

THE PLANNING, PROGRAMING, BUDGETING SYSTEM AND ITS IMPLEMENTATION IN THE SERBIAN MINISTRY OF DEFENSE

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Abstract: *The main purpose of introducing the PPBES to the Serbian Ministry of Defense and the Serbian Armed Forces is to provide a rational management of resources and to maintain and build capacity of the Ministry and the Serbian Armed Forces in order to achieve their goals, objectives and missions.*

Expected results of implementation of the PPBES are reflected in increasing the efficiency and rationalization of the defense planning to a higher level, ensuring compatibility with defense planning and budgeting system of the state and developing a foundation for the effective management of defense resources.

Key words: *planning, programming, major programs, program managers, budgeting, evaluation.*

The current state of the defense system of Republic of Serbia defined ways ahead of its development, created the necessity for implementing a different financial and planning system for the defense. Other countries' experiences and determination of the political and military structures have influenced the Serbian Ministry of Defense to start with the implementation of the planning, programming, budgeting and execution system (hereinafter: PPBES) in the year of 2010. The will to implement such kind of planning and to use available resources, comes from the desire to use them in best possible way, in order to avoid unnecessary overlaps between expenses and to reduce

the costs to the level of available restrictive budgets. Reasonable ways of using the recourses with adequate proportional allocation of budget appropriations have to fulfill the expectations previously created in strategic documents of Republic of Serbia. A precondition of successful implementation of PPBE system is to create the atmosphere for correct understanding of the processes by all the actors included in PPBES. This is very important for the top management of the MoD and the program managers throughout the Defense system.

As a system, PPBS emerged in U.S.A. an attempt to establish control over the costs of armed forces in order to fulfill the goals, and to answer the question: "How much is

enough?" Until the implementation of the PPBS, all the services in the US Army had created their own budget proposals, which in time gradually, increased. In order to impose the control in such big system, PPBS inventor Robert McNamara requested from the services to create multiyear programs, which were translated into 5 years plans. Later, during the implementation of the programs, it became clear that there were no longer overlaps between the programs.

In time, the system of PPBS has suffered important changes, and today it looks different than in the beginning. On the other hand, today, it is based on a few basic postulates:

- 1) Integral observing of functioning and development of all defense elements;
- 2) On-going process of planning and evaluation;
- 3) It is based on clear criteria's and objective analysis;
- 4) At the same time, it is concerned with military needs and budget expenditures;
- 5) Making major decisions by choosing one of more possible solutions; and
- 6) Usage of multiyear planning in order to correct the results of the previous period and make the correct decisions for the future.

Planning, programming, budgeting and evaluation can be seen as a process. Basic elements of the process are also its phases.

Planning, as a PPBES process is concerned with the strategic environmental estimates, defines national security interests and objectives, and develops the way of their achievement.

The strategic environmental estimate, despite security challenges

and threats, includes economical, technological, political and other trends. National security interests and goals are defined according to strategic environmental threats. The last version of National Security Strategy in Republic of Serbia has been adopted in the October 2009. It has been a base for further development of strategic planning documents.

Programming is seen in the Republic of Serbia, as the base of PPBS process, and it has been developed on the force structure basis. The plans were transferred into a corresponding structure with requested capabilities, considering available recourses. The result of the programming phase is an approved group of major programs which have to include all activities of the defense system over a specific time period.

Unfortunately, while the first steps have been done, budgeting has a higher impact than it should have. Restrictive budget, from year to year, affects creating of financial plan. Therefore, final goals have to be achieved according the budget capacities. The stress of budgeting phase of PPBES should be to convince competent political structure to approve resources which are necessary for executions of the major programs.

Execution is the last phase of PPBES process. Realization of that phase has to secure persistent implementation of the plans, programs and budgets, including necessary corrections during the implementation.

Implementation of the PPBES system has to adapt to the restricted resources. Also, managing the PPBES creates better conditions for efficiency improvement of all elements to accomplish missions and

objectives.

The starting phase of PPBES is the **planning phase**, which identifies long term goals of the defense system and creates long term documents for defense planning. This phase is based on long term studies and analysis, and has to say which necessary capabilities have to be created in order to realize goals defined by strategic (long term) documents.

Long term Development Plan of the defense system of Republic of Serbia is the document of defense planning in which are defined: the strategic orientations for developing the defense system, the necessary capability of Serbian Armed Forces (hereinafter: SAF), the content and dynamics of organizational changes, the development of human and material resources, the financing of the defense system, and other issues for increasing functionality of the defense system, according to its missions and objectives. Long term planning, basically, consists of: introduction; strategic environmental estimates; long term goals and objectives for development; necessary capabilities of the defense system; assumptions for execution of the plan; way of following the process; conclusions and attachments. After concretization of the long term documents, middle term documents are being developed from their concepts.

Middle term documents in Serbian Ministry of Defense are:

- Guidelines for creation of Middle Term Plan and Program for Development of the Defense System;
- Middle Term Plan and Program for Development of the Defense System;
- Middle Term Plan for Functional Plans (midterm plan for human resources, midterm educational

plan, and midterm plan for logistics, IT, etc...).

According to the goals and objectives, established in the long term and middle term documents, short term documents follow some additional documents which are more detailed. Documents for short term planning are:

- Ministerial Guidance;
- Annual plans of functionalities in the defense system; SAF

Once the planning phase has been completed, it has to be translated into major programs.

Next step is **programming**. Programming as the most complex phase of PPBES process has been developed using the experiences of other countries. In order to create adequate PPBE system, the Strategic Planning Department of the Serbian MoD (hereinafter: SPD) in close coordination with the Defense Integrated Planning Directorate of the Romanian MoD. As a result, after the necessary preparation, the Serbian defense system started to use the PPBE system on the 1st January 2009.

Before describing the programming phase, there should be reminded a few theoretical facts referring to programming. Programming is a permanent iterative process in which approved planning documents are translated into major programs, subprograms, and subprogram elements for a specific period using available resources. It consists of a range of activities with the final goal to translate strategic plans into specific details in order to execute them over a particular time frame. It is based on analysis of available financial resources, because of their direct correlation.

Programming is being used to

choose the best solution in order to achieve goals and objectives. The most important output of the programming phase is a group of major programs of the defense system. Major programs are important managerial instruments; in spite of their role in the planning process, they can offer also implementation control, by gathering the data of the program execution managers are able to take corrective measures. Major program data can be used for Parliamentary control over the defense system.

The programming process comprises two basic phases: 1) Development of the major programs and 2) coordination of the major programs. Even if it has only two phases (excluding later reviews and reprogramming), it is a complex process, and its phases involve many participants, who usually have different attitudes and requirements. And by adding the time limitations to what has already been said, we can get the whole picture of its comprehensiveness.

Developing major programs begins with the analysis of strategic documents, previously adopted in the planning phase. Such analysis is being made by the Program Managers together with their own teams of specialists. During the analysis, the stress is on every separate goal of the program, including time tables, priorities and available resources. The result of the analysis is getting an idea about the goals which have to be achieved by the programs and the possibilities and limitations (constrictions) for their achievement.

After analyzing the documents, Program Managers, through the Defense Planning Council of the MoD (hereinafter: DPC), are defining requirements for the development of several alternatives to reach each

goal which has been previously defined. Program Managers guide their teams and present problems that could appear during execution phase and they suggest solutions.

After receiving the requirements from the Program Manager, the program coordinators, with their staffs, prepare alternatives to reach each goal of the major programs. They analyze every possible option from aspects of practicability, the results they offer, the cost in order to support a detailed explanation of their advantages and disadvantages. After analyzing the alternatives presented by the teams of specialists, Program Managers decide about the best options. The choice of the best option has to be based on defined instructions, practicability, capability level, cost and other relevant factors.

Developing major program proposals is an activity made by the program coordinator staff, after previously chosen best option for achieving the goals. A major program is in basically made of:

Names and program managers are determined by the Guidelines for Developing Plan and Program of Developing Defense System. In case of change, it is possible to add a new major program, by special decision of the Minister of Defense.

General and specific goals are defined for each major program. The general goal describes aimed state for the defense system to which the major program contributes, but together with other major programs. The specific goal is the top result of major program implementation. Reaching the specific goals we are getting closer to the general goals.

Expected results are outcomes produced by the major programs. They are developed for all specific goals, and each project or activity

based on the program. When we develop expectations, it is necessary to set the time frame for the expected results.

The structure of the major program is hierarchic and complex. A major program has its own subprograms and subprogram elements, projects and activities. For all the activities, we have to functionality carriers.

Very important elements of the major programs are assumptions and risks. Assumptions are expectations that something is going to happen, and that action will support major program execution. Risks are possibilities that something could become an obstacle in program execution and to prevent reaching the goals.

Performance indicators are parameters witch role is to express the program results in measurable way (quantities, qualities...), in order recognize changes after program executing.

Indicators make possible to follow the degree of realization and how successful are program activities.

Testing means are written materials (reports, studies, norms, etc.), which have objective indicators about the improvements. It is desirable for them not to require additional analysis and researches, due to lack of time and costs.

Time schedule gives dynamics of executing the major programs. Therefore, Program Manager has to be precise when he decides about goals in current year and in each year of the program.

Resource plan has all necessary data about resources (equipment, material, human resources etc.). Resource plan is in relation with time schedule and it is base for plan of revenues end expenses.

Plan of Revenues and Expenses

consist necessary data about financial needs for executing the major programs, projects, and activities according to time schedule (by years). Base for creation of Plan of Revenues and Expenses, are activities and resources expressed in amounts of money. Expenses are divided into three groups: a) personnel expenses; b) operative expenses; c) investments. Revenues and expenses are expressed according to the Budget classifications for every program year and for the whole period. Dividing revenues and expenses yearly is the base for annual budget developing.

The second phase of programming is coordination of the major programs and functional carriers' plans. Responsible for that phase in programming is Strategic Planning Department (hereinafter: SPD) of the MoD. The first activity is major program analysis. As a result of that activity, SPD realizes the correlation between major programs and Guidelines, and gather the data about the degree of possible realization of the goals determined by Guidelines.

After correlating the major programs, SPD determines the issues for Defense Planning Council, which is the highest advisory body for the Minister of Defense in the planning area. DPC analyzes suggestions about major program proposals and gives the final decisions. After that, if necessary, program managers organize a joint review and make the corrections according to the DPC instructions.

After the approval of the major programs by DPC, SPD prepares the Middle Term Plan and Program for Defense System Development. A Mid-term plan is being prepared every year. It consists of a detailed plan for the current year and projection for the next 1 (budget) + 5 (forecast) years.

Inclusive parts of this document are also: detailed review of all the major programs with programs projects and activities, matrix with major programs parameters, financial plans, used methodology, etc.

Building the Middle Term Plans is an on going process through the whole year. On the other hand, creation of the document, its correlation, and adoption by DPC depends on the time limitations and budget calendar. After adoption made by the DPC, the Minister of Defense, approves it. After its approval, the implementation of the document becomes possible.

Relevant and efficient organization and coordination between programs is sometimes impossible during the common ongoing processes in the defense system. Therefore, adequate managing is a precondition for success.

Budgeting phase, the phase which continues the cycle, is the accurate allocation of the funds for each program for the fiscal year and should answer the question what amount of funds and the period in which the funds should be allocated to implement the tasks set.

Budgeting expresses financial needs for personal expenses, operative expenses and investments according to Defense Law, and for executing major programs during one fiscal year.

Budgeting activities at the MoD of Republic of Serbia are based on Budget system law, and Annual Budget law. Budget Proposal is being made for current and +2 forecast years, according to Annual Operational Plan.

Respecting the activities regulated by mentioned laws, the Defense System has its own procedures which are compatible with the time table for

all budget users.

After the adoption of the Budget Memorandum on 1st of June, Minister of finance is issuing Guidelines for creating Budget proposals. On 1st of August all direct users apply their Budget proposals to the Ministry of Finance. At the beginning of October, Government, on Ministerial Proposal approves reviewed Budget Memorandum, considering updated macroeconomic frame. On 15th of October, the Minister of Finance sends to the Government the Budget Proposal. On 1st of November Government receives and approves Budget Proposal and sends it to the Parliament. On 15th of December the Parliament approves The Budget.

According to the Guidelines from the Ministry of Finance for the development of the Budget Proposal and Middle term Plan and Program, the Department for Budget and Finance (hereinafter: DBF) of the MoD, prepares Guidelines for the Financial Plan of the MoD. The DBF sends the Guidelines to the Program Managers and functionality carriers, organizes and coordinates the activities, gives instructions and sends the necessary elements for the development of financial plans proposals (guidelines, conclusions, criteria's, etc).

Functionality carriers at the MoD and SAF give the necessary data to the program managers for developing of Proposal of Financial Major Program. The department for Budget and Finance gathers all the Proposals for all Major Programs, estimates the necessities and capabilities and develops the Proposal of The Annual Financial Plan of the MoD. The DBF's duty is to prepare the Proposal of The Annual Financial Plan of the MoD in time according to the regulations and to send it to DPC. For

the organization, and coordination of all the steps for the development of the Proposal of The Annual Financial Plan of the MoD, the Head of DBF is responsible. Program Managers are obligated to send their own Proposals to DBF within the time limits. For the organization, and coordination of all the steps for the development of the Proposal of the Financial Plan of Major Program, the Program manager is responsible.

The proposal of The Annual Financial Plan of the MoD with explanations and attachments is sent by the DBF to DPC not later than 20th of July in the current year, in order to develop priorities and to develop the Final Proposal of The Annual Financial Plan of the MoD. The final Proposal of The Annual Financial Plan of the MoD, is sent by the DBF to the Minister of Defense for approval no later than 25th of July in the current year.

According to the Budget Law and approved Budget Classification amounts, the DBF develops the Financial Plan of MoD and sends it to the Minister of MoD for approval no later than 30 days from the day that Budget Law enters into force. The financial Plan of the MoD expresses revenues and expenditures of MoD and SAF for the current budget according to the sources of revenues.

The **execution phase** involves implementing the planned activities according to the approved schedule and budget. After developing the Financial Plan of Serbian MoD, DBF prepares Annual Ministerial Settlement for Serbian Ministry and SAF. Once that amounts are approved, the user (hereinafter: credit holder- beneficiary) can start with spending allowed amounts of money in order to achieve its tasks and goals. Accounting jobs and all the payments

in relation to the approved funds to carry out financial plans for users are done by the Accounting Centre of the Ministry of Defense (hereinafter: AC). The monitoring and control of the budget execution are also being made by AC, which is, in fact, the executive body of DBF of MoD. Finally, different kinds of reports are being prepared for all credit holders -beneficiaries and they get feedback from the AC (for all units).

The DBF of the Ministry of Defense is required to plan cash flow liquidity funds of the Ministry, in accordance with the methodology and the deadlines prescribed by the Minister responsible for finance. The obligations taken by authorized persons in the Ministry and the Armed Forces must match the approved appropriation for its purpose for the budget year. Material and beneficiaries of financial operations are being analyzed at least once a month at the level of user funds. According to the time schedule reports can be: monthly, periodical and annual. They can be prepared according to: code numbers for credit holders, budget classification and according to sources of revenues.

As a conclusion, I can say that the main purpose of introducing the PPBE system in the Serbian Ministry of Defense and the SAF is to provide a rational management of resources and to maintain and build capacity of the Ministry and the SAF in order to achieve their goals, objectives and missions.

Expected results of the implementation of the PPBEs are: increasing the efficiency and rationalization of the defense planning to a higher level, ensuring compatibility with defense planning and budgeting system of the state and developing a foundation for the

effective management of defense resources.

The PPBES enables decision makers to see the consequences of their decisions in the future and to assess the organization's progress toward established goals. In the process of PPBES the focus is on the results of the program, on the effort to increase the effectiveness of programming and budgeting process and a great emphasis is placed on budget execution.

The main objective of the process of PPBES is to provide the best force structure, equipment and support within limited resources. The PPBES can be seen also as a system that has its own structure and rules of operation, an on going process which consists of 4 phases: planning, programming, budgeting and execution. It is a basic system for resources management within the MoD. It includes defining the goals

and objectives at the defense system level, the specific objectives for each major program, determining program priorities, ways of their realization, allocating resources, assessing the actual results compared to planned performance and taking corrective action.

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