



The Role and the Capacities of MoF and Line Ministries in Capital Budgeting and Execution in Croatia

Basic Macroeconomic indicators for the Croatian Economy

	2007	2008	2009	2010
GDP, current prices (mil. HRK)	318.308	345.015	335.189	334.564
GDP, real growth rates	5,1	2,2	-6,0	-1,2
Total volume of industrial production, growth rate as %	4,9	1,2	-9,2	-1,4
Unemployment rate, end of period	14,4	13,5	16,7	18,6
Average monthly gross wages and salaries, growth rate as %	6,2	7,1	2,2	-0,4
Average monthly gross wages and salaries paid off in HRK	7.047	7.544	7.711	7.679
Exchange rate HRK/USD, period average	5,37	4,93	5,28	5,50
Exchange rate HRK/EUR, period average	7,34	7,22	7,34	7,29
Trade Balance (mil. USD)	-13.475	-16.603	-10.713	-8.247
Exports (mil.USD)	12.364	14.124	10.492	11.807
Imports (mil. USD)	25.839	30.727	21.205	20.054
Total outstanding external debt,end of period (mil. EUR)	32.929	39.950	44.606	45.792
Internal debt of Consolidated Central Government, eop. (mil. HRK)	54.655	62.126	72.261	84.361

Source: Ministry of Finance, Monthly statistical review - number 184, table 1.



Consolidated General Government by Economic category

(000 HRK)		2007	2008	2009	Plan 2010	I - XII 2010 Plan 2010
1	REVENUE (11+12+13+14)	126.716.000	134.737.775	128.087.106	123.709.173	99,59
11	Taxes (111+113+114+115+116)	73.392.426	79.669.875	73.570.853	71.729.021	99,90
111	Taxes of income, profits and capital gains	18.762.496	21.326.439	19.800.774	15.630.459	101,27
113	Taxes on property	1.155.212	1.230.962	1.045.005	883.966	94,75
114	Taxes on goods and services (1141+1142+1144+1145+1146)	51.491.441	54.895.374	49.644.939	51.379.174	99,64
1141	General taxes on goods and services (11411+11412)	37.972.061	41.532.791	37.226.780	37.862.308	99,50
11411	Value-added taxes	37.747.987	41.308.036	37.050.354	37.688.520	99,48
11412	Sales taxes	224.074	224.756	176.427	173.788	103,41
1142	Excises	12.168.666	11.875.126	10.998.910	11.972.326	99,63
115	Taxes on international trade and transactions	1.641.478	1.900.865	1.721.164	1.644.448	99,17
116	Other taxes	341.800	316.235	1.358.971	2.190.974	99,17
12	Social contributions	37.203.486	40.703.484	39.994.739	38.712.382	99,84
13	Grants	446.066	498.489	623.603	638.985	65,61
14	Other revenue	15.674.022	13.865.927	13.897.911	12.628.784	99,62
2	EXPENSE (21+22+24+25+26+27+28)	118.770.467	130.258.596	132.450.162	133.486.090	99,83
21	Compensation of employees (211+212)	31.112.370	33.620.589	35.240.175	34.993.705	98,81
211	Wages and salaries	26.334.260	28.642.429	29.976.425	29.761.988	98,83
212	Social contributions	4.778.110	4.978.161	5.263.750	5.231.717	98,66
22	Use of goods and services	15.196.188	16.547.455	15.011.623	15.302.203	100,99
24	Interest	5.554.489	5.034.513	5.625.309	6.654.290	104,94
25	Subsidies	7.504.354	8.130.307	8.075.242	7.880.522	106,02
26	Grants	1.701.861	2.305.289	2.383.858	2.072.465	77,21
27	Social benefits	48.730.687	53.282.084	56.927.886	57.554.583	99,42
28	Other expense	8.970.517	11.338.358	9.186.070	9.028.322	102,67
	NET-GROSS OPERATING BALANCE (1-2)	7.945.534	4.479.179	-4.363.055	-9.776.918	
31	NET ACQUISITION OF NONFINANCIAL ASSETS (311+312+313+314)	11.014.957	7.344.149	6.357.263	4.847.849	81,39
311	Fixed assets	10.908.538	7.115.465	6.003.997	4.710.976	78,58
312	Inventories	-161.383	79.444	35.412	10.955	104,34
313	Valuables	9.817	10.309	9.132	6.206	171,57
314	Nonproduced assets	257.984	138.932	308.723	119.712	
	NET LENDING-BORROWING (1-2-31)	-3.069.423	-2.864.969	-10.720.319	-14.624.767	
	FINANCING (33-32)	3.069.423	2.864.970	10.720.319	14.624.767	
32	NET ACQUISITION OF FINANCIAL ASSETS (321+322+323)	-2.403.067	2.918.011	6.729.333	2.590.507	
321	Domestic	-2.421.102	2.905.566	6.726.985	2.590.119	
322	Foreign	18.036	12.445	2.348	388	
323	Monetary gold and SDRs	0	0	0	0	
33	NET INCURRENCE OF LIABILITIES (331+332)	666.357	5.782.980	17.449.652	17.215.273	
331	Domestic	2.147.511	6.949.513	10.169.704	12.871.808	
332	Foreign	-1.481.155	-1.166.533	7.279.948	4.343.466	

Source: Ministry of Finance, Monthly statistical review - number 183, table 18.

Total capital spending and its influence on the role of the MoF

- Total capital spending represents small % of total public spending
 - ✓ 2007. 10,66 %,
 - ✓ 2008. 12,31%
 - ✓ 2009. 7,05%
 - ✓ 2010. 7,10%
- Large investments such as highway and road constructions, railway constructions, airport and port constructions are conducted by public companies i.e. institutions within public sector but not within the central state
- Taking into account limited administrative capacity of the MoF that had substantial impact on the role of the MoF in the process of evaluation and monitoring of capital projects
 - ✓ Department for Budget Analyses and Capital Project Evaluation in the MoF



Capital Budgeting

- ◆ At the beginning of the process of planning MoF sets out the ceilings
- ◆ Ceilings are set out at the ministry level for certain economic categories of expenditures but also for certain programs
- ◆ Capital expenditures are not singled out
- ◆ Budget users are obligated to take into account both total ceilings and ceilings set out for salaries – controls in FMIS (SAP) in which the financial plans of the budget users are entered are also tailored in such manner
- ◆ The ministries have significant role in prioritization of the projects within the ceilings
- ◆ Allocations are done according to strategic priorities of the ministries and not the state as a whole



The role of the MoF

- ◆ Regarding the capital projects it was important to the MoF that the capital projects do not interfere with its role in assuring total fiscal discipline
- ◆ To that role of the MoF the one year budget and the short term perspective did not serve
- ◆ Supervision over the capital projects multi-year commitments – regulated by provisions of the Budget Act
 - *A state budget user may assume commitments based on contract requiring payments in the following years with the approval of the Government, and at the proposal of the MoF*
- ◆ For the first time the Croatian Parliament adopted the state budget for 2010. and projections for 2011. and 2012.
- ◆ Such multi-year framework will enable the monitoring of the projects through longer time horizon



Budget structure

- ◆ In Croatia both current and capital budget are part of unified budget document
- ◆ *For example:*

1299 Increasing quality and availability of health services (322.724.312 HRK)

— *K108194 Clinical medical center Zagreb (128.330.000 HRK)*

- 363 Capital Aids within general state (120.330.000 HRK)
 - 421 Buildings (8.000.000 HRK)
- *A618208 International cooperation (1.900.000 HRK)*
- 321 Expenditures for employees (230.000 HRK)
 - 323 Expenditures for services (20.000 HRK)
 - 329 Other expenditures (1.650.000 HRK)

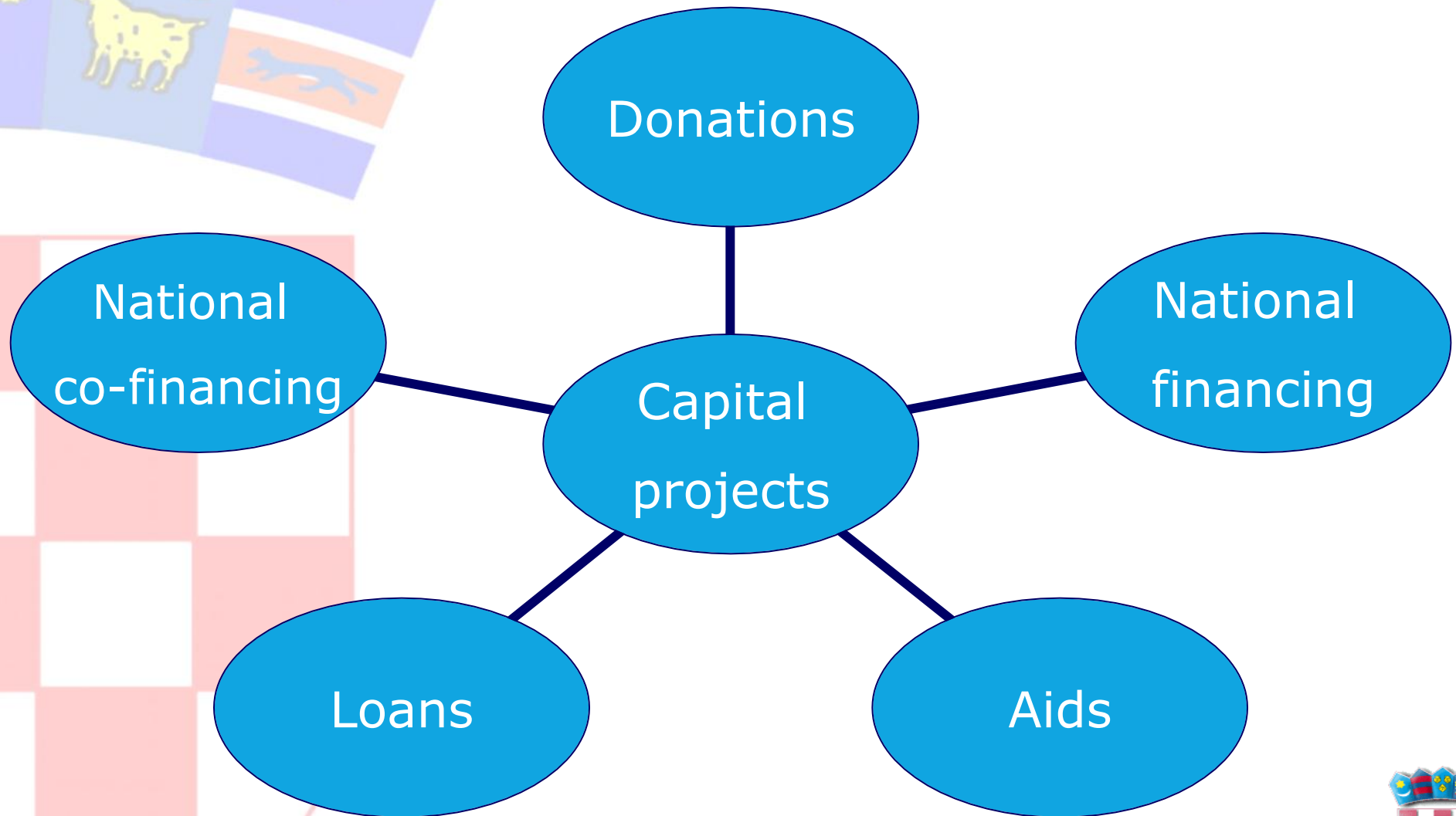


Planning and executing of capital project through the sources of financing

- ◆ Sources of financing are introduced as a special classification (in addition to the other budget classifications – organizational, economic, functional, location, program)
- ◆ The rules of spending i.e. execution depends on the source
- ◆ Capital projects are tracked through different sources of financing - it ensures flexibility in execution
- ◆ Huge flexibility in executing capital projects financed through the sources such as donations, grants (EU and others) and loans (WB and others)
 - ✓ Capital project financed through these sources may be executed above the planned level and up to the amount of paid and/or carried over funds
- ◆ Activities and projects financed from EU accession programs and capital projects which are not executed by the end of the current year can be transferred and executed in the next year with the approval of the MoF and according to the criteria's proscribed in annual State Budget Execution Act



Planning and executing of capital projects through the sources of financing



Monitoring

- ◆ Through performance indicators and reporting system European union procedures of monitoring are set up for projects financed with sources of World bank or other international institutions
- ◆ MoF tracks projects mostly at the level of plan-execution i.e. at the level of payment
- ◆ Organizational units within the ministries track capital projects through all the phases



Examples of such organizational units within the ministries

Ministry of Environmental Protection, Physical Planning and Construction

- ◆ Directorate for Construction
- ◆ Directorate for Housing and Utility Services
- ◆ Bureau for Physical Planning

Ministry of Science, Education and Sport

- ◆ Department for Capital Activities

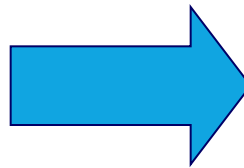
Ministry of Regional Development, Forestry and Water Management

- ◆ Department for Project Financing and Financial Transactions Analyses



Monitoring

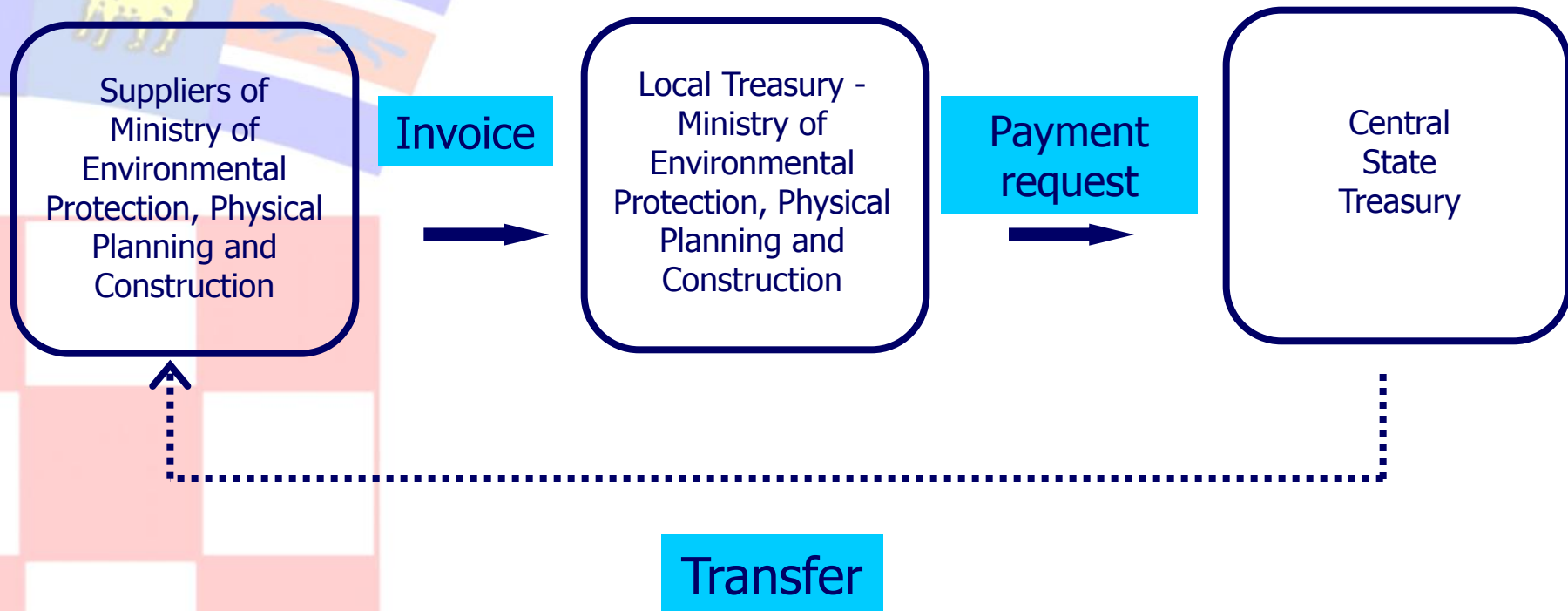
- ◆ Investment documentation
- ◆ Procedures of capital project appraisal
- ◆ Project implementation reporting system which would identify deviations from planned implementation as well as measures for their elimination



- ◆ Not uniquely prescribed
- ◆ Depends from ministry to ministry
- ◆ It does not refer to projects financed from EU programs, loans given by international financial institutions and other similar sources



Payment procedure



- Direct payment to suppliers of budget users is one of the priorities in order to make public spending more effective
- State budget has only one account (Single Treasury Account) for all transactions – accounts of the ministries were canceled in 2006.



Major problems

- ◆ Overlapping of the projects between budget users
 - for example: Ministry of Science, Education and Sport and the Ministry of Regional Development, Forestry and Water Management both build schools
 - key question: should we build so much schools and whether it would be of much greater importance to build three hospitals rather than five schools
- ◆ Allocations are done according to strategic priorities of the ministry and not the state as a whole
- ◆ A large part of that is based on assumptions
- ◆ MoF assumes that all cost and benefits of capital projects are evaluated by line ministries – there is no tracking mechanism
- ◆ Weak role of the MoF in tracking the execution especially when there are deviations from planned implementation which would have impact on budget execution



Challenges

- ◆ In 2009. the process of strategic planning was implemented
- ◆ The Strategy of Government programs for a three-year period was prepared for the first time in 2009.
 - It was based on the strategic plans of the ministries
 - It is still pretty much descriptive but it will help in prioritization of large capital projects at the state level
- ◆ Draft of the Decree on The Methodology of Investment Projects Appraisal is prepared
 - It proscribes obligatory project documentation which includes everything necessary for a comprehensive assessment of economic, financial, social and other consequences
 - The relevance of capital project appraisal will be much higher
 - Preconditions for inclusion of capital projects in budget
 - Reporting system on implementation of the investment projects and monitoring the impacts of an capital project
- ◆ The new and the significant role of the Department for Budget Analyses and Capital Project Evaluation





Thank you for your attention!

