

PRESS RELEASES

National budget transparency - a deterioration in the quality and comprehensiveness of government revenue and expenditure information

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On September 10th, the International Budget Partnership (IBP), a non-profit organisation based in Washington, released the Open Budget Index 2015. Croatia's scored 53 out of 100 points, which, regrettably, represents a deterioration from the previous, 2012 Survey results, underscoring the need for improvements in the quality and availability of national budget information.

The Open Budget Index (OBI) is the only independent and internationally comparable indicator used for periodic measurement of the openness (transparency) of central government budget (hereinafter: budget)¹. The OBI 2015 is the result of the fifth round of the IBP's Survey (the previous rounds were carried out in 2006, 2008, 2010 and 2012).

As taxpayers, we all want our government to provide us, as efficiently as possible, with high-quality public goods and services. One of the basic prerequisites for this is the availability of budget data, so that we can analyse them and express our wishes, thus helping the Government take better decisions, but also holding it accountable for the public policies it implements. Each of us has a right to know, from key budget documents, how much various tax and non-tax levies will be collected, how much the government will borrow, who the state aid beneficiaries are, how much will be spent on public procurement, etc. This is exactly what the OBI measures, i.e. the extent to which the national government provides the ordinary citizen with timely, understandable and comprehensive information on budget revenues and expenditures.

The Survey has been conducted and coordinated by IBP, which has compiled the Open Budget Questionnaire (hereinafter: Questionnaire) and engaged experts from 102 countries for its completion. These experts are independent of their governments or any political parties and their responses are based on documented evidence and objective criteria. Each country-specific questionnaire has been peer-reviewed by a national budget expert, and the finance ministries of all the responding countries have been invited to comment on the Questionnaire results. In addition to *budget transparency*, the Questionnaire examines two more topics relevant for the public to know what budget resources are

¹ The central government budget includes all government budgets except the budgets of local government units (municipalities, cities and counties) and those of the local government budget users.

spent on and how the public can hold governments accountable: *opportunities for citizens to participate in the budget process*² and the *role of formal budget oversight institutions (the Parliament and State Audit Office)*.

National budget transparency

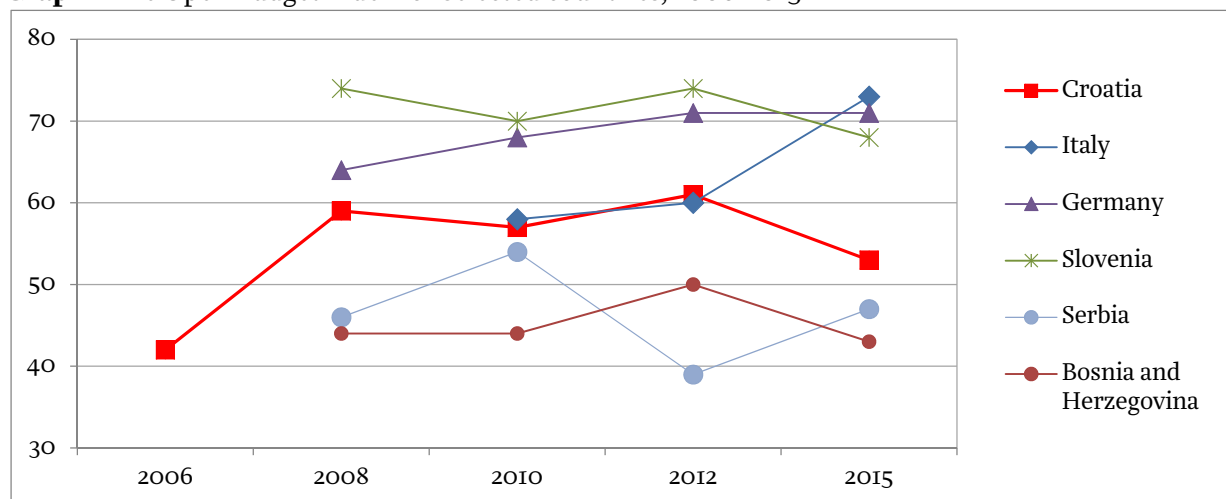
The Open Budget Index is compiled on the basis of responses to 109 questions from the Questionnaire, exploring whether government authorities publish eight key budget documents during the budget process, and how comprehensive the information provided in those documents is. In accordance with best international practices, the Survey covers the following budget documents: Economic and Fiscal Policy Guidelines, Executive's Budget Proposal, Enacted Budget, Citizens Budget, Monthly Reviews, Mid-Year and Year-End Budget Execution Reports and Audit Report.

The OBI 2015 was calculated for 102 countries based on the 2012 and 2014 data³; the scores range from 0 to 100. The highest scores were achieved by New Zealand, Sweden, South Africa, Norway and the United States, and the lowest by Qatar and Saudi Arabia (Graph 2). The average Index value was 45, which means that citizens in the surveyed countries have access to as little as 45% (on average) of the required information on national government revenues and expenditures, published in key budget documents.

Croatia's OBI 2015 score is 53, eight points lower than the previous round (2012) score, but slightly higher than the global average score of 45, which ranks Croatia among countries providing „limited budget information“. This means that the information available is insufficient for the public to effectively monitor the national budget spending and hold the Government accountable for the public policies it implements.

Croatia's OBI scores in the five survey rounds (from 2006 to 2015) were 42, 59, 57, 61 and 53 (Graph 1).⁴ Despite a number of improvements in the availability of the national budget information (e.g. the publication of **the Citizens Budget**), the latest (2015) score of 53 represents a deterioration from the previous survey round. This is mostly due to the fact that the 2014 Executive's Budget Proposal failed to include information on the revenue and expenditure outturns for the years preceding the budget year (for example, 2012 and 2013). Accordingly, Executive's Budget Proposal no more provide citizens with information to allow comparison of revenues, expenditures and other budget items in a given budget year with the respective outturns in the previous years, which seriously hampers the analysis of an Executive's Budget Proposal⁵.

Graph 1 The Open Budget Index for selected countries, 2006-2015



Source: www.openbudgetsurvey.org

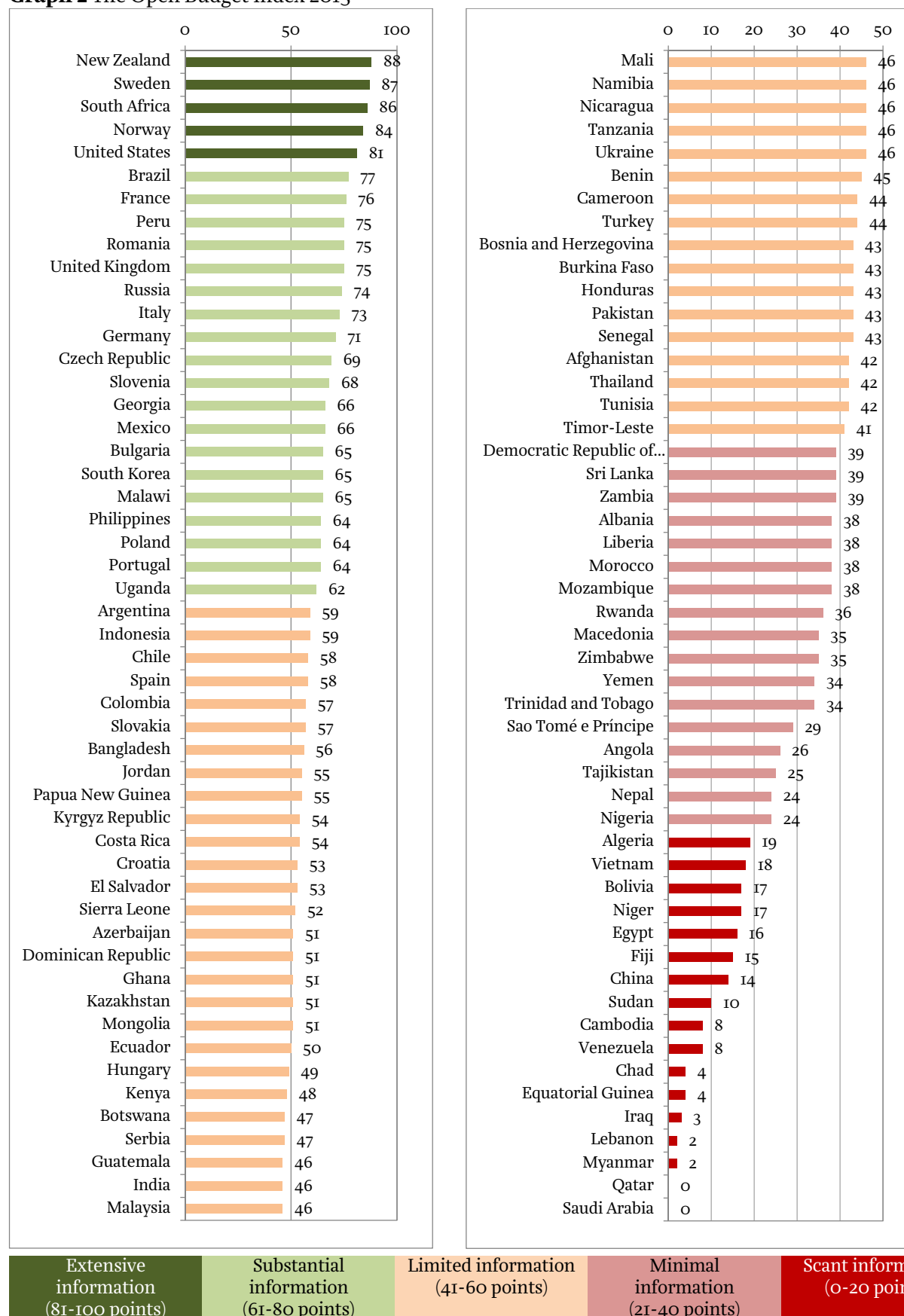
² The budget process includes the preparation, adoption, execution and oversight of the budget. Its main participants are: the Ministry of Finance, budget and extra-budgetary users, Parliament, Government and State Audit Office.

³ Six key budget documents relating to 2014, and two documents (Year-End Budget Execution Report and Audit Report) relating to 2012 were analysed for each country. Only the documents released by June 30, 2014 were included in the analysis. For detailed information on the OBI 2015 visit <http://www.openbudgetsurvey.org>.

⁴ For more details on the previous survey rounds see the *Press Release No. 8*, *Press Release No. 26* and *Press Release No. 47*.

⁵ These data were published until 2011; see, for example: *A 2011 Budget Proposal and Projections for 2012 and 2013*.

Graph 2 The Open Budget Index 2015



Source: Open Budget Survey 2015; available at: www.openbudgetsurvey.org.

Note: The column colours represent groups of countries according to OBI values, as defined by IBP.

Opportunities for the public to engage in the budget process and the role of the Parliament and State Audit Office in budget oversight

Although necessary, budget transparency is not sufficient for effective public finance management, which also requires public participation and strong budget oversight institutions. In view of this, the Questionnaire assesses the degree to which the Executive (Ministry of Finance, i.e. the Government of the Republic of Croatia), the Legislature (Parliament) and the State Audit Office provide opportunities for the public to engage in budget processes. The results show that the Parliament, through its committees, provides the most opportunities for the public to participate (the score is 74 out of 100), while considerably less opportunities are provided by the State Audit Office (25 out of 100) and the Executive (19/100). Among other things, the State Audit Office has failed to establish formal mechanisms for the public to indicate programmes or institutions that should be audited, and the Executive has failed to put in place effective and credible mechanisms (e.g. surveys, focus groups or public hearings) to find out the public's opinion on a national budget proposal or budget outturns.

The Questionnaire measures the extent to which the Parliament and State Audit Office provide effective oversight of the budget. It has been found that the State Audit Office provides adequate oversight (92 out of 100), while the oversight provided by the Parliament is weak (27/100). It is therefore necessary to establish a specialized budget research office within the Parliament to serve as support to all MPs.

Three key recommendations

Budget transparency should be important to all of us, given that the national budget is the most important instrument by which governments influence their citizens' lives. A transparent budget allows citizens and experts to analyse it and to participate, in an informed way, in the budget process, thus helping the Government to achieve its targeted goals in accordance with citizens' wishes. This, in turn, improves political and economic decision-making, reduces corruption and ensures more effective provision of public goods and services. The Open Budget Survey, conducted by IBP, shows a need for further improvements in order to provide the public and experts with adequate, understandable and timely information on the national budget, enabling them to participate in taking decisions on public revenues and expenditures. It is therefore in the best interest of the Government and Ministry of Finance to implement at least the following three key recommendations:⁶

- o Include in the Executive's Budget Proposal up-to-date information on revenues and expenditures for at least two years preceding the budget year.
- o Publish a comprehensive Mid-Year Report on Budget Execution, prepared in accordance with the guidelines issued by international organisations (OECD and IMF).⁷ More specifically, despite **being published in Croatia**, the mid-year report on budget execution lack essential information, i.e. revised data on the planned amounts (of revenues, expenditures and debt) and the estimates (e.g., of macroeconomic variables) for the budget year and the consecutive two budget years. Publishing such mid-year report is important, as it gives the public an insight into the real situation after the expiry of the first half of the budget year and provides an opportunity to promptly amend the budget, if necessary. This would ensure realistic planning in accordance with new circumstances, e.g. a decline in industrial production, that may arise in the period between budget approval and the beginning of the second half of the year.
- o Establish a specialized budget research office within the Parliament to serve as support to all MPs.

⁶ Given no significant improvements in recent years, recommendations are almost identical to those from the previous survey rounds and can be found in the *Press Release No. 47*.

⁷ See *OECD Best Practices for Budget Transparency*, and *the Manual on Fiscal transparency*.