

Where Does the Budget Come From?

The process to create the budget is complex, involving demands from all State government Ministries and institutions, priorities of the government parties, wishes of individual Ministers, expectations from international organizations and foreign governments, Entity and local government negotiations, and other interests. Budget makers must be aware of expected revenue and of the public desire not to overspend. Actual decisions regarding budget preparation are made in ministries and other institutions. On behalf of citizens, it is especially important for Members of Parliament to question and examine the models, assumptions, criteria and expected results that underlie the specific proposals for spending found in the budget.

In 2007 State Ministries are moving toward more transparency and accountability in budget making, and to performance based budgets. Led by the Ministry of Finance and Treasury, other Ministries and State institutions will pay increasing attention to strategic objectives, priorities, policy outcomes and priority review in budget making.

Parliamentary Assembly of BiH and Control of Spending

Once a budget has been approved by the BiH Parliamentary Assembly, authorising spending of public money by government, MPs have an equally important role to play in the monitoring and oversight of spending.

The Office of the Auditor General plays a key role by providing MPs and citizens with the details of how Ministries and other State institutions have actually spent public money after parliamentary approval. The Auditor General reports on this spending in June each year for the previous year, and in that way enables the Parliamentary Assembly to exercise democratic control over the executive entrusted with management of the public funds.

MPs can carefully examine Auditor reports, and can follow-up by questioning Ministers and officials in Committee. MPs can also examine the audit reports from specific Ministries and institutions in various Committees. MPs and Committees can also consider asking for monthly, or quarterly, spending reports (public accounts) from Ministries and other State institutions with a view to calling Ministers or officials to answer questions. Also, in the following year, they have a legal possibility to reduce the budget of those who are defined by the auditors as non rational spenders, as well as to undertake other corrective measures. Ministers and government are accountable for spending public money as approved by the Parliamentary Assembly of BiH each year, for purposes (programmes, services, projects) as approved by Parliament. Ministers and officials are responsible for the results of all such spending. MPs have a responsibility to hold Ministers and government officials accountable and responsible for promised results from government spending.

One of Parliament's most important responsibilities is to approve the annual State budget, and to oversee its execution (to control how citizens' money is spent by State institutions).

Budgets are prepared by the Council of Ministers and presented to the Parliamentary Assembly by the Presidency. Budgets authorise State-level government spending, indicate expected government revenue, and forecast economic conditions for the upcoming year. State budgets should be presented to the BiH Parliamentary Assembly by mid-October or earlier, well before the start of the new year, and should be approved (with or without amendments) by the BiH Parliamentary Assembly before the end of December.

Total Government Spending in BiH

The Entity and Canton governments also present budgets to their parliaments. Local government units present budgets to locally-elected councils. These budgets (along with the Brcko District budget) authorise all government spending in BiH. Total government spending in BiH accounts for just over 50% of the annual gross domestic product (GDP - the total value of the goods and services produced by the economy each year).

Government spending in neighbouring Croatia is the same (51%), in Hungary, it is 49% and in Greece -- 48%. The Government in Sweden spends 57% of GDP and in Ireland -- 34%.

State Government Spending in BiH

In 2006 the State-level budget¹ accounted for less than 8% of total BiH government spending (about 4% of GDP). The two Entities account for 30%, Cantons and local government account for over 60% of spending since they deliver most government-funded services and programmes to citizens, such as health care, education and transport. As a portion of total government spending, the State-level budget has increased in recent years from 3% in 2004, to 4.4% (2005), to 7.9% (2006) largely due to the transfer of responsibility for defence (military spending) from the Entities to the State in 2005-2006.

To pay for government spending, including military costs transferred from the Entities to the State-level, and to meet Stabilization and Association Process (EU) criteria, a Value-Added-Tax of 17% was applied to all consumer goods and services in 2006. A VAT is a European Union wide taxation instrument. For every 100 KM spent in BiH, 17 KM is allocated as revenue for government spending.

¹For the purposes of this material, funds from the Joint Account for the Servicing of the BiH Foreign Debt were excluded from the total amount of the State Budget.

For example, what are the specific results expected from spending 400 million KM in the security sector (military results, border control results, intelligence results, de-mining results)? Who is responsible for those results? Have they been achieved? If not, why not? Should specific goals and programmes be funded again? If successful, should funding be increased, and decreased elsewhere?

Ministers Must Cooperate

Ministers and public service officials are required and expected to provide full, useful, timely information to MPs and Committees and to meet with Committees and plenary sessions of the Houses when called to do so. Parliament holds the power in the next budget to reduce or eliminate (by means of amending) the spending of Ministers (and their Ministries) who fail to cooperate with MPs and Committees. The Parliamentary Assembly of BiH should use this power when Ministers or their officials refuse to cooperate fully in budget oversight.

A Stronger Role for Parliamentary Assembly of BiH, MPs and the Public

In July 2006, members of the House of Representatives Finance and Budget Committee (2002-2006), the BiH Audit Office and others made recommendations for strengthening the role of MPs and Parliamentary Committees in budget making, budget approval and budget oversight (OSCE seminar for MPs on budgets). It was agreed that the Parliamentary Assembly of BiH and parliamentary committees responsible for budget approval and oversight should play a larger role in the entire budget-making, approval and implementation cycle.

It was also agreed that the Parliamentary Assembly of BiH should insist on draft budgets from government earlier than current BiH practice. It was also agreed that budget committees should hold open meetings early in the budget development cycle with officials from budget users (Ministries and institutions) to be briefed on plans and priorities and inputs to budget drafting. Finance Ministry officials should provide models and data being used in budget drafting, projections and forecasting.

MPs have a responsibility to inform the public about proposed budgets and spending, about audit reports and how government has spent public money, and about the results achieved (or not) from government spending.

Committee on Finance and Budget
of BiH Parliamentary Assembly
033 28 44 63

BiH State Institutions Auditor Office
033 26 47 40

Production of this publication was supported by
the OSCE Mission to BiH and the US Government.

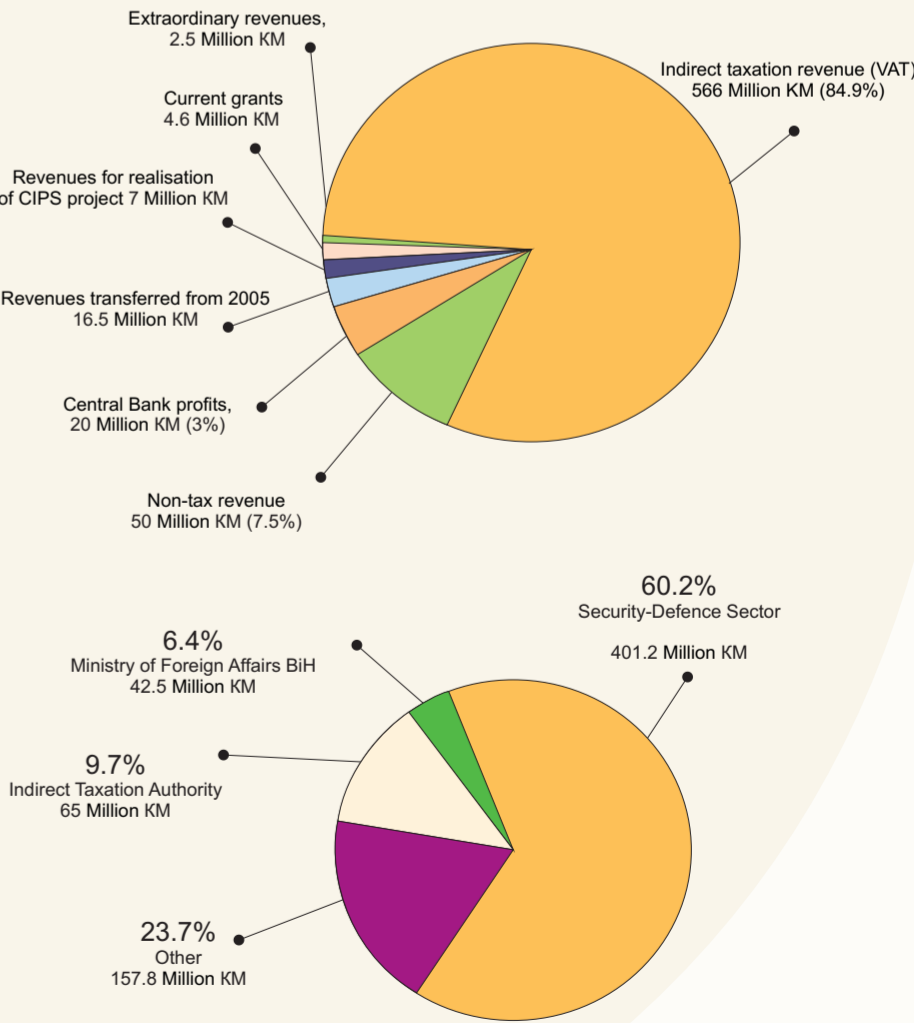


Citizens, Parliament and the Audit Office:
Public Control of State Spending



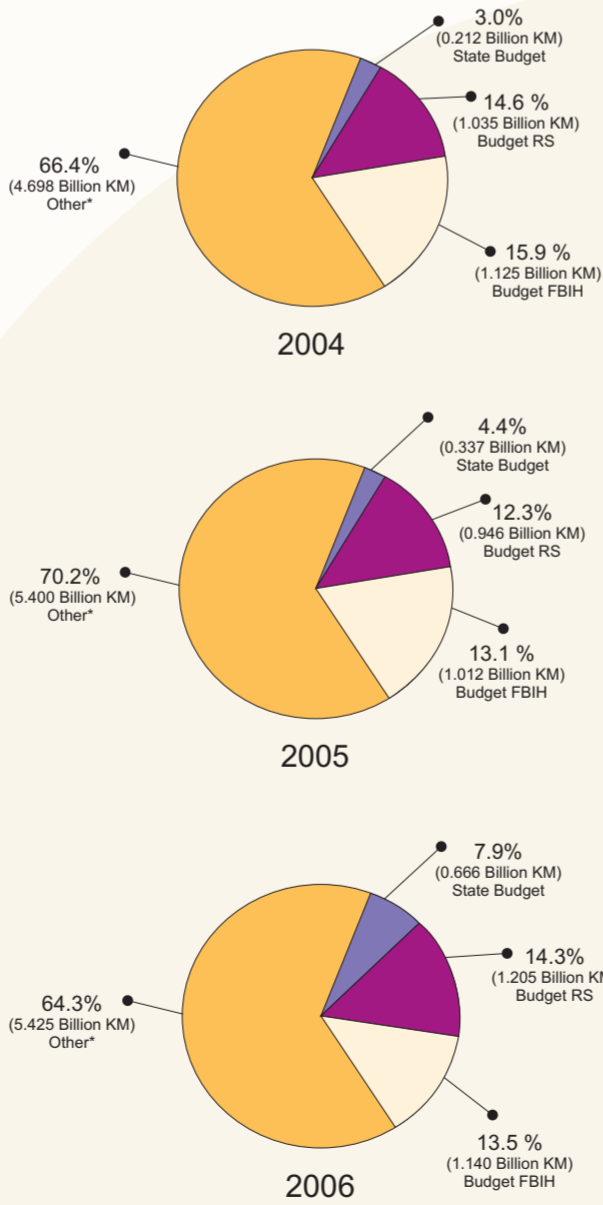
URED ZA REVIZIJU INSTITUCIJA BIH
КАНЦЕЛАРИЈА ЗА РЕВИЗИЈУ ИНСТИТУЦИЈА БИХ

Overview of the state revenues and expenditures, 2006



Security - Defence Sector:

Ministry of Defence, State
Investigation and
Protection Agency - SIPA, Intelligence
Security Agency BiH, Mine Action
Centre /BiH MAC



* Other: Brcko District, 10 Cantons, 137 Municipalities, 4 Cities

Public spending by all levels of government, 2004 - 2006²

²Government spending for 2006 is an estimate based on available data.