

# Who Controls Budgetary Process in Croatia

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# NEWSLETTER



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## Who Controls Budgetary Process in Croatia?

The Parliament does not adequately perform its tasks within the budgetary process. This is due to its inferior position to that of the Government, lack of infrastructure, i.e. offices, and funds, as well as budgetary and time constraints. In order to improve the Parliament's operation it is necessary to allocate more funds for the professional improvement of employees, to organise a continuous or supplementary education for MP's, to establish the budget of the Committee on Finance and State Budget (The Budget Committee), to improve the efficiency of that Budget Committee and to facilitate communication between the Ministry of Finance, Government, Parliament and, particularly, the Budget Committee. It is especially important that the Government or the Ministry of Finance should provide timely and reliable information to the Parliament and the Budget Committee on all issues relevant to the budget.

### How do the Parliament, Government and Ministry of Finance function?

The analysis of the Parliament's work concerning the annual budget shows that this body does not efficiently perform its function within the budgetary process and budget debate. This is mainly the result of, *inter alia*, an inferior position of the Parliament to that of the Government, lack of infrastructure, i.e. offices and funds, as well as the budgetary and time constraints.

In 2003, Croatia introduced a new Budget Act (official gazette *Narodne Novine*, No 96/03). Pursuant to this Act, the state budget is a document, which comprises the estimates of the government's reve-

nue and receipts as well as of its expenditure and expenses for one year in accordance with law. It is enacted by the Parliament. A successful development of the budgetary process is based on fiscal (budgetary) institutions (Parliament, Government, Ministry of Finance and State Audit Office), of which the first three are the most important. A necessary prerequisite for a normal and efficient functioning of these three institutions in the budgetary process is the existence of their own budgets and an ongoing employee training. Therefore, for a better insight into these issues we present the budgets of the three aforementioned institutions participating in the budgetary process showing the situation over the last six years. The data include the expenditures on the professional improvement of employees.

The Institute of Public Finance deals with economic research and analysis related to various forms of public finances such as the budget, taxation and customs duties. Its orientation is thus to the various economic, legal and institutional topics that are important for the sound long-term economic development of the Republic of Croatia. So that the public should be able to have a better insight into certain issues, the Institute of Public Finance is launching its Newsletter, in which it will from time to time publish informed and independent analysis of economic questions. The views expressed in the articles published in the Newsletter will reflect the opinions of the authors, which do not necessarily coincide with those of the Institute as institution. Full text of Newsletter is also available on Institute's Web site: <http://www.ijf.hr/newsletter>.

*Table 1 Budgets of the three most important budgetary institutions in Croatia, 1998-2003  
(in million kuna, at current prices)*

	1998	1999	2000	2001	2002	Plan 2003
<b>Parliament</b>	83.5	138.0	126.6	114.1	113.2	105.3
- professional improvement of employees	0.15	0.21	0.05	0.1	0.17	0.15
<b>Government</b>	172.2	175.6	168.7	188.7	181.7	186.7
- professional improvement of employees	0.15	0.14	0.03	0.03	0.014	0.08
<b>Ministry of Finance</b>	10,394.9	9,736.1	16,190.9	13,659.9	14,816.7	16,880.2
- professional improvement of employees	4.5	0.3	0.2	0.3	0.0	0.9

Sources: Budget outturns 1998 - 2002, Budget plan 2003

With the exception of the first observed year, the amounts allocated for the Parliament's operation have continuously decreased during the last six years. However, it would be interesting to see why the budget expenditures for the highest legislative body rose by several million in 1999.

Allocations to the Government remained almost equal throughout the observed period (around 180 million kuna on average). It is interesting to note that the former coalition government, which was in power from 2000 till end-2003, received almost 20 million kuna more for its operations than the former one-party government. This is certainly contrary to the coalition campaign promises of retrenchment and reduction in the number of ministries.

However, the most interesting are the budgets of the Ministry of Finance. In the period 1998 to 2003 (budget plan), expenditure rose by over 6 billion kuna, i.e. more than 60%. This is understandable insofar as the amounts payable by the Ministry of Finance for debt servicing on account of various loans (due to the growing amounts required for public debt repayment, particularly for financing road construction) are becoming higher and higher. However, this is barely the same amount (ca. 17 million kuna) as that recorded at this Ministry during the transfer of authority and the inauguration of the coalition government in 2000.

It is especially interesting that all the three institutions, which are essential for an efficient develop-

ment of the budgetary process, allocate limited, even negligible funds for the professional improvement of their employees.

### **Who implements the individual phases of the budgetary process in Croatia?**

The implementation of the planned fiscal policy is based on efficient functioning of all participants in the budgetary process. However, the state budget is revised almost every year. Why is that so? Budget revisions are exclusively the result of inadequate budget planning. The causes of deficiencies, which are directly reflected in the budget and, consequently, in budget revisions are to be looked for in a bad budgetary process and a poor functioning of institutions participating in the preparation, proposing and execution (implementation, supervision and control) of the budget. Now, who is responsible for the normal implementation of each individual phase of the budgetary process in Croatia and to what extent?

*The budget preparation* lies within the competence of the Ministry of Finance. At the proposal of the Ministry of Finance the Government decides on the fiscal policy, works out a strategy for the state budget and draws up proposals for the allocation of budgetary funds in accordance with the set up objectives of the economic, fiscal and budgetary policies for the following fiscal year.

*The budget approval* lies within the competence of the Parliament. The Government submits a proposal for the state budget and the budget of the extra-budgetary funds to the Parliament, where it is subjected to a detailed analysis by the Budget Committee and other bodies. After the analysis carried out by the committees, the proposal is brought up for discussion in the Parliament. This is followed by the adoption of the state budget and budgets of extra-budgetary funds. However, due to unrealistic estimates of revenues in the budget proposals that have been submitted to the Parliament so far, budget expenditure outdid budget revenue. This problem has been resolved through budget revisions, forced revenue collection, accumulation of arrears and borrowing.

*The Execution (implementation, supervision and control) of the budget* is the responsibility of the Ministry of Finance, i.e. the Treasury.

## **What does the legislative phase of the budgetary process in Croatia look like?**

Let us now concentrate on the second phase of the budgetary process, i.e. the approval of the budget. The key role here is that of the Parliament and its Budget Committee. Now, what are the problems faced by and limitations imposed on the Parliament and its members and on the Budget Committee during the approval of the budget proposal? The analyses and studies have shown that there are certain difficulties in the operation of the Budget Committee and the Parliament itself. They are as follows:

- *The Budget Committee's interventions are of a formal rather than a substantive nature.* The Committee mainly does the technical work, without having a possibility to change any bad things that may come from the Government. As a result, economic and political measures are mostly adopted without any closer examination by the Committee.
- *Time constraint.* Even though the Budget Committee can influence legislative proposals by way of amendments, there is not enough time to cope with the excessive paperwork and numerous figures or to approve the budget in a proper way. The time available for budget consideration is extremely short, too short for a debate at the Committee level. Since everything takes place within a

single day, the budget proposal is submitted without any additional explanations.

- *Budgetary constraint.* The Budget Committee does not have any budget of its own to finance external experts or associates responsible for giving advice, making suggestions or even proposing amendments, in accordance with the Committee's needs.
- *Lack of infrastructure.* Members of Parliament do not have any offices, business premises, advisers, public relations officers or funds to finance the procurement of expert opinions on certain issues, since no one is an expert on everything. MPs cannot create their working environment or bring their own people to help them, because they can only be assigned by the Parliament's Secretary. Moreover, MPs cannot choose their advisers or obtain external expert opinions. They often use their own contacts to collect the necessary information. However, suggestions mainly come from the Government, which has both opportunities and funds to hire experts, which puts the Government in a more favourable position.
- *Inferior position of the Parliament to that of the Government.* The Budget Committee is not on an equal footing with the Government, as it has an administrative machinery and staff, which, although underpaid, provides high-quality logistic support in the process of making budget proposals but also on other occasions. The Parliament is supposed to be a national institution open to the public, but is it really so? The Parliament's infrastructure is needlessly underdeveloped, although not for lack of funding (but political reasons), and the Parliament is therefore placed in an inferior position.
- *Lack of discipline among the Budget Committee members.* Due to undisciplined Members of Parliament there is often no quorum at the Committee meetings.
- *(In)adequate allocation of funds for the work of MPs.* A relatively larger amount of budget resources is allocated to political parties than to MPs (180,000 kuna per capita p.a.), while independent MPs are allocated no funds whatsoever. These allocations are used for financing the political parties' needs and their administrations.
- *Lack of understanding of the budget.* Most MPs do not understand the budget proposal submitted to

the Parliament by the Government and have difficulties in analysing the budgetary items.

- *Communication problems with the Government.* Due to a communication gap between the Ministry of Finance, the Government and the Parliament, the Ministry fails to inform the Committee in advance about the budgetary items of the next year's budget.
- *Too small amounts allocated for the professional improvement of the Parliament, Government and Ministry of Finance employees.*

### **Suggestions and recommendations for the improvement of the legislative phase of the budgetary process**

- *To establish the budget of the Budget Committee, to enhance the authority of the Budget Committee and to lengthen the budgetary process taking place at the Parliament and Committee levels.*
- *To provide more funds for the professional improvement of the Parliament, Government and Ministry of Finance employees.*
- *To improve the efficiency of the Budget Committee by increasing its capacity and promoting co-operation with various non-government experts.*
- *To improve the competence of Members of Parliament and the parliamentary working bodies, since the understanding of budgetary issues requires specific types of knowledge and high-quality information.*
- *To improve the communication between the Ministry of Finance, Government, Parliament and Budget Committee.* The Committee should be informed about the development of the budgetary process even before the budget proposal is submitted to the Parliament. The Ministry of Finance should inform the Committee about the assumptions for the next budget and framework budgetary items, in order to facilitate the proposing of the next year's budget by the Committee. This would also keep other MPs informed, which is necessary given the great importance of the budget.
- *The Parliament' Secretariat should allocate more funds for the employment of additional advisers to the Committee and Parliament and for the professional training of the Parliament's Staff Service.* As the advisers to the Committee mostly belong to the technical staff with economy-oriented education, they should be additionally trained and new legal experts should be employed in order to facilitate the drafting of legislation.
- *To provide additional education of MPs about the budgetary issues, to introduce the Internet and Intranet for all MPs in order to facilitate and speed up their work, which primarily relies on information.* This would help in reducing the need for travelling, as MPs would be able to perform their work in their own constituencies in a more efficient and cost-effective way. Besides, Members of Parliament should also be educated in the basic IT-concepts. The computerisation of the parliamentary chamber is praiseworthy, but it also created additional problems (due to difficulties in handling the equipment or insufficient skills on the part of MPs).
- *To impose financial sanctions on MPs (e.g. salary reductions), members of the Budget Committee who fail to attend the meetings of the Committee or the clubs of parliamentary parties, in order to improve the discipline and efficiency of the Committee's work.*

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