
Using of contingency funds in Serbia 2014-2017

Study on Budget Credibility

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Contingency funds in Serbia

Using of contingency funds by the government during the fiscal year has significant impact to the budget. Since 2015, there is a legal threshold for such "budget reserve" funds, that is 4% of overall budget income¹. In practice, the level of contingency funds is significantly smaller in the original budget, approved by the Parliament, but the Government increases it by transferring funds from approved budget appropriations that "cannot be used" to the contingency funds. Government, however, does not provide explanation on consequences of to the original budget programs from which money was taken.

Thereafter, money from the contingency fund is transferred to other budget beneficiaries and spent for other purposes, either entirely new or for those where original funds were insufficient. Significant part of these funds is transferred to the municipalities selected in an arbitrary manner and without the explanation.

In general, using of "current budget reserve", i.e. contingency funds, is prescribed by the Law on Budget System. The law envisages "Current budget reserve" and "Permanent budget reserve". The part of the planned revenues which is not allocated in advance, but is retained in the name of the current budget reserve can be used for "**unplanned purposes for which no appropriations have been established or for purposes that during the year show that the appropriations were not sufficient**". It is set by the law to the limit - up to 4% of total revenues.

Current budget reserve is allocated by The Government's decision to direct users of budget funds.

Apart from the mentioned (and bolded) provision, current reserve can also be allocated to the local authorities "due to the reduced amount of revenues of the local government budget".²

The subject of our research is primarily use of current budget reserve, as it is identified as a tool to significantly divert originally approved budget by decisions of the Executive. The Government progressively used this opportunity over the years.

In 2014, there were 75 Government's decisions about contingency funds, in 2015 there were 118 decisions, in 2016 the number rose to 168 and in 2017 there were 198 decisions. The Government adopts such decisions on sessions, based on proposal of Ministry of Finance. No further criteria or procedures are regulated. Typical decision on budget reserve contains quotation of legal provisions, identification of budget beneficiary, affected budget appropriations, programs and amounts. However, there is no explanation of reasons for such decisions.

¹ It was 2% until 2015

²There is also "permanent budget reserve". It is used to finance expenditures for removing the consequences of extraordinary circumstances, such as earthquake, flood, drought, fire, landslides, animal and plant diseases, disasters and other natural disasters, or other emergencies that could endanger the lives and health of people or cause damage to larger proportions. The permanent budget reserve defines up to 0.5% of total budget revenues.

In original 2014 budget, contingency fund for current budget reserve was 1.1. Billion RSD. Additional 2.9 million was transferred to the reserve during the budget year. In 2015 legislation changed, enabling Government to double current budget reserve, which it used in following years.

Table 1: Contingency funds for current budget reserve in original budget and during the year

Fiscal Year	Approved Funds by the Parliament (RSD Billion)	Total Funds (including allocation by the Government) (RSD Billion)	% of funds not approved by the Parliament
2014	1.10	4.00	72.50
2015	1.17	29.57	96.04
2016	1.14	38.90	97.07
2017	2.00	46.30	95.68

So huge amount of funds spent for other purposes, indicates poor planning in the original budget. On the other hand, those funds are in many occasions spent for unidentified projects of local authorities. Furthermore, in some instances there is suspicion of these funds being used for the purpose of political promotions of local leaders, or based on their political ties with central government.³

From the overview of these decisions, and sample made by Transparency Serbia (TS) for the purpose of this research, it can be noticed that some of decisions were made **already in the first half of the year**, and one cannot help wondering how did Government foreseen that those fund “cannot be used” and that “transfer will not jeopardize the established priorities”, although the programs from which money was taken are continued. This is one of the questions TS asked the Ministry of Finance within this research, but remained unanswered.

The other situation is when transfers are made at the end of the fiscal year, when it is clear that certain appropriation will not be spent. For instance, in 2016, Government on December 26th, just a few days before the end of the budget year, distributed the total amount of 1,526 billion RSD to the cities and municipalities. Those funds were previously dedicated for the support of National employment service for the people that lost their jobs, and for the Ministry of Labor appropriation, aimed to deal with the surplus of employees in the public sector.

The originally planned amount of transfers to all cities and municipalities during the fiscal year was 33,327 billion RSD. However, even if these additional funds were only about 5% of those originally planned for municipal transfers, one should have in mind that only about ¼ of cities and municipalities received these funds. So, the effects of changes in comparison to the original budget are quite significant for cities and municipalities that benefited from those transfers. Funds aimed for National employment bureau were originally planned as 4,150 billion RSD, so more than 1/3 went ultimately to the budget contingency funds and for totally another purpose thereafter.

Similar examples are presented in chapters "Unused budget appropriations" and "Transfers to municipalities" in this report.

³<https://insajder.net/sr/sajt/tema/9052/>, <http://rs.n1info.com/Biznis/a279989/Milojko-Arsic-o-dugovima-opstina-i-gradova.html>, <https://www.blic.rs/vesti/politika/otkrivamo-stotine-miliona-iz-budzeta-za-sns-gradove/h0jxe8k>, <http://www.politika.rs/sr/clanak/395015/Putevi-novca-iz-budzetske-rezerve>

Research Methodology and Sample

TS collected all government's decisions on transfer to contingency fund and from contingency fund in 2014, 2015, 2016 and 2017⁴. The total of 550 decisions was taken from the "Official Gazette". In order to make the sample for research, we focused on biggest transfers, on transfers from appropriations of specific programs (such as ongoing infrastructure projects, concrete development projects) and on transfers indented for municipalities.

Amongst all transfers to municipalities, 3 were selected per each year included in the research - total of 12 individual transfers. There were two questions we tried to answer: 1) How did Government select municipalities to be given transfers from the contingency funds? 2) How did it decide on the amounts of transfers? 3) What was the ultimate purpose that contingency funds were used for in those municipalities?

In order to get answer to the first and second question, we sent a free access to information request to the Ministry of Finance, asking whether there were any other requests for transfers, apart from those which were granted, and whether those granted were granted fully (regarding amount). If not, we Ministry to send us criteria used to decide which requests and to what extent would be granted. The Ministry didn't reply to our request.

In order to get answer to the third question, we sent requests to local authorities (12 in total) asking them what programs were endangered because of the lack of income and couldn't be fulfilled if there was no transfer from contingency fund. We received replies from 8 municipalities. More details in the chapter "Unused budget appropriations" and "Transfers to municipalities" in this report.

As for transfers to contingency fund from other appropriations, TS selected 39 cases. Some of those, however, came from the same source, therefore we sent 30 requests to relevant ministries and other budget users, from which money was taken - 9 in 2017, 11 in 2016, 7 in 2015 and 3 in 2014. .

We asked for explanation - why some budget appropriations, transferred to the contingency fund, remained unspent and in which way that affected achievement of budget program goals? We received only 9 replies, but it was actually five out of 8 institutions (ministries and other budget users) which provided some sort of explanations. The rest - 21 requests were sent to 3 ministries. More details in the chapter "Unused budget appropriations" in this report.

TS also studied State Audit Institution's audits of budget for [2014](#), [2015](#) and [2016](#), and laws on budget for [2014](#), [2015](#), [2016](#) and [2017](#) in order to get information about amount of total money flow through contingency fund , about program indicators for programs and projects from which money was taken to contingency fund or it was unspent at the end of the year.

In order to put more light on these processes and role of other institutions in control of contingency fund, we sent questions to three relevant institutions - State Audit Institutions, Ministry of Finance and Parliamentary Committee for Budget and Public Finances. The complete list of questions and responds is available in Annex 4 of this report.

⁴ All documents (in Serbian) on TS website: <http://www.transparentnost.org.rs/index.php/sr/projekti/174-upotreba-budzetske-rezerve>

Unused budget appropriations⁵

Among other, TS considered within this research following transfers of underspent funds to the budget reserve:

For year 2017, we observed **Ministry of Finance** Program "Social protection" - Program activity "Support to the Republican Health Fund," Economic Classification - "Grants to organizations of compulsory social security". There were five transfers; total amount was 2.4 billion RSD, which is 12.2% of the appropriation for that budget program. This high percentage indicated either bad planning of the budget, which left a lot of money unspent at this appropriation, or this program activity could have been endangered by transferring this amount.

Ministry of Construction, Transport and Infrastructure, within the Program - Realization of infrastructure projects of importance for the Republic of Serbia, Project - M 1.11 road Kragujevac-Batocina, underspent 280 million RSD were transferred which is 62% of the total appropriation.

The Ministry, in its [response](#), sent us request to Ministry of Finance in November 2017 to transfer 280 million RSD to budget reserve and to use it for another project financed from the budget appropriation of the same ministry - preparation for the building railroad connection from Smederevo-Mala Krsna railroad to Smederevo port, as well as Conclusion of the Government, from May 2017, that this other project should be financed and that Ministry of Construction should provide financing for this project. This explained what was money spent for, but it didn't, however, explain what happened with the project we took in consideration.

Same ministry, for the Program - "Implementation of infrastructure projects of importance for the Republic of Serbia", Hungarian - Serbian Railway Project, out of 850 million RSD, did not use 150 million that were transfer instead (18%). The Ministry, in its [response](#), sent following documents: Request made to Ministry of Finance in March 2017 to transfer 150 million RSD to budget reserve and to use it for another project financed from the budget appropriation of the same ministry – making technical documentation for reconstruction of several health clinics and Conclusion of the Government that approves transfer. There was no explanation in the provided documents what happened with the project and how did reducing appropriation by 18% as early as in March influenced this project.

Ministry of Mining and Energy (it didn't reply to any TS requests) had Program - Management of mandatory reserves, Program activity - Formation and maintenance of obligatory oil reserves, oil derivatives and natural gas derivatives; economic classification - Specialized services. Out of 1.75 billion dinars, 1.7 billion was transferred to the budget reserve.

In 2016, **Ministry of Finance** run Program - Regulation of the system of work and employment and legal relations, Program activity - Support to the National Employment Bureau in exercising the rights of beneficiaries in case of unemployment. Out of a total of 4.15 billion dinars, 1.25 billion was transferred to the contingency fund.

⁵ Excel table with all transfers taken into considerations is attached. It presents amount, source (appropriation money was taken from), and final destination of the transfer.

Ministry of Construction, Transport and Infrastructure had Program - Realization of infrastructure projects of importance for the Republic of Serbia, Project - Construction of the bridge Zemun - Borca with associated roads, economic classification – Buildings. There were two transfers (April and October 2016). Out of 644 million, 557 million was transferred to the contingency fund. The Ministry, in its [response](#), sent request to Ministry of Finance in April 2016 to transfer 360 million RSD to budget reserve and to use it for another project financed from the budget appropriation of the same ministry – reconstruction of water supply system in city of Užice. This request included detailed explanation what money will be spent for, and only one reference to original project, money was taken from: “Considering the fact that 644 million RSD envisaged for the project building Zemun-Borca bridge will not be used in total amount, we recommend that part of it – 360 million – be transferred for reconstruction of water supply system in Užice”.

They also requested from Ministry of Finance in October 2016 to transfer 197 million RSD to budget reserve and to use it for another project financed from the budget appropriation of the same ministry – building highway Kelebija-Subotica. This document is the only one with full explanation why this appropriation was not spent in 2016. Namely, the second request revealed that Government adopted conclusion in December 2015, according to which financing “points 29 and 30” in the project will be overtaken by the City of Belgrade, in total of 5.1 million USD.

Ministry of Mining and Energy run Program - Management of mandatory reserves, Program activity - Formation and maintenance of obligatory oil reserves, oil derivatives and natural gas derivatives, economic classification - Specialized services. Out of 1.35 billion dinars, 1.3 billion was transferred to the contingency fund.

Directorate for Commodity Reserves in their Program - Management of Commodity Reserves, Program Activity - Creation, Restoration, Storage and Preservation of Commodity Reserves, out of 1.247 billion, transferred an amount of 650 million to the contingency fund. This case was analyzed against the criteria set by IBP, in the table in Annex 1.

Ministry of Health had Program - Transfers to Fund for Health Insurance, Program Activity - Retirement Benefits for Reduced Employees in Health Institutions, Economic Classification - Grants to organizations of compulsory social security. Out of 4.4 billion dinar, two transferred were made, with total amount of 2.89 billion dinars. The Ministry provided short [explanation](#), without any official documents. It claimed that 1 billion RSD from this appropriation was used for redundancies of the former employees in the health system – 1,719. This was done in accordance with the Law on determining maximum number of employees in the public sector. Ministry claimed that in 2016, through “natural outflow of staff (retirement, leaving country)”, the number of employees was reduced even further and it was finally reduced to 111,485 as envisaged by the Decision on maximal number of employees in the public sector. Thus, Ministry claimed, this Program Activity was fully realized and the rest of the appropriation was unspent and transferred to the contingency fund.

National Employment Bureau run Program - Regulation of the system of work and employment and legal relations, Program activity - Support to the National Employment Bureau in exercising the rights of beneficiaries in case of unemployment, economic classification - Grants to organizations of compulsory social security. Out of total of 4.15 billion RSD, 1.25 was transferred to the budget reserve. National Employment Bureau [replied](#) to the request but it didn't provide any information.

It claimed that all the information we requested can be found in their report on execution of the financial plan.

In 2015, **Ministry of Finance** had appropriation for the Program - Social protection, Program activity - Support to the Health Fund. Out of 30.7 billion RSD, in four transfers, the Government transferred 9.1 billion to the contingency fund. It is nearly 30% of the original appropriation.

In another Program of same Ministry, Support to the work of public administration bodies, Program activity - Execution of court proceedings, economic classification - Fines and penalties by court decision, out of 2.95 billion RSD, 541 million RSD (18%) was transferred to the contingency fund.

Ministry of Mining and Energy had Program - Mineral Resources Management, Project - Regional Development of Bor municipality, Economic Classification – Buildings. The budget envisaged total of 400 million for this project. One appropriation was 250 million (for the buildings) and other 150 million (other services, by contracts). From the "building appropriation" 118 million was transferred to the contingency fund. It was 47% of this appropriation and 29% of the total project.

In 2014, **Ministry of Labor, Employment, Veterans' Affairs and Social Affairs**, had appropriation Function - Social Assistance to Disadvantaged Populations , Economic Classification - Grants to non-governmental organizations. The total appropriation was 798 million RSD and 226 million RSD was transferred to the contingency fund. This transfer was preceded by an affair concerning the public competition, when media published that grants were given to NGO registered after the public call was published, and some organizations without proper references. There was no investigation about what seemed to be rigged competition, it was annulled and money was transferred to the contingency fund in order to be transferred further to the fund for supporting treatment of the ill children abroad. The move was considered as attempt to hush up the scandal. ⁶The Ministry didn't respond to TS request.

⁶<http://www.politika.rs/sr/clanak/312617/Projekti-NVO-i-ranijih-godina-budili-sumnje>

Transfers to municipalities

Total annual transfers from contingency funds to municipalities observed in this research were in the range between 30 million RSD (merely 300.000 USD) and 534 million (5.3 million USD). Depending on the size of municipalities and their budgets, these transfers represented between 2% and 18% of the total municipalities' budget.

TS requested following information from all of them: which budget programs and projects could not be implemented due to lower budget revenues, and therefore it was necessary to request funds from the current budget reserve of the Republic of Serbia or for which purposes were spent the funds that the local self-government received?

Since there is a debate in some media in Serbia, not only if these funds are used for popular programs aiming for promotion of local politicians, but also whether selection of the municipalities is based on concrete criteria or it is political decision, we requested following information from the Ministry of Finance:

- Which cities and municipalities addressed the Ministry of Finance / Government of the Republic of Serbia in 2014, 2015, 2016 and 2017 with the request for transfer of funds from the budget reserve for the fulfillment of current obligations, due to the reduced volume of budget revenues?
- Whether all those requests have been accepted and have they been fully accepted as to the amount requested?
- If some requests have not accepted or not accepted in full, on the basis of which criteria were they accepted, rejected and on the basis of which criteria has been decided on the amount?

There was no reply from the Ministry of Finance. As for Municipalities, 8 out of 12 replied and provided following some explanations (available in Annex 3 to this report).

Main Conclusions and Recommendations

The research proofed all previously identified weaknesses of the system of contingency funds and exposed some that the public was not aware of. In Serbia, using of contingency funds by the government during the fiscal year has significant impact to the budget. Serbian Legislature is not performing an effective oversight of Expenditure's spending. It also readily follows Government's intentions to re-balance budget during the year. However Government is also using legal mechanisms to spend the portion of budget funds without previous approval of the Parliament. These mechanisms are transfers from and to the contingency funds, i.e. "current budget reserve".

According to the Budget System Law, till 2015, the annual threshold on disposal of the Government was 2% of the overall budget, and thereon is 4%. Usually, at the beginning of the fiscal year, in the approved budget, these funds are significantly smaller. Essentially, Government **plans** in advance that significant part of the original budget would not be spent for the original purposes. The law envisages "Current budget reserve", as a part of the planned revenues which is not allocated in advance, but is retained in the name of the current budget reserve can be used for "**unplanned purposes for which no appropriations have been established or for purposes that during the year show that the appropriations were not sufficient**".

Government does not provide explanation on consequences of to the original budget programs from which money was taken. These funds are used for other purposes, either entirely new or for those where original funds were insufficient. Significant part of these funds is transferred to the municipalities selected in an arbitrary manner and without the explanation. Therefore, contingency funds are also **mighty tool of political influence in local governments**. In the absence of further explanation and evidence, members of public are unable to check whether municipal transfer really took place "**due to the reduced amount of revenues of the local government budget**", as Governments decision claim.

Since the Government **did not submit its financial end – year report** to the Parliament for several years, the ratio of contingency funds transfers is not explained even post festum. State Audit Institution is providing an overview of these expenditures. Individual Government decisions on transfers, without explanatory note are published in the Official Gazette, but not on-line and for free. This all **reduces the level of transparency** of this decision making.

The Government **progressively used this opportunity over the years**. While there were 75 Government's decisions on current reserve in 2014, there were as much as 198 in 2017. The research identified that many of decisions were made **already in the first half of the year**. That may be either consequence of **poor budget planning process**, or **intentional shifting** of the approved budget for another purpose.

Another problem is **lack of information** about effects of the budget reserve transfers to the original programs.

Within this research, we identified as additional problems **lack of willingness to provide information** about the contingency funds even on the basis of free access to information requests. Namely, Ministry of Finance, as a key decision maker here ignored both requests and interview questions.

So was the situation with many of budget beneficiaries we addressed. The chair of Parliamentary Finance committee responded to our query and confirmed that using of current budget reserve was not under particular scrutiny of this body.

The government may significantly improve the way in which it describes and justifies budget deviations. Our key recommendations for the Government are following:

- to publish all decisions on budget contingency reserve transfers on – line
- to draft and publish detailed explanatory note for these decisions
- to establish criteria for distribution of contingency funds to the municipalities with “reduced income”
- to publish these criteria and information about the selection process, where needs of municipalities is greater than available funds
- to inform the parliament in timely manner about major shifts of the funds to the contingency funds and effects for the originally approved programs
- to provide detailed explanation on effects of its decisions in the end-year report

Transparency Serbia also recommends:

State Audit Institution to perform performance audit of programs affected by transfers to the budget reserve and compliance audit of decisions related to the further distribution of these funds to municipalities;

Fiscal Council, to perform a more detailed analyze of phenomenon researched here and to initiated more strict fiscal rules

Parliament to ask Government for further information on contingency funds transfers, detailed end-year report and to organize public hearing about current practice

Annex 1: Case study

Table 1 - **Transfer from the budget appropriation of the Republic Directorate for Commodity Reserves' budget for year 2016**, - Section 52 - Republic Directorate for Commodity Reserves, Program 2401 - Management of Commodity Reserves, Function 490 - Economic Affairs Unclassified elsewhere, Program Activity 0002 - Education, Restoration, Storage and Preservation of Commodity Reserves, Appropriation Economic Classification 521 - Commodity Reserves.

Republic Directorate for Commodity Reserves is legal entity, established by the Law on Commodity Reserves (2013), in charge to perform administrative, expert and economic services related to the Commodity Reserves. Government of Serbia is in charge for overall management with reserves (Article 5 of the Law). The purpose of Reserves is to ensure that there would be sufficient amounts of essential goods, necessary for citizens in various extraordinary situations, such are natural disasters, wars, floods or huge market deteriorations. The level of necessary reserves is not defined in the Law, but the optimal level of reserves, as stated in elaboration of budget programs should be "to satisfy citizens' needs for the period that is between 45 and 90 days, depending on good"⁷. According to the same document, current level is far from optimal and for the corn the reserve level sufficient for 8 days only in 2016.

RDCR purchase goods based on its Annual Program and Financial Plan, adopted following enactment of country's annual budget and further approved by the Government of Serbia (Article 8). Goods are purchased through public procurements, except for agriculture goods, that are purchased from producers directly on stock exchange markets (Article 12).

In the budget for year 2016, Republic of Serbia planned to increase level of corn reserves, from 131.000 to 161.000 tons⁸, i.e. to purchase at least 30,000,000 kg. The Program and Financial Plan of RDCR was approved by the Government on February 6th 2016. According to the Annual Report of RDCR for year 2016, the revised Program and Financial Plan were approved by the Government on November 9th 2016⁹. The actual content of these documents is not known (documents not published).

However, it is visible that by its Conclusion no. 05 339-10423/2016, of November 9th 2016, Government approved RDCR to purchase up to 51,256,848 kg of mercantile corn, harvested in 2016¹⁰. Government approved overall spending of 845,738,000 RSD for that purpose, but also identified 16.5 RSD as a unit prices per kilo. The deadline for purchase was November 30th 2016¹¹.

RDCR purchased the total of 8,875,213 kg of corn (i.e. only 17,3% of envisaged amount). The actual price paid for that purpose is not visible in the report, but it is probably 146,441,014.5 RSD, based on 16.5 RSD unit price, thus leaving the total of 699,296,985.5 RSD unspent.

⁷http://www.parlament.gov.rs/upload/archive/files/cir/pdf/predlozi_zakona/2017%20Budzet%20RS.pdf, page 912.

⁸http://www.parlament.gov.rs/upload/archive/files/cir/pdf/predlozi_zakona/3204-15.pdf, page 1326.

⁹<http://www.rdr.gov.rs/doc/2017/09.05.207%20Izvestaj%20o%20radu%20Direkcije%20za%202016%20godinu.pdf>

¹⁰http://www.rdr.gov.rs/doc/zakljucak%20o%20kupovini%20kukuruza%202016_11_14_10_38_40.pdf

¹¹http://www.rdr.gov.rs/doc/zakljucak%20o%20kupovini%20kukuruza%202016_11_14_10_38_40.pdf

If used to buy additional corn for indicated market price (17.05 RSD per kg), these funds would be sufficient for the purchase of additional 41,014,486 kg, and fulfillment of plan in as much as 97.3%.

Republic Directorate for Commodity Reserves explained that the actual performance that is significantly lower than originally approved is a consequence of inability of RDCR to purchase corn under the terms offered by that body to the farmers. They indicated that the Government approved to buy corn for 16.5 RSD per kg, as the market price was on October 10th 2016¹², while the market price went up to 17.05 RSD at the time when Government approval came (November 9th 2016).

By two decisions in 2016, both on December 23rd, the Government of Serbia's decided to transfer the most of remaining funds in the budget reserve, in total assets of 650,277,000 RSD (389,277,000 and 261,000,000). The original budget program for purchase of goods was 1,247,238,000, which relates to other goods, aside from the corn as well (e.g. wheat). .. That's why under spending remained lower, but still huge when considered on whole budget program level (almost half).

However, RDCR did not provide any information on whether RDCR asked the Government to approve purchase corn for higher prices immediately when they realized that the market price changed, and certainly before the December 23rd transfer to the budget reserve took place.

RDCR also claimed in direct answer to TS question that transfer "did not affect achievement of program activities", even if it is obvious that RDCR, due to decrease of the budget appropriation for the program, did not purchase corn aimed to increase Commodity Reserve (at least 30.000 tones, according to the budget program indicator, up to 51,256,848 kg, according to the approved Program).

Assessment of Reasons for Budget Deviations	Is the government's justification according to this criterion adequate, somewhat adequate, or inadequate?	Explain why you rated the justification as adequate, somewhat adequate, or inadequate below:
<p>1. Identify a causal link between a set of facts (A) and deviations from the budget (B). (Minimum Condition) A government should explain why actual performance deviated from the original projections in the budget. For example, actual revenue or expenditure may be different than the budget for reasons related to the economy, to changes in policy, or to technical factors such as errors in predicted participation rates in a program or tax credit. These facts could be used to provide a causal explanation for budget deviations.</p>	<p>Government' justification is inadequate.</p>	<p>RDCR could not utilize approved budget funds due to changed market conditions compared to those originally envisaged. Even if explanation for deviation is causal, important information is missing. It is true that RDCR was not authorized by the Government to pay higher unit price for corn than originally approved. However, neither RDCR nor the Government provided information on whether RDCR asked for approval to buy corn under new market price between November 9th and December 23rd in order to fulfill original budget program's goals.</p>

¹²http://www.transparentnost.org.rs/images/dokumenti_uz_vesti/Odgovor_RDRR_budzetska.pdf

<p>2. Explain the mechanism by which a set of facts (A) has caused deviations (B) and, where possible, what (C) caused (A) in the first place.</p> <p>If A (facts) caused B (deviation from budget), how did A cause B? A causal statement is more powerful if it explains the mechanism through which A caused B. For example, assume government identifies an economic shock as having caused revenue to decline below forecast levels. Explaining the mechanism by which this occurred would require providing evidence showing how the economic shock resulted in lower economic growth, which led to lower employment and lower incomes, which in turn reduced collections for major tax heads like income tax and VAT. In cases where A was under the government's control, such as when it was caused by a policy change, at least some explanation for this (C) that caused (A) should be provided. For example, if revenue decline (B) was caused by failure to implement an automated revenue system(A), why was the system not implemented? Only one additional reason for (C) needs to be identified.</p>	<p>Government's justification is inadequate.</p>	<p>The alleged reason (C) that caused deviation (under spending of as much as 82.7% for the purchase of corn), provided by RBBC was that program was not fulfilled because the price went up and farmers didn't want to sell the corn for the price offered by RDCR. However, the real cause was the failure of the RDCR and the Government to change the Program in timely manner, even if there was sufficient time to do it, by increasing the price their offered to the farmers, to buy corn thereafter and to meet targets in 97%.</p>
<p>3. Show whether the facts (A) fully explain the budget deviations (B), including their components.</p> <p>If a set of facts (A) explains a deviation from the budget (B), is the set of facts sufficient to explain any variation in the deviation when it is disaggregated into its component parts (B₀, B₁ and B₂)? For instance, assume overall expenditure has declined, but that some types of spending increased while others decreased. The facts presented should be sufficient to explain both facts:</p>	<p>Government justification is somewhat adequate.</p>	<p>The set of facts provides explanation on decrease of the appropriation for the specific program of RDC.R It also explains where these funds were transferred thereafter (to the contingency funds). However, no details are provided about share of the funds transferred from the original appropriation, and the way how it affected original budget program. TS found some of the missing data by further search through the relevant documents. Namely, we identified from the original budget explanatory note that the RDCR intended to increase overall level of</p>

<p>overall spending on health might have decreased because uptake of a large insurance scheme was below target, but spending on health infrastructure was faster than expected due to the sudden resolution of outstanding legal cases that had barred construction on contested land.</p>		<p>corn commodities from 135 to 165 thousand tons till the end of 2016. It means that RBBC planned to buy at least 30 thousand tons of corn during this year, which they failed to do. Other source of information indicates that RDCR failed to achieve Program goals to even greater extend, by purchasing only 8.8 thousand tons of corn instead of approved 51.2. RDCR did not provide information about these consequences when answering TS request for information, and Government provided no such explanation in their final budget report (annual budget report not produced).</p>
<p>4. Show how explanations are consistent with past experience or why conditions have changed. If A facts caused B deviation, is this result consistent with historical experience? If not, why not? A is a better explanation for B if evidence is provided that A normally (from past experience) causes B. For instance, if a particular change in the economy normally causes revenue to decline by a certain amount, it is a more convincing reason for the revenue decline now. If actual performance is not consistent with past experience, then some additional explanation for this fact is needed. Where conditions have changed, governments should also confirm that they will change their approach to forecasting in the future, or explain why not.</p>	<p>Not applicable</p>	<p>Due to specific nature of the research conducted by Transparency Serbia, about transfers to and from contingency fund, no conclusion may be made through the time span. Namely, budget appropriations used to fill contingency funds from and appropriations where these funds are transferred from the contingency funds, differ from year to year. When having in mind concrete set of data that caused deviation in 2016, it is clear that changes of market prices may anytime affect ability of Government and RDCR to fulfill its program goals. It is therefore clear that adjustments are needed in order to purchase goods considered as necessary by paying what the market price is. However, as shown in data set, the system of approval is not flexible enough and reaction to the problem is not timely one. Furthermore RDCR and Government did not show that they learned on this experience and changed the approval system.</p>
<p>5. Explain the most important deviations. If X, Y, and Z are all major deviations from the budget, are explanations provided for all three? A government should explain all major budget deviations, rather than explaining only some or instead explaining minor deviations. Major deviations can be defined in terms of budget size, but also in terms of priority groups (e.g., the poor), or in terms of the non-</p>	<p>Government' justification is inadequate.</p>	<p>The Government did not submit annual financial report year 2016, and therefore did not explain any of deviations (major or minor) from the original budget. RDCR published its annual report, but did not provide explanation for neither major nor minor deviations from their plan in that document. They provided some explanations only in direct answer to TS query. This justification is inadequate, as it indicates immediate cause of under</p>

<p>financial impact of the deviations. The government will have to make and explain its judgment about what is a major deviation, or what are the most important deviations.</p>		<p>spending, but not the reasons why no effort was made in order to overcome the problem.</p> <p>When it comes to individual decisions of the Government to transfer funds to the contingency funds, due to alleged under spending, (in general), they are not further supported by arguments.</p> <p>TS asked for additional data for 11 such transfers from 2016, and receive some (incomplete) answer only in 5 cases. The rest four are even less informative than the one used for this analysis...</p>
<p>6. Other considerations. Please use this space to evaluate the quality of the reasons provided by government according to any other standard you think relevant that is not covered above.</p>	<p>Insights not covered by criteria</p>	

Annex 2: Complete list of monitored transfers of unused budget appropriations¹³

Following transfers (appropriations) were taken into consideration (original purpose of budget funds, before transferring to the budget reserve):

2017:

Ministry of Finance (it didn't reply to any TS requests)

- Program "Social protection" - Program activity "Support to the Republican Health Fund," Economic Classification - "Grants to organizations of compulsory social security".

There were five transfers; total amount was 2.4 billion RSD, which is 12.2% of the appropriation of whole budget program. This high percentage indicated either bad planning of the budget, which left a lot of money unspent at this appropriation, or this program activity could have be endangered by transferring this amount.

- Program "Public Debt Management", Program Activity "External Debt Service", Economic Classification "Repayment of Foreign Interest"

The total of 3 billion RSD was transferred (6 transfers), which is 4.7% of the whole appropriation.

- Program "Mandatory pension and disability insurance", Program activity "Support for payment of missing funds for regular pensions", economic classification "Grants to organizations of compulsory social security".

The total of 5.9 billion RSD was transferred (7 transfers), which is 3% of the whole appropriation.

- Program "Support to the work of public administration bodies", Program activity "Execution of court proceedings", economic classification "Fines and penalties by court decision".

The total of 716 million RSD was transferred (6 transfers), which is 18% of the whole appropriation.

- Program "Implementation of infrastructure projects of importance to the Republic of Serbia", Project "Land expropriation for the purpose of building capital projects".

The total of 1.6 billion RSD was transferred (3 transfers), which is 31% of the whole appropriation.

Ministry of Construction, Transport and Infrastructure

- Program - Realization of infrastructure projects of importance for the Republic of Serbia, Project - M 1.11 road Kragujevac - Batocina,

280 million RSD were transferred which is 62% of the total appropriation.

¹³ Excel table with all transfers taken into considerations is attached. It presents amount, source (appropriation money was taken from), and final destination of the transfer.

The Ministry, in its [response](#), sent following documents:

- Request made by Ministry of Construction to Ministry of Finance in November 2017 to transfer 280 million RSD to budget reserve and to use it for another project financed from the budget appropriation of the same ministry - preparation for the building railroad connection from Smederevo - Mala Krsna railroad to Smederevo port.
- Conclusion of the Government, from May 2017, that this other project should be financed and that Ministry of Construction should provide financing for this project.

This explained what was money spent for, but it didn't, however, explain what happened with the project we took in consideration.

- Program - Realization of infrastructure projects of importance for the Republic of Serbia,
Project - Construction of the E-763 Obrenovac - Ljig motorway,

Out of a total of 9.47 billion RSD, 2.38 were transferred to the budget reserve (2 transfers), which makes 25% of whole appropriation.

The Ministry, in its [response](#), sent following documents:

- Request made by Ministry of Construction to Ministry of Finance in March 2017 to transfer 110 million RSD to budget reserve and to use it for another project financed from the budget appropriation of the same ministry – making technical documentation for reconstruction of several health clinics.
- Conclusion of the Government, from March 2017, that this other project should be conducted by the Ministry of Construction.
- Request made by Ministry of Construction to Ministry of Finance in December 2017 to transfer 2.27 billion RSD to budget reserve and to use it for reforming railroad companies.
- Conclusion of the Government, from March 2017, to transfer money from appropriation to the contingency fund and to use it for reforming railroad companies.

The request included explanation what money will be used for, but again, it didn't provide explanation why it was unused and what happened with the projects, from which money was taken.

- Program - "Implementation of infrastructure projects of importance for the Republic of Serbia", Hungarian - Serbian Railway Project,

Out of 850 million RSD, 150 million were transferred (18%)

The Ministry, in its [response](#), sent following documents:

- Request made by Ministry of Construction to Ministry of Finance in March 2017 to transfer 150 million RSD to budget reserve and to use it for another project financed

from the budget appropriation of the same ministry – making technical documentation for reconstruction of several health clinics.

- Conclusion of the Government, from March 2017, that this other project should be conducted by the Ministry of Construction.

There was no explanation in the provided documents what happened with the project and how did reducing appropriation by 18% as early as in March influenced this project.

Ministry of Mining and Energy (it didn't reply to any TS requests)

- Program - Management of mandatory reserves, Program activity - Formation and maintenance of obligatory oil reserves, oil derivatives and natural gas derivatives; economic classification - Specialized services,

Out of 1.75 billion dinars, 1.7 billion was transferred to the budget reserve.

2016:

Ministry of Finance:

- Program "Public Debt Management", Program Activity "External Debt Service", Economic Classification "Repayment of Foreign Interest"

The total of 550 million RSD was transferred (3 transfers), which is 0.8% of the whole appropriation.

- Program "Mandatory pension and disability insurance", Program activity "Support for payment of missing funds for regular pensions", economic classification "Grants to organizations of compulsory social security".

The total of 4.58 billion RSD was transferred (6 transfers), which is 2.3% of the whole appropriation.

- Program "Support to the work of public administration bodies", Program activity "Execution of court proceedings", economic classification "Fines and penalties by court decision".

The total of 637 million RSD was transferred (3 transfers), which is 49% of the whole appropriation

- Program - Regulation of the system of work and employment and legal relations, Program activity - Support to the National Employment Bureau in exercising the rights of beneficiaries in case of unemployment,

Out of a total of 4.15 billion dinars, 1.25 billion was transferred to the contingency fund.

Ministry of Construction, Transport and Infrastructure

- Program - Realization of infrastructure projects of importance for the Republic of Serbia, Project - Construction of the bridge Zemun - Borca with associated roads, economic classification - Buildings

There were two transfers (April and October 2016). Out of 644 million, 557 million was transferred to the contingency fund.

The Ministry, in its [response](#), sent following documents:

- Request made by Ministry of Construction to Ministry of Finance in April 2016 to transfer 360 million RSD to budget reserve and to use it for another project financed from the budget appropriation of the same ministry – reconstruction of water supply system in city of Užice.

This request included detailed explanation what money will be spent for, and only one reference to original project, money was taken from: “Considering the fact that 644 million RSD envisaged for the project building Zemun - Borca bridge will not be used in total amount, we recommend that part of it – 360 million – be transferred for reconstruction of water supply system in Užice”.

- Request made by Ministry of Construction to Ministry of Finance in October 2016 to transfer 197 million RSD to budget reserve and to use it for another project financed from the budget appropriation of the same ministry – building highway Kelebija-Subotica.

This document is the only one with full explanation why this appropriation was not spent in 2016. Namely, the second request revealed that Government adopted conclusion in December 2015, according to which financing “points 29 and 30” in the project will be overtaken by the City of Belgrade, in total of 5.1 million USD.

Ministry of Mining and Energy

- Program - Management of mandatory reserves, Program activity - Formation and maintenance of obligatory oil reserves, oil derivatives and natural gas derivatives, economic classification - Specialized services

Out of 1.35 billion dinars, 1.3 billion was transferred to the contingency fund.

Directorate for Commodity Reserves

- Program - Management of Commodity Reserves, Program Activity - Creation, Restoration, Storage and Preservation of Commodity Reserves,

Out of 1.247 billion, amount of 650 million was transferred to the contingency fund. This case was analyzed against the criteria set by IBP, in the table in Annex 1.

Ministry of Health

- Program - Transfers to Fund for Health Insurance, Program Activity - Retirement Benefits for Reduced Employees in Health Institutions, Economic Classification - Grants to organizations of compulsory social security.

Out of 4.4 billion dinar, two transferred were made, with total amount of 2.89 billion dinars.

The Ministry provided short [explanation](#), without any official documents. It claimed that 1 billion RSD from this appropriation was used for redundancies of the former employees in the health system – 1,719. This was done in accordance with the Law on determining maximum number of employees in the public sector. Ministry claimed that in 2016, through “natural outflow of staff (retirement, leaving country)”, the number of employees was reduced even further and it was finally reduced to 111,485 as envisaged by the Decision on maximal number of employees in the public sector. Thus, Ministry claimed, this Program Activity was fully realized and the rest of the appropriation was unspent and transferred to the contingency fund.

Ministry of State Administration and Local Self-Government

- Program - Public Administration Reform, Program Activity - Organizational and Functional Reorganization of Public Administration, Economic Classification - Social benefits for employees,

Out of 10.7 billion RSD, the government transferred 1.5 billion RSD to the budget reserve.

The Ministry provided [explanation](#), claiming that this appropriation was planned for redundancies and compensations for former employees in the public sector, in accordance with the Law on determining maximum number of employees in the public sector. It was planned to reduce number of employees by 75,000. After additional analyses “by relevant national and international institutions”, the plan has been revised to reduce the number by 25,000-30,000. After negotiations with International Monetary Fund, it was further reduced to 14,512.

Ministry of Labor, Employment, Veterans' Affairs and Social Affairs

- Program - Active Employment Policy, Program Activity - Support to the resolution of the labor status of the redundant employees, economic classification - Fees for social protection from the budget.

Out of 6 billion RSD, 1.48 was transferred to the contingency fund.

National Employment Bureau

- Program - Regulation of the system of work and employment and legal relations, Program activity - Support to the National Employment Bureau in exercising the rights of beneficiaries in case of unemployment, economic classification - Grants to organizations of compulsory social security

Out of total of 4.15 billion RSD, 1.25 was transferred to the budget reserve.

National Employment Bureau [replied](#) to the request but it didn't provide any information. It claimed that all the information we requested can be found in their report on execution of the financial plan. However, information we requested was not found in documents NEB identified in the answer.

2015:***Ministry of Finance:***

- Program - Social protection, Program activity - Support to the Health Fund,

Out of 30.7 billion RSD, in four transfers, the Government transferred 9.1 billion to the contingency fund. It is nearly 30% of the original appropriation.

- Program - Support to the work of public administration bodies, Program activity - Execution of court proceedings, economic classification - Fines and penalties by court decision

Out of 2.95 billion RSD, 541 million RSD (18%) was transferred to the contingency fund.

- Program - Tax System Management and Tax Administration, Project - Modernization of Tax Administration Information System

There was 699 million RSD at this appropriation and 131 million RSD were transferred to the budget reserve as of 2 October 2015. Most of it was used for payment of salaries for the employees from the Tax Administration which taken over from the Serbian Tax Administration branches in Kosovo. Small part (13 million RSD) was used for the maintenance of a new computerized transit system - support to the information system of the customs services.

- Program - Employment and regulation of the system of work and labor relations, Program activity - Support to the National Employment Bureau in exercising the rights of beneficiaries in case of unemployment,

Out of 8.9 billion RSD, 3.8 billion was transferred to the budget reserve.

Ministry of Mining and Energy

- Program - Management of Commodity Reserves, Program Activity - Formation and Maintenance of Mandatory Oil Reserves,

On two occasions, on April 16th and May 29th, funds in the amount of 600 million and 277 million RSD were transferred to the budget reserve. The total appropriation was 6.8 billion, and the amount transferred in the April and May represented 13% of the appropriation.

- Program - Mineral Resources Management, Project - Regional Development of Bor municipality, Economic Classification - Buildings

The budget envisaged total of 400 million for this project. One appropriation was 250 million (for the buildings) and other 150 million (other services, by contracts). From the "building appropriation" 118 million was transferred to the contingency fund. It was 47% of this appropriation and 29% of the total project.

National Employment Bureau- same request as to the Ministry of finance, regarding the transfer of 3.8 billion RSD

- Program - Employment and regulation of the system of work and labor relations, Program activity - Support to the National Employment Bureau in exercising the rights of beneficiaries in case of unemployment,

Out of 8.9 billion RSD, 3.8 billion was transferred to the budget reserve.

National Employment Bureau [replied](#) to the request but it didn't provide any information. It claimed that all the information we requested can be found in their report on execution of the financial plan.

2014:**Ministry of Finance:**

- Public Debt Management, Classification - Repayment of Domestic Interest, Repayment of Foreign Interest

Total of 1.1 billion transferred, which is 1% of appropriations.

Ministry of Labor, Employment, Veterans' Affairs and Social Affairs

- Function - Social Assistance to Disadvantaged Populations , Economic Classification - Grants to non-governmental organizations

The total appropriation was 798 million RSD and 226 million RSD was transferred to the contingency fund. This transfer was preceded by an affair concerning the public competition, when media published that grants were given to NGO registered after the public call was published, and some organizations without proper references. There was no investigation about what seemed to be rigged competition, it was annulled and money was transferred to the contingency fund in order to be transferred further to the fund for supporting treatment of the ill children abroad. The move was considered as attempt to hush up the scandal.¹⁴The Ministry didn't respond to TS request.

Ministry of Mining and Energy

- Function - Fuel and Energy, Economic Classification - Commodity reserves

Total appropriation was 1.49 billion, and 800 million RSD was transferred to the contingency fund (54% of the appropriation).

¹⁴<http://www.politika.rs/sr/clanak/312617/Projekti-NVO-i-ranijih-godina-budili-sumnje>

Annex 3: Explanations for transfers to municipalities

1. **Municipality Bečej** received one transfer in July 2016, in the amount of 105.49 million RSD (1 million USD). This was around 7% of the total municipality's budget.

Bečej [replied](#) to TS request and sent documents which prove that money was used for one-time social welfare payment. From the documents provided it can't be determined if this type of payment was envisaged in the original budget of the Bečej municipality. Namely, the payment was based on the decision adopted by local assembly on May 31st 2016. This decision, on the other hand, was based on the conclusion, adopted by the Government of Serbia on April 15th 2016, few weeks before the extraordinary elections were held in Serbia.

In July 2016 Bečej municipal council concluded that it can't fulfill its obligation regarding this one-time payment, because of the "low revenues" and that Bečej must request transfer from the Government's contingency fund.

However, 9 months report on the execution of the municipal budget indicated that at the time there was surplus in the budget: 421 million dinars.

The observed transfer was, at the same time, the only transfer to Bečej municipality from government's contingency fund in the period observed in this research - 2014-2017.

It is not the part of this research, but this information from Bečej municipality, triggered TS to investigate further about these one-time payments made (or envisaged) just before the elections. The Government's conclusion, regarding these payments, is not publicly available (not published in the Official gazette) and TS requested this document from the Government of Serbia.

2. **City of Novi Pazar** sent short [reply](#), without additional documents, claiming that 60 million RSD (600.000 USD, around 2% of the annual budget), received in December 2015, were spent "for infrastructural projects - building¹⁵ streets".

3. **City of Vranje** [replied](#) to TS request, without any documents, claiming that 45 million RSD (450.000 USD, 1.5% of the budget) it received in 2015 were spent for "payment of energy, transport, electricity (bills) for schools in the territory of the City, payment of execution¹⁶, grants for agriculture, payment for newborn children, compensation for land, public lighting and the unblocking of schools¹⁷".

4. **City of Niš** received 200 million in 2014, which was around 2 million USD and it represented around 2% of the city's budget. It declined TS' request for access to public information, [claiming](#) that information requested by TS was not the information of public interest and it was not referred to "something public had justified interest to know about". TS filed [appeal](#). This request, denial and appeal triggered interest of the [local media](#) and in the [social media](#).

¹⁵ Probably referring to street reconstructions, paving,

¹⁶ No further explanation what kind of execution

¹⁷ Probably referring to school accounts

5. Municipality Vrnjačka Banja[informed](#) us that it requested transfer from the contingency fund because after 10¹⁸ month of 2015 total revenue was 56% of the annual plan, which was far below 75% envisaged for the period. The response indicates that transfer from the contingency fund was used for all appropriations in the municipal budget. The amount received in 2015 from the contingency fund was 70 million RSD (700.000 USD) which is around 6% of the total annual budget revenue.

6. Municipality Kovačica received 35 million RSD (350.000 USD) in 2016, which was 4% of the annual budget. According to documents, sent to TS in [response](#) to our request, this was used for regular payment of municipal obligations to direct and indirect budget users. Municipality listed 7 budget programs in the response (basic education, secondary education, social welfare, pre-school education and kindergartens, local self-government, development of tourism, development of culture. Payments within these programs included salaries for the employees, permanent expenses and maintenance, fuel etc.

7. City of Kragujevac received 300 million (3 million USD) in 2014, which was the biggest transfer to any local municipality in this year. It represented 4% of city's budget. In response to TS request, Kragujevac sent decision made by mayor according to which majority of the transfer (around 275 million) was used for payment of principal and interest to city's creditors. However, one part was used for appropriation "recreation and sports services". It was not until 2015 that program-type budget were introduced as obligatory in Serbia and it remained unclear what this transfer meant.

8. City of Zaječar received 435 million (4.3 million USD) in 2017 in two separate transfers from contingency fund. It represented around 18% of its budget.

¹⁸ It is possible that this was typo (in Serbian 10 is *deset* and 9 is *devet*), and it referred to 9 month, because in the response it said that planned revenue was 75% of the annual revenue.

Annex 4: The list of additional questions for institutions and their responses

We [asked](#) Mr. Dusko Pejovic, president of Stated Audit Institution following questions:

- What are SAI conclusions regarding the legal ground of using the contingency funds for municipal transfers?
- How did SAI evaluated effects of budget transfers to the contingency funds and consequences for the original budget programs?
- Did SAI consider to perform performance audit or to evaluate budget planning process that would be related to the identified practice with contingency funds transfers?

We [asked](#) Mr. Darko Komnenic, acting assistant minister in the Ministry of Finance, budget sector following questions:

- Does MoF check whether municipalities need transfers from contingency funds due to decreased income and what information it collects in that regards?
- Does MoF perform pre-selection of municipal requests for financial support from the central budget?
- In which way MoF identifies approved budget appropriations to be decreased in favor of contingency funds?

We [asked](#) Mrs. Aleksandra Tomic, head of parliamentary committee for budget and public finances following questions:

- Did parliament asked information from the Government on modification of the original budget that is related to the contingency funds transfers?
- Did parliament asked government to explain consequences of budget reserve transfers for the affected programs?
- Does finance committee, when discussing the new draft budget, compares it with the previous years' appropriations for the same purpose, in particular when funds were unspent in previous budget year and transferred to the budget reserve?

We received [reply](#) from Mrs. Tomic, explaining procedures and the role of committee she chairs, but basically, there was nothing concrete regarding our inquiry.