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Croatia's Score on Open Budget Index 2010

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On October 19, the Washington-based International Budget Partnership (IBP) released its Open Budget Index 2010 for 94 countries, created on the basis of the 2009 data¹. The Croatia's score is 57 out of 100, less than in 2008 when it was 59. This shows that the government still provides the public with insufficient information on how it spends public money. Low budget transparency in Croatia opens the door to abuse and inappropriate and inefficient use of public funds. The Croatian government could achieve transparency improvement in a short period of time and at a relatively low cost, by including in the budget documents the additional information that it already possesses and by encouraging the public to participate more actively in the budget process.

Open Budget Index

The IBP computes its Open Budget Index (OBI) based on an extensive questionnaire completed by independent experts from the surveyed countries.² The first OBI was calculated in 2006 for 59 countries, then in 2008 for 85 countries and in the current year for 94 countries. According to their respective scores, countries are ranked into five groups, from those providing "extensive information" (scores of 81 to 100), to those "providing scant or no information" (scores of 0 to 20). The aim of the questionnaire is to gather information about the availability and comprehensiveness of several budget documents produced at particular phases of the budget process.

Findings for Croatia

According to the 2010 Survey, relating to the fiscal year 2009, Croatia's OBI score stands at 57. This represents a decline compared to the 2008 Survey when it was 59, but also an improvement relative to 2006 when Croatia's score stood at 42. Croatia ranks among the countries providing the public with "some information". The deterioration is due to the less comprehensive Budget Proposal for 2009 compared to that for 2007. Major deficiencies are identified in the following areas:

1. The effects of possible changes in macroeconomic assumptions on the budget are not shown. They include anticipated GDP growth, inflation rate, interest rates, unemployment rate and other relevant indicators.
2. Information is lacking on certain fiscal activities that can strongly affect the government's ability to meet its fiscal and policy goals, including information on transfers to public corporations, quasi-fiscal activities (e.g. public loans), expenditure arrears, tax expenditures (budget revenue losses due to tax benefits granted), contingent future liabilities (e.g. government guarantees), the value of financial and non-financial assets, etc.

Without these data, the public does not know the government's exact fiscal position, and it is difficult for it to hold the government accountable.

¹ www.openbudgetindex.org

² Researchers of the Institute of Public Finance have completed the questionnaire for Croatia, and two peer reviewers, as well as people employed with the IBP and a representative of Croatia's Finance Ministry have subsequently reviewed the responses.

Other deficiencies include the lack of a Citizens Budget (a simple presentation of the budget that can be easily understood by citizens) and of a comprehensive Mid-year Review of the budget that discusses the budget execution, including an updated forecast of the budget for the current year and at least the following two fiscal years. Furthermore, the Year-end Budget Report does not explain the difference between the original macroeconomic forecast for the fiscal year and the actual outcome.

The Parliament and State Audit Office play important roles in improving the budget transparency. According to the Survey results, the State Audit Office exerts effective oversight of the budget, but the role of the Parliament could be strengthened by increasing the time the MPs have to discuss the budget proposal and encouraging the public to participate more actively in the Central Budget Committee's discussions.

International comparison

Croatia does not seem to be the only country that should improve its budget transparency. The OBI scores show that 74 of the 94 assessed countries fail to meet the basic budget transparency standards. Only seven countries release extensive budget information, and 40 countries release no meaningful information on the budget. As concerns Croatia's neighbours covered by the Survey, the best performer is Slovenia – with a score of 70. Bosnia and Herzegovina has a score of 44, and Serbia 54. Slovenia's OBI score fell by 3 points from the previous round of the Survey, whereas Serbia was up 9 points and the score for Bosnia and Herzegovina remained unchanged. The good news is that the average score for 40 countries assessed in all the three rounds of the Survey rose from 47 to 56.

Table 1 Distribution of OBI 2010 scores

| Category | Number of countries | Countries |
|----------------------------------------------------------|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| "Extensive information" (OBI scores between 81 and 100) | 7 | South Africa, New Zealand, United Kingdom, France, Norway, Sweden, USA |
| "Significant information" (OBI scores between 61 and 80) | 13 | Chile, Brazil, South Korea, Slovenia, Germany, Sri Lanka, India, Peru, Poland, Spain, Czech Republic, Ukraine, Columbia |
| "Some information" (OBI scores between 41 and 60) | 33 | Russia, Mongolia, Romania, Italy, Portugal, Papua New Guinea, <u>Croatia</u> , Slovakia, Turkey, Argentina, Bulgaria, Uganda, Philippines, Georgia, Ghana, Serbia, Namibia, Mexico, Botswana, Indonesia, Jordan, Guatemala, Kenya, Egypt, Macedonia, Bangladesh, Malawi, Costa Rica, Nepal, Tanzania, Bosnia and Herzegovina, Azerbaijan, Thailand |
| "Minimal information" (OBI scores between 21 and 40) | 19 | Liberia, Malaysia, Pakistan, Kazakhstan, El Salvador, Nicaragua, Zambia, Mali, Timor-Leste, Venezuela, Albania, Trinidad and Tobago, Lebanon, Ecuador, Mozambique, Morocco, Angola, Yemen, Afghanistan |
| "Scant or no information" (OBI scores between 0 and 20) | 22 | Nigeria, Kyrgyz Republic, Cambodia, Dominican Republic, Vietnam, Bolivia, China, Honduras, Rwanda, Sudan, Democratic Republic of Congo, Burkina Faso, Niger, Senegal, Cameroon, Saudi Arabia, Algeria, Chad, Iraq, Equatorial Guinea, Fiji, São Tomé e Príncipe |
| Total: | 94 | |

Note: Countries within the categories are arranged by the value of OBI.

Recommendations

Based on its 2008 survey, the Institute of Public Finance released recommendations to the Ministry of Finance for budget transparency improvement, which the Ministry failed to accept.³ These recommendations apply to the current year as well, and it is our hope that the Ministry will accept and follow all the recommendations before the release of an OBI 2012. Even the publishing of a mid-year review with all the necessary information could significantly improve the score.

³ For detailed recommendations, see *Press Release*, No. 8 at [<http://www.ijf.hr/eng/releases/8.pdf>].