

# Open Budget Index 2008 - Small Advances Made in the Accessibility of Information about Croatian Public Finance

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### **Open Budget Index 2008 - Small Advances Made in the Accessibility of Information about Croatian Public Finance**

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**The Center on Budget and Policy Priorities of Washington today published its Open Budget Index 2008, calculated for 85 countries, on the basis of data from 2007. Most important to point out in the case of Croatia is that in 2007, members of the public in the country had better access to information about the budget than in 2004. However, Croatia is still in the group of countries that provide their citizens with only "some information". In this overview, we recommend some steps that should be taken above all by the Ministry of Finance to move Croatia up the scale and towards the groups of countries that provide "significant" or "extensive" information.**

#### **Open Budget Index**

In 1997, in order to equip civil society to analyse and have an impact on budgetary processes and institutions, the Center on Budget and Policy Priorities (CBPP) of Washington (a non-party and not-for-profit organisation that deals with budgetary and taxation analysis) launched its International Budget Project. In collaboration with non-government and academic partners, including the Institute of Public Finance in Zagreb, a wide-ranging questionnaire was created to evaluate the transparency of the budgetary process and in 2006 the first Open Budget Index (OBI) was elaborated, for 59 countries.<sup>1</sup> The Index was calculated the second time in 2008, with reference to 85 countries.

The 123 questions in the questionnaire are answered by the respondents circling one of the provided answers that describe the degree to which some standard is met. On the basis of answers to about 90 questions concerning the availability of budgetary documents, the CBPP then computes the Open Budget Index. According to the values of the indices, countries are classified into five groups, from those that provide their citizens with "extensive information" (scores of 81 to 100) to those that provide "scant or no information" (scores ranging from 0 to 20).

The questionnaire gathers information about the public availability and scope of several budgetary documents that appear in individual phases of the budgetary process. In the phase in which the budget is prepared, the Pre-Budget Statement is analysed; in the phase in which the budget is accepted, the Executive's Budget Proposal and Citizens' Budget are considered; and in the phase of execution of the budget (including implementation, supervision and control), the In-Year Reports, the Mid-Year Report, the Year-End Report and

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<sup>1</sup> <http://www.openbudgetindex.org/>

the Audit Report. Every questionnaire filled in went through a review from two independent referees familiar with the conditions in the given country, also members of the civil or academic community. For Croatia, the questionnaire was filled out by researchers from the Institute of Public Finance.

### Results for Croatia

In the 2008 research cycle, which refers to fiscal 2007, the Croatian index came to 59, which is certainly an advance on the previous research cycle, relating to fiscal 2004, when the score was 42. In spite of an improvement of 17 points, Croatia is still placed in the group of countries that provide their citizens with only "some information".

The better performance than in the previous cycle was mostly the result of the inclusion into the national budget of information about expenditure, revenue and the public debt for the multiyear period preceding and succeeding the fiscal year. For example, in the Executive's Budget Proposal for 2007 we can find information about the execution of the budget for 2005, the plan for 2006 and 2007, and projections for 2008 and 2009. This is a marked improvement over 2004, when the budget contained only details about the plan for that actual year. Progress has also been achieved because in 2006 the Ministry of Finance published a citizens' guide to the budget for 2007.<sup>2</sup>

### International comparison

With an index of 59, Croatia took 14th place in the 85-country ranking list. Countries that provide extensive information about government finances are the UK (88), South Africa (87), France (87), New Zealand (86) and the USA (82). Right at the bottom were several countries that had an index of 0, Ruanda, for example, with Sudan and the Congo. As for countries neighbouring on Croatia and involved in the research, the best result was recorded by Slovenia, 73. The index for Bosnia and Herzegovina was 44, and for Serbia 45. Bulgaria and Romania, countries from the last round of enlargement of the EU, had scores of 57 and 62. It is interesting that as compared with 2006, the Bulgarian index rose by 10, while the Romanian fell by 4 points. Researchers from the CBPP established a strong and positive correlation between index score and per capita GDP - the richer countries have higher scores. Unfortunately, in as many as half of the countries observed, members of the public are provided with very scant information about the budget, which enables governments to conceal corruption and wasteful expenditure.

*Table 1 Groups of countries according to the Open Budget Index*

<b>Group of countries</b>	<b>Number of countries</b>	<b>Average index of the group</b>	<b>Countries</b>
"Extensive information" (index of 81 to 100)	5	86	United Kingdom, South Africa, France, New Zealand, United States
"Significant information" (index of 61 to 80)	12	68	Norway, Sweden, Brazil, Slovenia, Poland, Peru, South Korea, Czech Republic, Sri Lanka, Germany, Botswana, Romania
"Some information" (index of 41-60)	27	51	Colombia, Papua New Guinea, India, Croatia, Russia, Kenya, Bulgaria, Argentina, Ukraine, Macedonia, Mexico, Indonesia, Georgia, Jordan, Uganda, Guatemala, Ghana, Philippines, Zambia, Namibia, Serbia, Costa Rica, Bosnia and Herzegovina, Egypt, Turkey, Nepal, Bangladesh,
"Minimal information" (index of 21 to 40)	16	34	Thailand, Pakistan, Ecuador, El Salvador, Albania, Azerbaijan, Mongolia, Tanzania, Malaysia, Venezuela, Kazakhstan, Trinidad and Tobago, Lebanon, Malawi, Morocco, Niger

<sup>2</sup> <http://www.mfin.hr/adminmax/docs/Proracun2007.pdf>

"Scant or no information" (index of 0 to 20)	25	7	Nigeria, Nicaragua ,China, Burkina Faso, Fiji, Honduras, Cambodia, Dominican Republic, Vietnam, Yemen, Afghanistan, Kyrgyz Republic, Chad, Bolivia, Cameroon, Angola, Senegal, Liberia, Algeria, Saudi Arabia, Rwanda, Sudan, Democratic Republic of Congo, Equatorial Guinea, São Tomé e Príncipe
Total	85	39	

## Recommendations

As well as for journalists, researchers, non-governmental organisations and experts for economic development, i.e. for all those who urge greater public sector accountability and better use of social resources, the research related to the Open Budget Index is also meant for government officials. It can provide them with practical advice about how to improve government budget and budgetary process transparency. On the basis of questionnaire answers, we consider that the Ministry of Finance should undertake the following actions.

- Show the expenditures in the Executive's Budget Proposal (EBP) not only in terms of an administrative and economic classification, but also in terms of a functional classification.
- Show information about the public debt in the EBP as extensively as possible; beside the amounts in the individual periods, information about the composition of the public debt - in terms of instruments, interest rates, maturities, currency denomination, domestic and foreign and so on should also be included.
- Include in the EBP a sensitivity analysis, containing explanations about what will happen with budgetary magnitudes in the event of the occurrence of macroeconomic conditions (GDP growth forecast, rate of inflation, interest rate, unemployment rate and other relevant magnitudes) that are different from those in the basic scenario.
- Include in the EBP more extensive debates about government activities that are not usually part of the budget, but can have a significant effect on it: arrears, contingent liabilities (government guarantees for example) and quasi-fiscal government activities.
- Include in the EBP a balance of financial and non-financial assets, the amounts of future central government liabilities that have been assumed to date or that will occur in the current fiscal year.
- Show data about tax expenditures, i.e. the revenue of the budget that has been foregone because of tax privileges. An insight into the distribution of the tax burden should be given.
- Refer in greater detail to programmes and policies meant for the improvement of the condition of the most at-risk groups of the population (alleviation of poverty), with detailed discussions and quantitative indicators.
- Accompany amounts of expenditures for given programmes with non-financial indicators such as number of users, number of those employed in providing the service. It is necessary to develop performance indicators for these programmes that show whether a given programme tends towards the achievement of the set objective.
- Produce a Mid-Year Report, an extensive document in which there is discussion of the execution of the budget, with updated estimates of the plan for the current fiscal year and for at least the next two fiscal years. Macroeconomic assumptions that served as the basis for the making of the budget have to be reviewed, and if any changes have occurred, the impact on the budgetary variables must be explained. This also holds true should there be any changes in the policies of the executive.
- In the Year-End Report, provide detailed explanations of the differences between planned and achieved results for the fiscal year with respect to expenditure, revenue, macroeconomic assumptions, non-financial indicators, performance indicators for programmes and extra-budgetary funds.

The CBPP points out that many governments possess but do not publish information about the budget that would enable members of the public to take a more active role in the budgetary process. We are of the opinion that the Ministry of Finance could, in a short period of time and with little expense, increase transparency by simply including in the budgetary documents the additional information that it already possesses.

Other governmental bodies also have an important role in enhancing the transparency of the budgetary process. The Government should consult members of parliament and other relevant bodies in the process of determining budgetary priorities. The government should, furthermore, publish a report about steps taken in order to adopt the recommendations of the State Audit Office with respect to irregularities found. All state bodies should reply to enquiries from members of the public pursuant to the Right of Access to Information Law, while public procurement procedures should be made fully compliant with the law.

### **Importance of availability of information about public finance**

Access to information about the fiscal activities of government enables citizens not only to understand political and economic decisions that have a major impact on their everyday life but also to take part in the making of these decisions. If information about the working of the government is available to the public, control over the policy makers will be facilitated, and this should have a positive effect on the accountability of government to citizens. Accessibility of information is particularly important for curbing corruption and achieving greater efficiency in public services.