



EXPLAINING BUDGET DEVIATION

A BUDGET CREDIBILITY SNAPSHOT

April 2019

The study of budget credibility examines the extent, nature, causes and consequences of deviations from approved budgets. In this series, part of the International Budget Partnership’s Assessing Budget Credibility Project, 24 civil society partners in 23 countries probed a specific area in which execution of the national budget repeatedly diverged from the approved plan to learn whether adequate reasons were provided for the deviation. The broader synthesis report on these findings can be found [here](#).

SERBIA: CONTINGENCY FUND

In Serbia, the government has a contingency fund known as the “current budget reserve” that is set aside for cases where the original budget for various items is deemed insufficient or to supplement municipalities that experience revenue shortfalls.

BUDGET CREDIBILITY CHALLENGE

In recent years, the government has allocated a small amount of money into the contingency fund when enacting the original budget, but then later has significantly boosted this original figure by transferring into it funds that “cannot be used” from various programs. For example, in 2017, the budget allocated RSD 2 billion for the contingency reserve, but, over the course of the year, an additional RSD 44.3 billion was transferred into the fund. Although Serbia has other procedures for virement (shifting of funds from one budget item to another), these other procedures do not offer nearly as much discretion on disbursement as the current budget reserve does. It is generally unclear how a determination is made that appropriated funds “cannot be used,” or on where those funds will be redirected.

CURRENT RESERVE FUND: APPROVED BUDGET VS ACTUAL TRANSFERRED AMOUNTS DURING THE YEAR

| CURRENT RESERVE FUND | 2014 | 2015 | 2016 | 2017 |
|--|------------|-------------|-------------|-------------|
| Approved by Parliament (RSD bn) | 1.1 | 1.2 | 1.1 | 2.0 |
| In-year transfers to the fund (RSD bn) | 2.9 | 28.4 | 37.8 | 44.3 |
| Total: approved budget + in-year transfers (RSD bn) | 4.0 | 29.6 | 38.9 | 46.3 |
| Percent increase to fund during the year | 264% | 2427% | 3312% | 2215% |

Source: Official Gazette of Serbia

WERE EXPLANATIONS FOR THE DEVIATIONS FOUND IN GOVERNMENT REPORTS?

No. None of the following reports contained justifications for budget deviations:

- Decisions on the use of the current reserve fund, published in the Official Gazette
- Municipal budget execution reports
- Audit reports from the State Audit Institution

DID THE GOVERNMENT AGREE TO BE INTERVIEWED TO EXPLAIN FURTHER?

No. The researcher sent numerous freedom-of-information requests to those institutions and municipalities that either contributed or received funds from the current reserve. Of the 30 requests sent to institutions from whom funds were taken, only 9 responded and these replies usually explained what the funds would be used for, rather than why they were moved in the first place. It is clear from some of these responses that this process is used in some cases to move funding between projects. For example, in 2017 the Ministry of Infrastructure requested the Ministry of Finance to transfer 150 million RSD from a railway project to reconstruct health clinics.

The most detailed response pertained to a transfer from a program that manages corn reserves for emergency situations to the Veterinary Directorate and the Budget Fund for Waters. The agency responsible for this program explained that funds (RSD 699 million of RSD 845 million) were transferred out of the original activity because market corn prices increased beyond what the government approved to pay.

Twelve information requests were also sent to municipalities to inquire on why funds were solicited from the reserve and how they were ultimately utilized. Eight of these requests were answered, but the responses primarily described how the funds were spent rather than why they were needed (i.e., what caused the municipal revenue shortfalls in the first place). One municipality replied that this information was not of public interest and refused to explain how the funds were used.

Information requests were also sent to three relevant institutions — State Audit Institutions, Ministry of Finance, and Parliamentary Committee for Budget and Public Finances — to learn what oversight they provide over the process of reallocation of funds to the contingency reserve. Only the Parliamentary Committee replied, but the explanation they offered pertained to the procedures and role of the committee, rather than substantive answers on the working of the current reserve fund.

WERE THE REASONS PROVIDED BY GOVERNMENT ADEQUATE?

No. No reasons were identified in published reports and the information requests typically yielded no or very limited information. Even the most detailed reason on the corn reserves program lacks important details. For instance, it does not explain why the agency could not request approval to purchase corn at a higher rate to avoid losing the funds, or why they were transferred to the Veterinary Directorate and water fund. Overall, it remains unclear how the government reaches decisions on which entities lose or benefit from the current reserve fund.