Twinning light project – IPA 2014

„Overall budgetary reforms and PIFC challenges in Croatia”

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March 28, 2019., Skopje

This project is funded by the European Union

WHAT

1. Budget Comprehensiveness and Transparency
   - Budget Classification
   - Inter-govermental fiscal relations
2. Policy-Based Budgeting
   - Medium-Term Expenditure Framework
   - Performance Budgeting
3. Predictability and Control in Budget Execution
   - The Revenue Administration
   - Cash and Debt Management
   - Procurement
   - Payroll Management
   - Internal Control and Internal Audit
4. Accounting and Reporting
5. External Audit and Legislative

WHEN

PFM reform actions should focus on three main management deliverables in the following order:

1. Putting in place controls to ensure some minimal level of financial compliance – fiscal control
2. Establishing mechanisms to improve fiscal stability and sustainability
3. Introducing systems to promote the efficiency and effectiveness in service delivery

PFM REFORM 2001/2002 (CROATIA)

1. Accounting and Reporting
   - From cash to a modified accrual accounting principle
2. Budget Comprehensiveness and Transparency
   - Budget Classification – including program classification
3. Predictability and Control in Budget Execution
   - System of internal financial control

DRIVERS:

- New IFMIS (SAP - problems with customization; changes in business processes;)
- Donors

PFM REFORM 2001/2002 (CROATIA)

SEQUENCE:

- Determined by the Drivers

FRAMEWORK:

- The new Budget Act

PFM REFORM 2007/2011 (CROATIA)

1. Policy-Based Budgeting
   - Development of MTBF
   - Introduction of strategic planning

2. Predictability and Control in Budget Execution
   - Implementation of automated system of commitment control, including multi year commitments
   - Increasing flexibility in budget execution
   - Integration of FMC tools and technics into budget system – Fiscal Responsability Statement

PFM REFORM 2007/2011 (CROATIA)

DRIVERS:

- Technical issue (establishment of the STA in 2006)
- Experienced and motivated MoF staff/organisation culture
- Political will

FRAMEWORK:

- Strategy for the Development and Modernization of the State Treasury 2007 – 2011
- Strategy for PIFC 2009 – 2011
- Fiscal Responsability Act 2011

PFM REFORM AFTER ESTABLISHING CORE PFM FUNCTION

- Establishing core PFM functions and achieving the expected outcome of meeting “basic” PFM processes, change:

1. the scope of the future PFM reform (reducing the number of actions; more fine-tuning)
2. drivers
3. sequencing

„PFM" ACTIVITIES 2012/2013 (CROATIA)

1. Predictability and Control in Budget Execution
   - Fiscalisation of cash transaction
   - Reorganization of the Customs Administration and the Tax Administration

DRIVERS:

- Fiscal crises/high budget deficit
- Political change

FRAMEWORK:

- Act on the Fiscalisation of Cash Transactions

„PFM" ACTIVITIES 2014 (CROATIA)

1. Accounting and Reporting
   - Supplementing the content of the account plan
   - Revising the content and deadlines for the submission of financial reports
   - Simplifying the consolidation of financial reports

DRIVERS:

- EUROSTAT
- Croatian Bureau of Statistics and the CNB for statistical needs

„PFM" ACTIVITIES 2014 (CROATIA)

FRAMEWORK:

- Strategy of the Financial Reporting System Reform
- Amendments of the by-laws on government accounting and reporting

„PFM" ACTIVITIES 2015 (CROATIA)

1. Predictability and Control in Budget Execution
   - Spending review
   - Improvement of internal financial control system and expansion of the scope regarding companies owned by the state and local units

DRIVER:

- Croatia entered excessive budget deficit procedure
- MoF staff (new internal control standards and harmonization with the Fiscal Responsability Act)

„PFM” ACTIVITIES 2015 (CROATIA)

FRAMEWORK:

- Decision on the Performance of the Spending Review; Decision on the appointment of the presidents and members of the Spending Review Committees; Guidelines for the Spending Review Implementation

- The new Public Internal Control Act

„PFM" ACTIVITIES 2017 (CROATIA)

1. Budget Comprehensiveness and Transparency
   - Streamlined the system of central government transfers and introduced a new system of fiscal equalization

DRIVERS:

- Political change
- MoF and local units

FRAMEWORK:

- The new Law on the Financing of Local Government Units

„PFM" ACTIVITIES 2018 (CROATIA)

1. Fiscal control
   - Strengthening the fiscal rules and the independence of the Fiscal Policy Committee
2. External Audit and Legislative
   - Upgrading of the system and the role of SAO - the adoption of the model for the development of sanctioning the failure to act upon SAO recommendations

„PFM" ACTIVITIES 2018 (CROATIA)

DRIVER:

- EK recommendations

FRAMEWORK:

- The new Fiscal Responsability Act
- The new State Audit Office Act

AFTER PFM REFORM

- As well as technologies, budgetary process or some of their parts are becoming outdated
- After establishing core PFM functions and achieving the expected outcome of meeting “basic” PFM processes, it is not common to have further major developments in the upcoming long-term period
- In the meantime during the monitoring phase, it is expected to carry on smaller fine-tuning PFM activities
- Sequence can not be determinated upfront

AFTER PFM REFORM (LESSONS LEARNED)

1. Develop a strategic reform framework
2. Adress structural issue
3. Make a commitment to change (political will)
4. Establish and empower key institution
5. Managing reform
6. Monitor progress of PFM reforms

THANK YOU FOR ATTENTION