit, responsible to the Minister of Defense for the development and implementation of program budgeting within the MoD. The MoD should also establish a process by which individuals ascend to this new unit and obtain the requisite skills necessary to work efficiently within the unit. As such, the MoD can turn to its international partners for assistance in training and education. The MoD, however, cannot neglect the subordinate commands in this process. If the subordinate commands do not have the institutional capability to provide the information required for a program budget system to operate, the reforms are likely to fail.

In conclusion, the Serbian MoD should pause in its efforts to implement program budgeting due major flaws in the effort to date. Given Serbia's regional importance and its stated intent to reform the armed forces, the success of its program budgeting effort is of concern. Failure would likely perpetuate the current force structure and inhibit current efforts to create a joint force. Failure will also likely inhibit the Serbian Armed Forces' ability to provide increased support to their international partners and civil authorities. These failures are likely to undermine Serbia's participating in the NATO PfP program, illustrating the linkage between program budget reform and the external strategic objectives of the GoRS. The potential impact of a flawed budget reform in the Serbian MoD is thus of concern to the domestic and international community.