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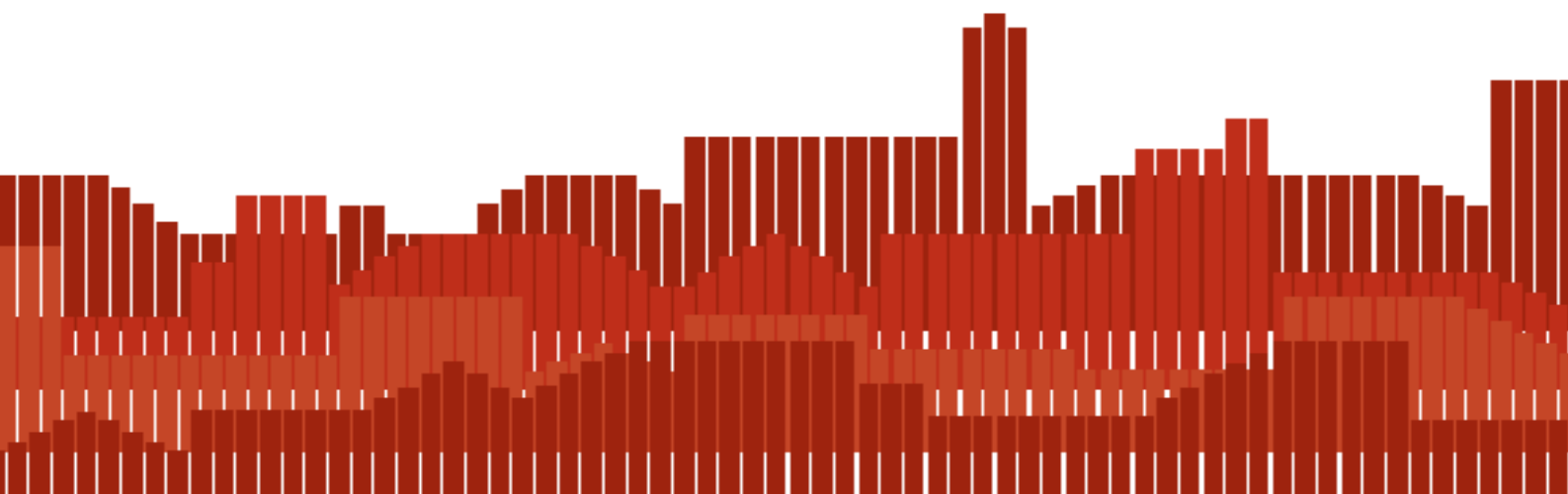
# MEASURING LOCAL UNITS' TRANSPARENCY AND ACCOUNTABILITY: THE CROATIAN OPEN LOCAL BUDGET INDEX

– FINAL REPORT –

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## CONTENTS

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<b>Acknowledgements</b>	<b>3</b>
<b>Abstract</b>	<b>4</b>
<b>Executive summary</b>	<b>5</b>
<b>Abbreviations</b>	<b>9</b>
<b>1. Introduction</b>	<b>10</b>
1.1. Purpose of the research	10
1.2. Definition of local budget transparency	11
1.3. Different measures of budget transparency	12
1.4. Local units in Croatia	13
<b>2. Research: structure, methodology and results</b>	<b>15</b>
2.1. Structure of the research	15
2.2. Methodology and results	16
2.2.1. The Croatian Open Local Budget Index	16
2.2.2. The Survey	23
<b>3. Conclusions and recommendations</b>	<b>27</b>
<b>4. References</b>	<b>33</b>

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Katarina Ott and Mihaela Bronić  
Project leaders

## ABSTRACT

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Thanks to the support of the CBPP-IBP, Washington, the IPF, Zagreb explored the budget transparency of 33 Croatian cities, which resulted in three *Croatian Open Local Budget Indexes* for the year 2010. Our goal was to investigate the disclosure of budget information by local units and the openness of local units to the public.

Within the project, we: (1) constructed the Questionnaire on the basis of which we calculated the *Main Croatian Open Local Budget Index (Main COLBI)* measuring the disclosure of budget information by local units, the *Additional Croatian Open Local Budget Index (Additional COLBI)* about the local units' openness to the public and the summary index - *Total Croatian Open Local Budget Index (Total COLBI)*, as a general measure of local budget transparency; (2) carried out a Survey among the representatives of local information officers (LINFO), local executive bodies (LEXE), local representative bodies (LREP) and local civil society organizations (LCSO) in the observed cities and the Ministry of Finance (MFIN); and (3) engaged a citizen (unacquainted with the budget) to search independently the official websites of these cities.

The *Main COLBI* average shows that we obtained 57% of the expected local budget information (ranging from 79 to 34%); the *Additional COLBI* average shows that cities provided us with 82% of the expected openness to the public (ranging from 100% to 47%); and the *Total COLBI* average shows that the general measure of local budget transparency is 65% (ranging from 82% to 45%).

The main problems encountered in many cities are the following: (1) the lack of: the functional classification of expenditures in the budget documents, the verbal explanations of revenues and expenditures by economic classification, the Citizens Budget, adequate data for the previous and the following two years and macroeconomic forecasts; (2) the lack of the City Council's meeting agendas on the local units' official websites and the relatively low rate of response by LINFOS, LEXEs and LREPs to our Survey.

The Survey shows that: (1) the opinions of the LREP respondents from the ruling coalition are very often opposite to those from members of the opposition; (2) the role of the LREP is inferior to that of the LEXE; (3) the communication problems between LEXE and MFIN have aggravated due to an excessive number of local units, the understaffed MFIN, complicated laws and their frequent changes; (4) the LCSOs complain about the unintelligible legal terminology, frequent changes in budget classifications and the lack of time and basic information.

The results should be taken cautiously because of the relative arbitrariness in constructing the indexes, problems in measurements and the formulations in the questionnaires that should be more precise in order to capture the subtle nuances of transparency.

*Key words: local budget transparency, disclosure of budgetary information, local units' openness to the public, Croatian Open Local Budget Index*

## EXECUTIVE SUMMARY

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Thanks to the support of the Center on Budget and Policy Priorities and International Budget Partnership, Washington, the Institute of Public Finance, Zagreb has undertaken the task of measuring the local units' transparency and accountability and constructing three Croatian Open Local Budget Indexes for the year 2010.

The goal was to explore local budget transparency, i.e. the disclosure of budget information by local units and their openness to the public. During the project we:

- analyzed the relevant academic and professional literature and Croatian laws and regulations,
- constructed the Questionnaire for measuring local budget transparency in 33 biggest Croatian cities,
- calculated the COLBI for these cities based on the Questionnaire,
- carried out Survey among the local information officers (LINFO), local executive bodies (LEXE), local representative bodies (LREP), local civil society organizations (LCSO) in the observed cities and the Ministry of Finance (MFIN),
- as a proxy for the average citizen - unacquainted with the budget - a sixteen-year-old student independently searched the official websites of the cities.

The information gathered through the Survey and the student's insights were not used for the calculation of the COLBI, but they served for our better understanding of the budgeting process and drawing up our conclusions and recommendations.

**The main results** of the project - the *Main Croatian Open Local Budget Index (Main COLBI)* of the disclosure of budget information by local units, the *Additional Croatian Open Local Budget Index (Additional COLBI)* of the local units' openness to the public and the *Total Croatian Open Local Budget Index (Total COLBI)* as a general measure of local budget transparency - are in line with previous results for both national and local budget transparency in Croatia.

**The Main COLBI** average is 57, meaning that, on average, we obtained 57% of the searched local budget information, while the best performed city – Slavonski Brod, and the worst – Pazin scored 79 and 34, respectively. The main problems encountered are the following:

- from 67% to over 80% of the cities do not include the functional classification of expenditures in the Budget Proposal Documents for budgetary year, the Half-Year Report or Year-End Report;
- almost 80% of the cities do not give verbal descriptions of revenues and expenditures by economic classification, whereas such descriptions exist in almost 70% of the cities for individual program expenditures;
- almost 80% of the cities do not publish a Citizens Budget;
- the majority of the cities do not present adequate data for the previous and the following two years in their Budget Proposal Documents; and

- 85% of the cities do not present macroeconomic forecasts in the Budget Proposal Documents.

**The Additional COLBI** average is 82, meaning that the cities provided us with 82% of the expected openness to the public. The best-performed cities are Karlovac and Labin with the score of 100, and the worst one is Vinkovci, having scored 47. The majority of the cities can be considered extensively open to the public (e.g. in all 33 cities, citizens are allowed to attend the City Council meetings), while there are still problems relating to:

- the lack of City Council's meeting agendas on the local units' official websites; and
- the relatively low response rate of LINFO, LEXE and LREP to our Survey. Despite the provisions of the Right of Access to Information Act, which obliges LINFOs to answer all requests within 15 days, less than 60% of them responded to our Survey.

However, the openness of local units to the public is obviously much better than the disclosure of budget information by local units. While the *Additional COLBI* for only five cities is below 75, only one city has the *Main COLBI* over 72.

**The Total COLBI** average is 65, meaning that the cities provided us with 65% of the expected disclosure of local budget information and the local units' openness to citizens. The best-placed city – Slavonski Brod scored 82, while the worst-placed – Šibenik scored 45. Although it might seem that the difference between the worst and the best-placed cities is not too big – about 50% – one has to have in mind that 33 biggest and most developed cities were selected here. That might suggest that the variation in local budget transparency in Croatia is probably much wider.

**The Results of the Survey** of the LREP, LEXE, LCSO, LINFO and MFIN representatives that aimed at getting more insights into the local budgeting processes, and the issues related to local budget transparency are explained in following paragraphs.

While the majority of respondents find the documents exchanged between LEXE and LREP, as well as the process of such exchange transparent, there are differences in views between LREP from the ruling coalition and the opposition; LEXE seem to be better informed than LREP and LREP often complain about the short deadlines (e.g. in six cities, less than eight days elapsed between LREP receiving the Budget Proposal Documents for 2010 and adopting the budget proposal documents).

The majority of respondents find the documents exchanged between LEXE and MFIN and the process of such exchange partially transparent, often accusing each other for various problems and misdeeds. However, there are problems on both sides and in the system: too many local units (576), understaffed MFIN (only seven employees in charge of local units), poorly equipped local units, complicated laws and their interpretations, frequent changes in laws and regulations and their numerous amendments, plus an unsystematic approach of MFIN to the local unit financing issues.

Less than half of respondents from LCSOs understand the local budget documents, whereas about 40% understand them partially. The biggest challenges for LCSOs are unintelligible legal terminology,

frequent changes in budget classifications, plus lack of time and of basic information about the local budget and budgeting process.

**The search of the official websites** of all 33 cities by an inexperienced citizen shows that there are great differences among the cities in how easy it is for them to find and view budget documents. Some cities have a direct link to the budget documents, but in many others, it is necessary to click on many links that seem relevant and to use intuition. There is also a wide variation in the amount and layout of budget information presented, once you reach the relevant page. Surprisingly, the capital city offers scarce information about its budget, whereas citizens from some smaller cities have excellent access to the budget documents and can find lots of information on the cities' official websites.

The following **Recommendations** can be drawn from these results.

LEXE should concentrate on timely releasing most important documents, preferably on their official websites, regularly updating and improving the website layout, publishing the Citizens Budget, organizing public hearings, increasing investment in their own training, activating citizens and being more responsive to citizens.

Although playing second fiddle to LEXE, LREPs should demand from LEXE the full and correct disclosure of all the relevant local budget information in a timely manner and in an understandable form. They should scrutinize the budget documents more closely, discuss and influence the budgeting policy, hold LEXE accountable, and require opportunities for their professional development.

MFIN should be more cooperative and better coordinated with LEXEs, but before this, it should better organize its unit in charge of the cooperation with LEXEs, and try pressing the Government to reduce the number of local units. Besides, it should try to reduce changes to the relevant laws, regulations and budgetary classifications, or at least inform LEXEs about this and include them in the preparations for changes, send all the documents to them on time and promptly answer their questions.

Although being perceived as the most important subject in the unofficial monitoring and controlling of local budgets, the media should be even more involved in the local budgeting process in order to timely inform citizens about the most important budgetary events.

Citizens should try to educate themselves and demand simple and understandable information from LEXEs.

The **Methodological approach** followed was to first analyze the relevant academic and professional literature regarding the definitions and methodologies, as well as Croatian budget laws and regulations, and then to construct a Questionnaire consisting of 52 questions for measuring local budget transparency of the 33 biggest Croatian cities.

Based on the first 37 questions from the Questionnaire, relating to information available in the five most important local budget documents, mostly following the example of the IBP's Open Budget Survey, we calculated the the *Main COLBI*. The next 15 questions, relating to the openness of local units in general,

and their cooperation with us during the research served for constructing the *Additional COLBI*. The general measure of local budget transparency took into account all 52 questions and was called the *Total COLBI*.

Besides the calculation of the mentioned indexes, we surveyed four types of respondents in each city: LREP, LEXE, LSCO, LINFO plus the MFIN. Altogether, over two hundred Survey questionnaires were sent out, with the purpose of getting a closer insight into the local budgeting processes and problems relating to local budget transparency. Additionally, a student, inexperienced in budget issues, checked the official websites of the cities to find out how an interested citizen could cope with such task.

**Limitations exist and caution is necessary**, as this is our first attempt to explore and measure local budget transparency, i.e. the disclosure of budget information by local units and the openness of local units to the public. We have learned a lot through this research. Although we have decided to rank the cities, our results should be taken cautiously because of the relative arbitrariness in constructing the indexes, problems in measurements and formulations of possible answers to our questions that should be more precise in order to capture the subtle nuances of transparency.

We hope that by continuing this research for Croatia on a biannual basis and/or broadening the sample (e.g. including all Croatian cities or even all the local units), as well as by carrying out similar research projects in other countries, much better, more credible and hopefully comparable results will be obtained.



## ABBREVIATIONS

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AB	Adopted Budget
ADBE	Adopted Decision on Budget Execution
AP	Adopted Projections
BAPL	budget account plan level
BPD	Budget Proposal Documents
CB	Citizens Budget
CBPP	Center on Budget and Policy Priorities
COLBI	Croatian Open Local Budget Index
CSO	civil society organizations
FD	Finance Department
HRK	hrvatska kuna (Croatian Kuna)
HYR	Half-Year Report
HYREBs	half-year reports on execution of the financial plans
IBP	International Budget Partnership
IMF	International Monetary Fund
IPF	Institute of Public Finance
LGSO	local civil society organization
LEXE	local executive body
LFB	local finance body
LINFO	local unit information officer
Local units	local and regional government units
LOTUS	Lokalna, odgovorna i transparentna uprava i samouprava ( <i>Local, accountable and transparent government</i> )
LREP	local representative body
MFIN	Ministarstvo Financija ( <i>Ministry of Finance</i> )
OECD	Organization for Economic Cooperation and Development
RBY	Reference Budget Year
RC	representative citizen
ULRSG	units of local and regional self-government
YR	Year-End Report
YREBs	year-end reports on the execution of the financial plans

## I. INTRODUCTION

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The goal of this research is to measure local budget transparency in Croatia in 2010. The report consists of three main parts: the first part presents the introduction (explaining the purpose of the research and the definition of local budget transparency), the second part explains the structure of our research (methodology and results) and the third part brings conclusions and recommendations.

### I.1 PURPOSE OF THE RESEARCH

The primary aim of this research is to answer the following questions:

- How is the local budget information presented to the public? Are local budgets transparent?
- Is the local budgeting process transparent? and
- What specifically can be done to make local budgets and the local budgeting process more transparent?

Why is local budget transparency so important? The processes of democratization and fiscal decentralization have resulted in a rising number of locally provided public goods (such as the local public transport, kindergartens or street lighting). In order to provide these goods as efficiently as possible, citizens need to understand their local budgets and to actively participate in the local budgeting process. Because, once accepted, a local budget has an effect on each and every citizen. It determines, for example, how much citizens will pay for local public transport (tram or bus), how much they will pay if their children go to public kindergartens, or whether they will have public street lighting.

But still, in spite of its exceptional importance, many people do not understand the local budget. Citizens usually do not have enough time and/or interest to analyze the local budget data or to examine the topics needed for their participation in the local budgeting process. Apart from a lack of time and interest, the problem is that the necessary local budget data are often unavailable or the data are available, but they are not understandable to citizens.<sup>1</sup> It is known from the literature (Benito and Bastida, 2009) that, given the complexity of modern economies' budgets, policy makers can hide certain tax burdens and government liabilities. It is often not in the interest of politicians to have simple, clear and transparent central or local budgets.

However, we must make an effort to increase local budget transparency, as it allows citizens and financial markets to assess properly the local units' financial positions and performance.<sup>2</sup> It is also very important that the local budgets are transparent, so that citizens can understand them, which will

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<sup>1</sup> For example, GONG (2010) argues that, according to its most recent annual survey in Croatia (for 2009), less than 50% of responses to their questionnaire sent out to public administration bodies (including local units - counties, municipalities and cities) were received on time and in accordance with the Right of Access to Information Act (In Croatian: *Zakon o pravu na pristup informacijama*). GONG (2010) also argues that the answers are very often only formal and incomplete, concluding that citizens can sometimes gain access to this information only with great difficulty.

<sup>2</sup> Local units – municipalities and cities, but the term also sometimes includes counties.

enable them to participate more actively in the local budgeting process and hold the local executive body (LEXE)<sup>3</sup> and local representative body (LREP)<sup>4</sup> accountable.

Since the transparency of local budgets and local units' accountability are interrelated, in this research we will also try to identify the appropriate measures to ensure the accountability of LEXE and LREP. In our research we have calculated and published three Croatian Open Local Budget Indexes for 2010. The COLBI is a measure of local budget transparency. Based on the COLBI results, citizens from the surveyed local units can check the transparency of their own local budgets and demand improvements in the non-transparent areas. And when the budget transparency in their local unit improves, citizens will also be able to check more easily the accountability of their LEXE and LREP. Thus, it will be easier for citizens to check if the LEXE and LREP have done all the things they had promised. Because "Transparency is the first step towards holding the local governments accountable for how they use public money. Open budgets are empowering. They allow people to be the judge of whether or not their local government officials make good use of public funds (---, 2010.)".

## 1.2 DEFINITION OF LOCAL BUDGET TRANSPARENCY

There are many different definitions of budget transparency. For example, it is interesting to mention one of the main budget principles in Croatia's Budget Act, i.e. the principle of budget transparency. It refers to the obligatory publication of certain budget documents in the national official gazette (for central government) or in the local official gazette (for local units).<sup>5</sup>

This report is focused on the local budget transparency. We have defined local budget transparency as the possibility that citizens can obtain information about their local unit's budgets that is:

- complete,
- relevant,
- correct,
- timely and
- presented in an understandable form.

The local budget transparency actually tells us about the quantity and quality of information presented to the public in local budget documents. It gives us answers on how many different budget reports the local unit publishes and how detailed these reports are. In short, local budget transparency indicates whether citizens can trust these documents or not. It also tells us if a citizen can obtain the local budget information.

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<sup>3</sup> According to the Act on Local and Regional Self-Government (in Croatian: *Zakon o lokalnoj i područnoj (regionalnoj) samoupravi*), a local executive body consists of the municipal prefect, mayor and county prefect and their deputies. For the purposes of our research, LEXE is considered to include the municipal prefect, mayor and county prefect and their deputies, as well as the local units' administrative bodies. More specifically, for the performance of tasks from the scope of the self-government activities of local units, as well as the state administration tasks delegated to the local units, administrative departments and services (local units' administrative bodies) are established.

<sup>4</sup> Local representative bodies are county assemblies and the Zagreb City Assembly, as well as the municipal and city councils (Budget Act (In Croatian *Zakon o proračunu*)).

<sup>5</sup> The new Budget Act (87/08) stipulates that several new documents have to be published, which has not been the case before. Thus, since 1 January 2009 the following documents have to be published: the Adopted Budget, Adopted Projections, Amendments to the Adopted Budget and Adopted Projections, the Decision on Temporary Financing, Half-Year Report and Year-End Report.

Our definition is a combination of two definitions. Firstly, OECD defines the budget transparency as the full disclosure of all relevant fiscal information in a timely and systematic manner (OECD, 2002). Secondly, the IBP (2008) defines budget transparency as a possibility for all people in a country to access the information on how much is allocated for different types of spending and what revenues are collected.<sup>6</sup>

In this report we have focused on measuring the local budget transparency and, to some extent, the transparency of the local budgeting process. Under the transparency of local budgeting process we actually mean that all participants in the local budgeting process understand what has to be done, when and by whom (meaning the Ministry of Finance - MFIN, LREP, LEXE and citizens).

### 1.3 DIFFERENT MEASURES OF BUDGET TRANSPARENCY

It is as difficult to define budget transparency as it is to measure it. There is no unique or exact way to do so. Different researchers have used questionnaires and surveys to examine budget transparency and, based on the answers from those questionnaires and surveys, they constructed different types of budget transparency indexes (Table 1).

Table 1: Measures of fiscal/budget transparency

Authors	Index of	Sample	Method
Alesina, Hausmann and Hommes (1999)	budget institutions	20 Latin American and Caribbean countries	Two questionnaires covering ten characteristics of the budget procedures
Bastida and Benito (2007, 2009)	budget transparency	41 countries	Questionnaire based on OECD's <i>Best Practices</i>
Beales and Thompson (2010)	fiscal transparency	134 localities in Virginia, US	Availability of information on municipalities' websites using 16 criteria on a 100 point scale
Boubeta et al. (2010)	fiscal transparency	33 Galician municipalities, Spain	Questionnaire based on three pillars of the IMF's <i>Code</i> and authors' knowledge about budgeting processes and local units' realities
Hameed (2005)	fiscal transparency	57 countries	Assigning numbers to practices following IMF's <i>Code</i>
IBP (2002)	budget transparency	5 Latin American countries	Survey
IBP (2006)	open budget	Over 80 countries	Questionnaire
Jarmuzek et al. (2006)	fiscal transparency	27 transition economies	Survey of relevant websites based on a Questionnaire following IMF's <i>Code</i>
von Hagen (1992)	fiscal transparency	8 European countries	Questionnaire

We will not discuss these indexes, since some of the important things are highlighted in Table 1. We will just point out the most important guidelines for measuring budget transparency, i.e.:

- OECD's – *Best Practices for Budget Transparency*,

<sup>6</sup> There are several other definitions relating to budget transparency that should be mentioned here. All of them are broader and relate to more than just the information from the budgets, which is actually understandable because to some extent the budget can only be transparent if, for example, the budgeting processes are transparent. Let us imagine that the central government does not present on time the budget proposal to the parliament, the public will obviously not have timely information about the budget proposal.

IMF (2008) uses the term fiscal transparency and defines it as being open to the public about the government's past, present, and future fiscal activities, and about the structure and functions of the government that determine fiscal policies and outcomes. According to Poterba and von Hagen (1999:3-4) "a transparent budget process is one that provides clear information on all aspects of government fiscal policy. Budgets that include numerous special accounts and that fail to consolidate all fiscal activity into a single 'bottom line' measure are not transparent. Budgets that are easily available to the public and to participants in the policymaking process, and that do present consolidated information, are transparent".

- IMF's - *Code of Good Practices on Fiscal Transparency*, and
- IBP's – *Guide to the Open Budget Questionnaire: An Explanation of the Questions and the Response Options*.

To our knowledge, there is very little published research on the local budget transparency in the world. We managed to find two of them, both from 2010 (Table 1 – Boubeta et al. (2010) and Beales and Thompson (2010)). In Croatia, we have found six projects that are to some extent related to budget transparency. One of them deals with the openness of the central government and was run by a foreign organization (IBP - 2006, 2008, 2010b), while the other five relate to the local budget transparency and were carried out by Croatian organizations and authors: Maletić (2006), GONG (2009), Profeta (2009), Bratić (2008b) and Antić and Malatestinić (2010). Only one research calculated the index of budget transparency - for the central government in Croatia (IBP -2006, 2008, 2010b).<sup>7</sup> For more details about the research on the local budget transparency issues done so far see Annex B.

Our literature review has shown that the local budget transparency should preferably be measured by some kind of index (Table 1). In addition, it shows that Croatian citizens do not sufficiently participate in the local budgeting process (Maletić (2006); Antić and Malatestinić (2010)) and that both local budgets and the central government budget are perceived as not transparent enough (GONG (2009); Profeta (2008), IBP (2006, 2008, 2010b)).

#### 1.4 LOCAL UNITS IN CROATIA

Since we analyze local budget transparency in Croatia, there is a need to shortly explain the local units in Croatia. Croatia is a small unitary country (4.4 million inhabitants) consisting of 576 local units. The country is divided into counties, cities and municipalities. Counties (21, including the capital city of Zagreb) constitute the *regional self-government*. Cities (126, with a population of around 3 million) and municipalities (429, mainly rural, with around 1.4 million inhabitants) represent the *local self-government*.

*Local units' expenditures.* In 2009, most expenditures of the local units (cities and municipalities) according to function were spent on housing improvement services, e.g. water and gas supply (22%), general services, i.e. the financing of executive and legislative bodies (18%), education (15%), economic operations (17%) and recreation, culture and religion (14%). These expenditures accounted for over 85% of total local spending, whereas the rest related to social protection, environmental protection, health care and public order and safety (Ministry of Finance, 2010).

*Local units' revenues.* The biggest revenue sources for local units' budgets are tax revenues. In 2009, they accounted for about 56% of total local units' revenue. The second largest revenue item (about 30%) is the non-tax revenue, e.g. revenues from the sale of goods and services, from fines, etc. The third largest

<sup>7</sup> It is also worth mentioning that GONG (2009) calculated for each city and municipality in Croatia summary index relating local units transparency in general taking into account the: (1) availability of public information about city/municipality council meetings, (2) availability of public information about city/municipality's decisions, (3) cooperation of city/municipality with civil society, (4) respect for the Right of Access to Information Act, and (5) functioning of the city/municipality.

revenue sources are grants that account for about 10% of total local units' revenues. Finally, capital revenues accounted for about 5% of total local units' revenues in 2009 (Ministry of Finance, 2010).

*Local units' responsibilities.* *Counties* deal with matters of regional significance, e.g.: education, health care, town planning, economic development, traffic and transportation infrastructure, and the planning and development of the networks of educational, healthcare, welfare and cultural establishments. *Cities and municipalities* are charged with matters of local significance, e.g. housing, town planning, utility management, childcare, welfare, primary health care, pre-school and elementary school education, culture, physical culture and sport, environmental protection and improvement, civil protection and fire protection. If *cities and municipalities* are provided with enough funds, they may also deal with matters coming within the competence of a *county*.

During the decentralization process in 2001, 53 local units (20 counties and 33 cities) accepted the additional obligation to finance some parts of education, health care, social welfare and fire fighting, for which they are provided with an additional share in personal income tax and equalization grants.

There are three reasons why we have selected 33 biggest cities that took over decentralized functions in 2001, for our sample to measure the local budget transparency. The first reason is that the budgets of 33 selected cities account for about 56% of all local units' budgets (the budgets of all cities and municipalities). The second reason is that about 49% of the total Croatian population live in these 33 cities.<sup>8</sup> Finally, the revenue and expenditure structure of these 33 cities' budgets do not differ too much from the revenue and expenditure structure of the budgets of other Croatian local units. Consequently, we have decided to cover an as large as possible share of revenues and expenditures in a relatively small number of local units. These three reasons are further elaborated in Annex E.

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<sup>8</sup> In 33 biggest cities lives around 2.2 million people.

## 2. RESEARCH: STRUCTURE, METHODOLOGY AND RESULTS

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After introductory part of this report in the second part we will present the structure of our research, methodology (the Questionnaire, the Croatian Open Local Budget Indexes and the Survey) and results (local budget and local budgeting processes are not transparent enough).

### 2.1 STRUCTURE OF THE RESEARCH

Based on the literature review, we decided to measure local budget transparency and construct the Croatian Open Local Budget Indexes by : 1) taking into account the OECD's *Best Practices* and the IMF's *Code*; 2) following the IBP's *Guide* since this is the most comprehensive guideline; 3) paying attention to issues emphasized by other, previously mentioned Croatian and foreign researchers into the budget transparency; and 4) taking into account institutional arrangements, both formal and informal, that are specific to Croatia.

During our research:

- We analyzed relevant academic and professional articles searching for definitions, methodology and results related to budget transparency measuring in the world and in Croatia (literature review).
- We analyzed relevant Croatian budgetary laws and regulations at the central government and local unit level.
- We constructed a questionnaire with 52 questions. The aim of the Questionnaire was to measure local budget transparency in 33 biggest cities in 2010.
- As a result of the Questionnaire, we calculated our COLBI.
  - The first 37 questions in our Questionnaire relate to the information available in five most important local budget documents. These questions are mostly based on IBP's Open Budget Survey. The responses to these questions are used to calculate *the Main Croatian Open Local Budget Index* (Main COLBI).
  - The following 15 questions in our Questionnaire are concerned with the openness of local units in general and the cooperation of the local units staff with us during our research. These questions are mostly based on the GONG (2009) research, whereas a few questions have been answered on the basis of our Survey (see below). These 15 questions served as a basis for the *Additional Croatian Open Local Budget Index* (Additional COLBI).
  - Taking into account all 52 questions, we have also constructed a summary index - the *Total Croatian Open Local Budget Index* (Total COLBI) as the general measure of local budget transparency in 2010 for 33 biggest cities.
- Two researchers independently searched the official websites of 33 cities, trying to find the needed local budget documents and to answer the Questionnaire for each city. They used

guidelines which specify how to respond to each question (see Annex A). Where some local budget documents could not be found on the city's official websites, we asked the LEXE to send it to us.

- We developed the Survey (for four types of respondents in each city: LREP, LEXE, local civil society organization (LCSO), Local unit information officer (LINFO) and MFIN). The primary aim of the Survey was to gain a deeper insight into the local budgeting process and issues relating to local budget transparency in Croatia. This would help us take our conclusions and interpret the COLBI results properly. However, we also used some information obtained from the Survey to answer a few questions in the Additional COLBI.
- As a pilot project, we carried out the Survey (LREP, LEXE, LCSO, and LINFO) in 4 cities (Karlovac, Rijeka, Kutina and Varaždin).
- We sent the Survey questions by mail to the remaining 29 cities (LREP, LEXE, LCSO, LINFO) and to the MFIN. The results of the Survey are presented in Annex D. Finally,
- we also assigned a task to a citizen (a 16-year-old student) to try to find local budget information on the official websites of 33 cities in the period from 1 to 9 July 2010. These results have not been used for calculating the COLBI, but only for the conclusions in our final report. The aim was to see what problems an average citizen (with no prior experience with budget issues) would face and how easy/hard this exercise would be for her (Annex F).

## **2.2 METHODOLOGY AND RESULTS**

The following text first explains the main results of our Questionnaire (i.e. the COLBI) and then the most important conclusions from our Survey.

### **2.2.1 THE CROATIAN OPEN LOCAL BUDGET INDEX**

On the basis of the Questionnaire, we have calculated one summary index (the Total COLBI) as the general measure of local budget transparency in 2010 for 33 biggest cities. It should be noted that the summary index (the Total COLBI) is the sum of the Main COLBI and Additional COLBI. Given our definition of the local budget transparency that citizens can obtain information about the local units' budgets that are complete, relevant, correct, timely and presented in an understandable form, we wanted to gain a deeper insight into both of these areas. This means that we wanted to investigate the local units' disclosure of budget information (the Main COLBI) and the openness of local units to the public (the Additional COLBI), and give recommendations for both of them. More details about the methodology can be found in Annex A.



## THE MAIN CROATIAN OPEN LOCAL BUDGET INDEX

The Main COLBI is calculated on the basis of 37 questions about the disclosure of local budget information (the quantity of information presented in five most important local budget documents). These documents are: Budget Proposal Documents, Adopted Budget Documents, Half-Year Report, Year-End Report and Citizens' Budget.<sup>9</sup>

The analysis was carried out for 2010 and we analyzed documents for this year, except for Adopted Projections (2011-2012), Half-Year Report (2009) and End-Year Report (2008 or 2007). In addition, we analyzed the Citizens Budget for 2009 or 2010, where the Citizens Budget existed for any of these two years. For a detailed description of the local budgeting process see Annex H.

Questions in the Main COLBI are about the following:

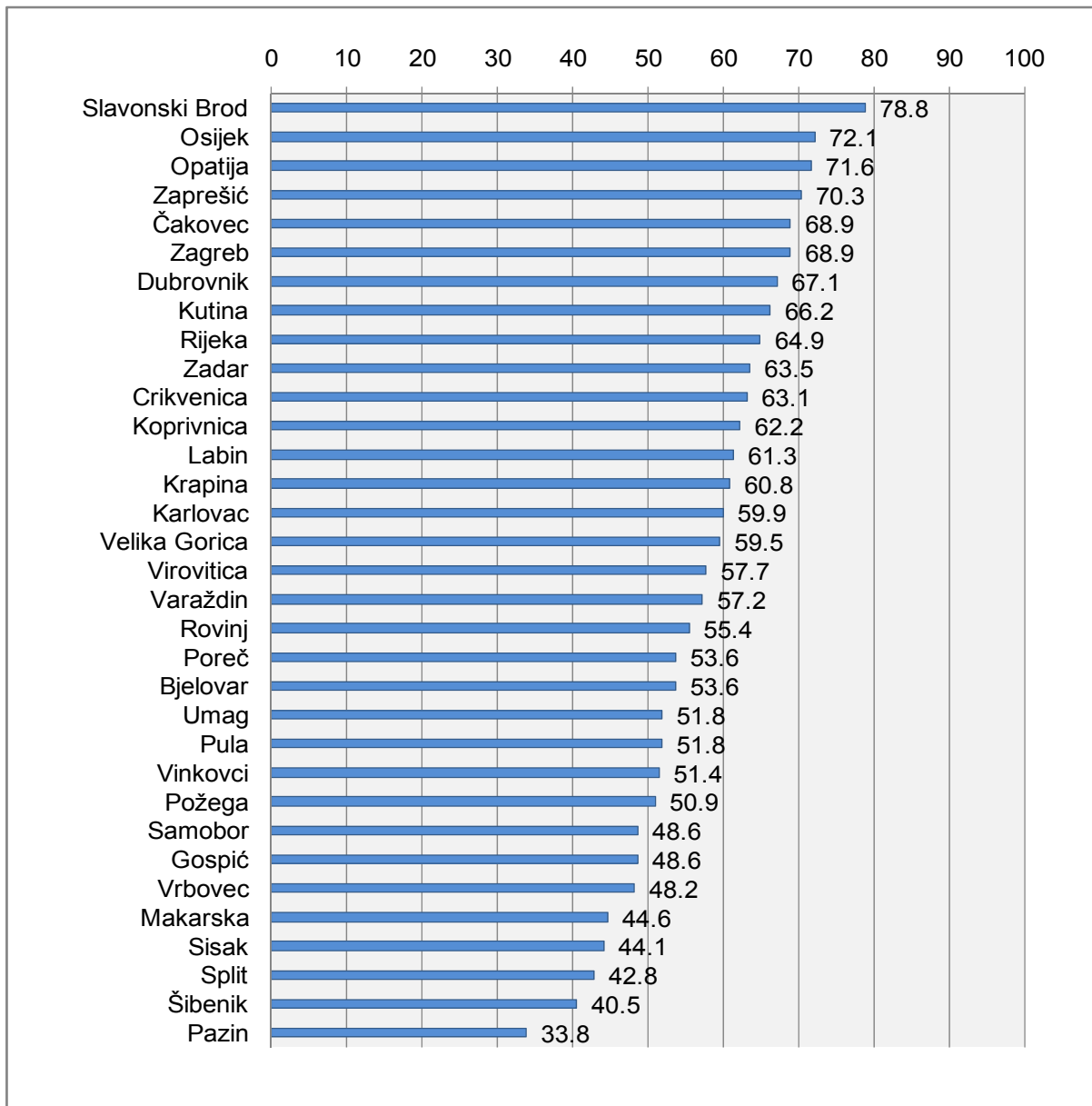
- Are the Budget Proposal Documents publicly available?
- In what detail are expenditures presented in different types of local budget documents?
- In what detail are major types of revenues (tax and non-tax revenues and grants) presented in different types of local budget documents?
- Do the Budget Proposal Documents contain verbal explanations and descriptions of expenditures and revenues?
- In what detail is the information about the local units' outstanding debt presented in the Budget Proposal Documents?<sup>10</sup>
- Do the Budget Proposal Documents offer macroeconomic forecasts on which the budget figures are based?
- Does the local unit publish a Citizens Budget? and
- Is the local official gazette available on the Internet?

According to the Main COLBI, the best performing city is Slavonski Brod (79), and the worst one Pazin (34). The average Main COLBI is 57 of 100, which means that on average, from 33 cities we obtained about 57% of local budget information requested in our research (Figure 1). It is interesting to note that Croatia's score on the IBP's Open Budget Index for 2010 (representing the transparency of Croatian central government budget) was also 57% (see Bađun and Urban, 2010).

<sup>9</sup> Non-technical presentation intended for a wide audience that describes the budget.

<sup>10</sup> The Budget Proposal Documents include: the Budget Proposal, the Projections Proposal and the Decision on Budget Execution Proposal. See Annex A for details.

Figure 1. The Main Croatian Open Local Budget Index



Obviously, much can be done to improve the quality and quantity of the local budget information presented to the public in the observed cities. For example, Budget Proposal Documents (BPD) are the most important documents in the budgeting process. However, during our research only 10 local units have made it available on their official websites.<sup>11</sup>

In addition, according to the Main COLBI, most of the cities have failed to provide:

- macroeconomic forecasts in the Budget Proposal Documents;

<sup>11</sup> Čakovec, Dubrovnik, Karlovac, Kutina, Labin, Osijek, Rijeka, Samobor, Slavonski Brod and Zagreb.

We have therefore contacted LEXE of the other 23 local units, requesting them to send us their BPDs. From one local unit we obtained a hard copy of BPD (Sisak). Eleven local units sent no further information about BPD (Bjelovar, Gospić, Krapina, Pazin, Rovinj, Split, Umag, Varaždin, Vinkovci, Virovitica and Vrbovec). As to the remaining 11 local units, their LEXEs informed us that BPD existed, but they failed to send us the document. They informed us that BPD was identical in content to the Adopted Budget Documents, indicating that as a reason why BPD was not made available on these cities' official websites (Crikvenica, Koprivnica, Makarska, Opatija, Poreč, Požega, Pula, Šibenik, Velika Gorica, Zadar and Zaprešić).

- verbal descriptions (explanations) of various revenues and expenditures in the Budget Proposal Documents;
- expenditures by functional classification in the Budget Proposal Documents, the Half-Year Report or the Year-End Report; or
- Citizens Budget.

It is interesting to note that similar problems exist with respect to the central budget transparency, e.g. the non-existence of a Citizens Budget (see Bađun and Urban, 2010). Detailed recommendations for improving the disclosure of local budget information for each city can be found in Annex C.

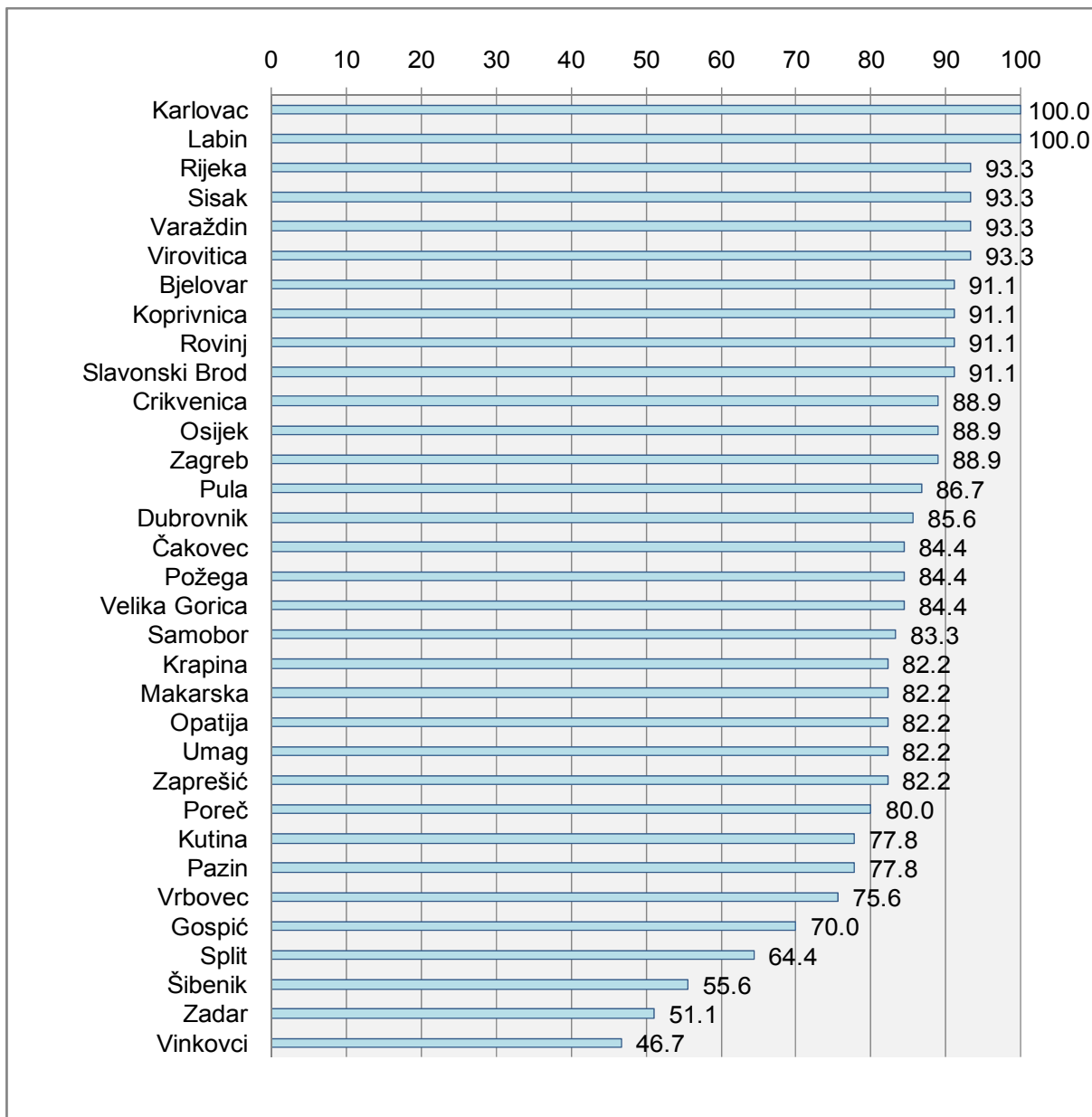
### *THE ADDITIONAL CROATIAN OPEN LOCAL BUDGET INDEX*

In order to get a deeper insight into the openness of local units in general, we introduced 15 additional questions and calculated the Additional COLBI. These questions are mostly based on the GONG (2009) research, and a few of them are based on our Survey. These questions:

- evaluate the cooperation of LINFO, LREP, and LEXE with us during the Survey; and
- are concerned with the existence of a local Committee on Budget Issues and the functioning of the City Councils (e.g. the availability of the City Council's Rules of Procedure on the official websites, or a possibility for citizens to attend the City Council meetings).

According to the Additional COLBI, the best performing cities are Karlovac and Labin (100), and the worst one is Vinkovci (47). The openness to the public reported by the cities is about 82% on average (Figure 2). The performance of the local units according to the Additional COLBI is much better than according to the Main COLBI - only 5 units have scores on the Additional COLBI below 75, while only one city attained a score on the Main COLBI over 72.

Figure 2. The Additional Croatian Open Local Budget Index



The general conclusion according to the Additional COLBI is that most of the observed cities are extensively open to the public, but still much can be done to improve their openness to the public. For example, LINFO, LEXE and LREP should respond to all citizens' requests for access to information. In addition, the agendas of the City Council meetings should be available on the local units' official websites prior to the meetings (see detailed recommendations for improving the openness for each city in Annex C).<sup>12</sup>

<sup>12</sup> During our research, the agendas of the City Council meetings were available prior the meetings on the official websites of only 24 out of 33 cities (73%).

Concerning the Additional COLBI, the biggest problem was the relatively low rate of response of LINFO, LREP and LEXE to our Survey (see Annexes D1, D2 and D3). For example, let us explain the problem with LINFO. According to the Right of Access to Information Act all information possessed, disposed of or controlled by bodies of public authority must be made available to interested persons. The bodies of public authority (including the LEXE) are obliged, for the purpose of providing access to information, to designate an official person, such as the LINFO, whose main task is to receive and consider individual requests for access to information. The LINFO must respond to these requests within 15 days from their submission, and the provided information must be complete and accurate.

However, within our research, we sent the Survey questions to LINFOs on 3 May 2010 (Annex D2). After 15 days, the response rate from LINFOs was very low (about 10%). After, several times, reminding LINFOs of the Survey on 26 July 2010, the final response rate was 58% (19 out of 33 cities answered).<sup>13</sup> Furthermore, of these 19 cities in which LINFOs did respond to the Survey, 12 cities failed to provide complete or accurate information.<sup>14</sup> They confirmed the existence of certain documents, but, despite our request, they neither submitted them nor explained where such documents could be found.<sup>15</sup>

#### *THE TOTAL CROATIAN OPEN LOCAL BUDGET INDEX*

The summary index (the Total COLBI) describes both the disclosure of local budget information and the openness of local units to the public. According to the Total COLBI, the best placed is Slavonski Brod (82), and the worst is Šibenik (45). The average Total COLBI is 65 of 100, meaning that, on average, 33 cities provided us with about 65% of the expected local budget information and openness to the public (Figure 3).

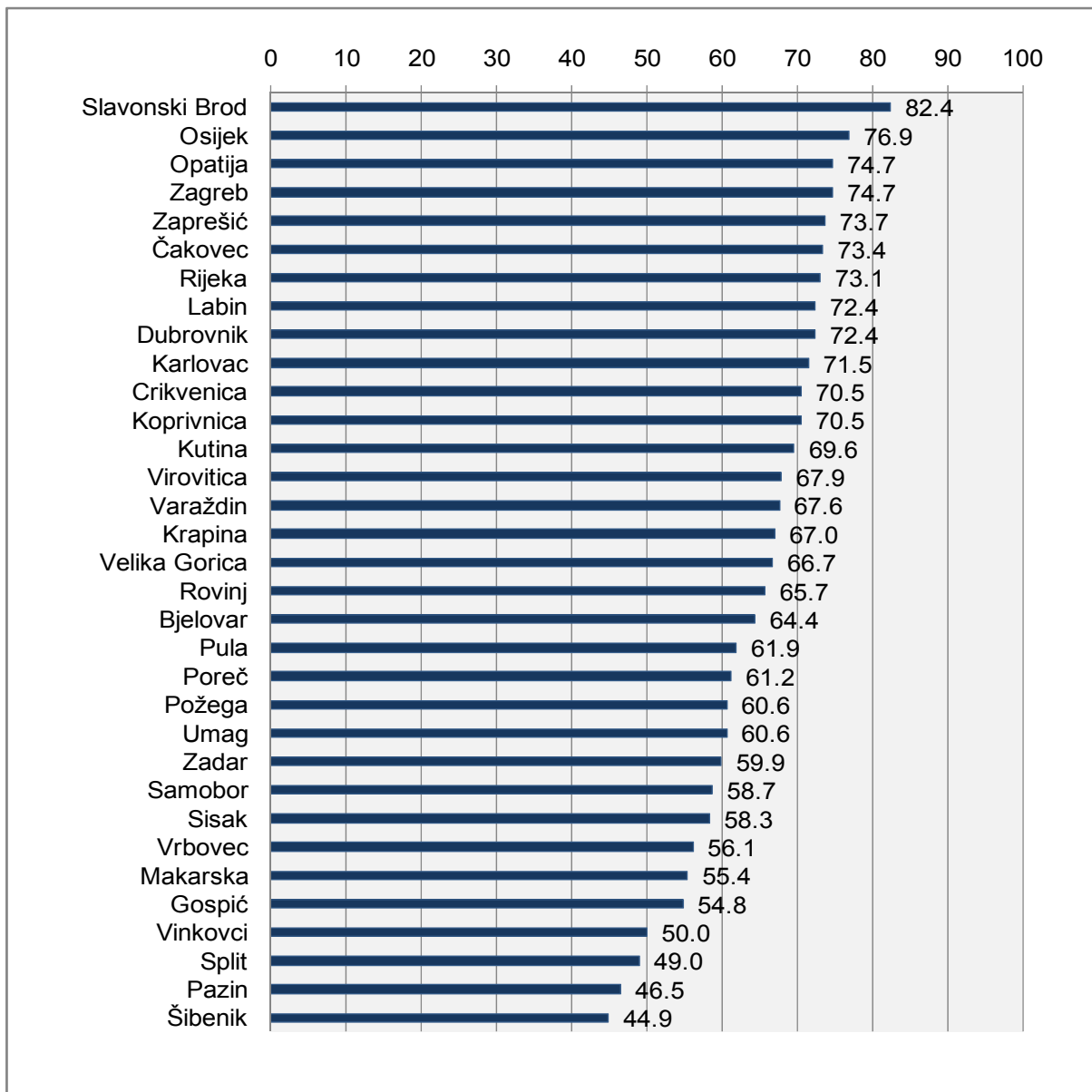
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<sup>13</sup> Koprivnica, Kutina, Požega, Umag, Bjelovar, Crikvenica, Čakovec, Dubrovnik, Karlovac, Labin, Osijek, Pazin, Poreč, Pula, Sisak, Split, Varaždin, Virovitica and Vrbovec.

<sup>14</sup> Kutina, Bjelovar, Crikvenica, Čakovec, Dubrovnik, Labin, Osijek, Pazin, Poreč, Pula, Split and Varaždin.

<sup>15</sup> However, it should also be noted that the openness to the authors of this Survey does not necessarily imply the same level of openness to other citizens, because the authors did not hide the fact that they were conducting a research.

Figure 3. The Total Croatian Open Local Budget Index



When we look at the Total COLBI results, the difference between the best performing city and the worst one is less than 50%. This does not seem to be so much, if compared with the IBP's Open Budget Index for 2010 that enables the international comparison of budget transparency at the central government level (IBP, 2010b). For example, the difference between the best performing country and the worst one in the Open Budget Index for 2010 is more than 90%. Thus, although it seems that the difference in the total local budget transparency (the Total COLBI) for the 33 cities is not big (about 50%), we want to emphasize that this difference would have certainly been much bigger if we had included in our research all local units (all cities and municipalities) in Croatia. This is especially true since we know that the overall transparency of cities in Croatia is higher than that of municipalities (GONG, 2009).

### 2.2.2. THE SURVEY

In the second part of our research, we carried out the Survey (and had five types of respondents: LREP, LEXE, LCSO, LINFO and MFIN). The primary aim of the Survey was to get more insight about the local budgeting processes and problems related to local budget transparency in Croatia<sup>16</sup>. Based on the Survey, we wanted to answer the two most important questions concerning what our respondents think: 1) Are the budget documents transparent? and 2) Is the local budgeting process transparent? Since we wanted to analyze the entire local budgeting process, we surveyed all participants in the local budgeting process (LREP, LEXE, LINFO, LCSO (as the representatives of citizens) and MFIN).

In the period from 3 May to 27 July 2010, we surveyed four types of respondents in each city:

- local executive body,
- local information officer,
- local civil society organization and
- two members of the local representative body (one from the party in power/ruling coalition (position) and the other from the opposition).

From 20 September to 27 September 2010, the Survey was also sent to the representatives of the Ministry of Finance dealing with the local unit financing issues.

The response rates were the following:

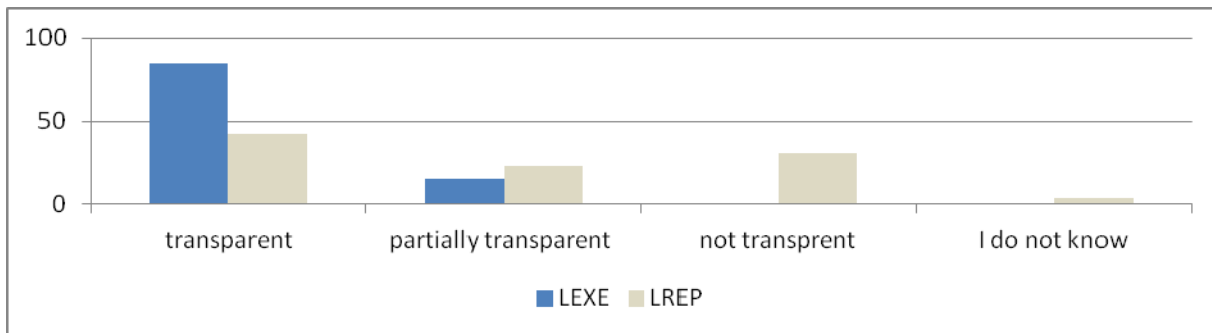
- 61% LEXE,
- 58% LINFO,
- 52% LCSO,
- 39% LREP, and
- 28% MFIN.

#### *a) THE LOCAL BUDGET DOCUMENTS EXCHANGED BETWEEN THE LOCAL EXECUTIVE BODY AND LOCAL REPRESENTATIVE BODIES AND THE PROCESS OF EXCHANGE OF THESE DOCUMENTS*

The majority of respondents find the documents exchanged between LEXE and LREP transparent (Figure 4). During our research, we also observed an interesting thing. Almost all LREP from the position believe these documents to be transparent, whereas none of the opposition members shares this belief (see Annex D3). The LREP from the opposition explained their negative responses by the fact that in most cases they obtained the documents just a few days before the sessions or even at the sessions.

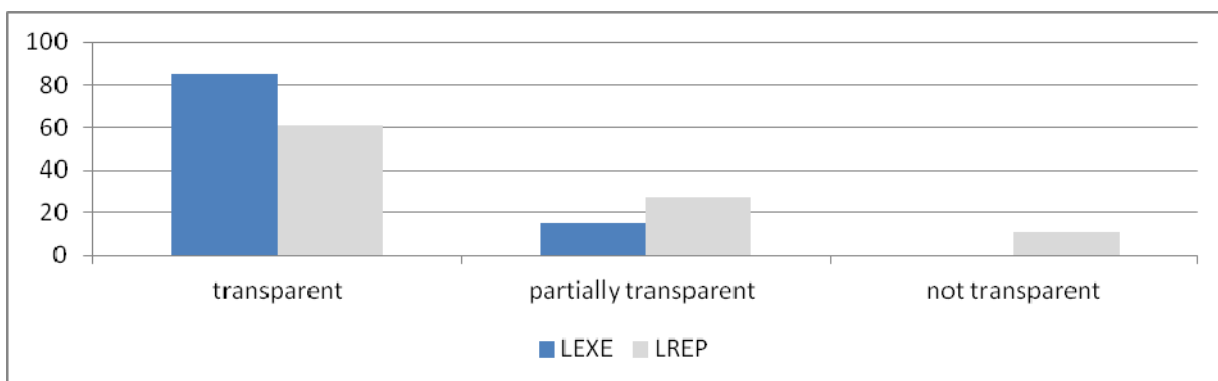
<sup>16</sup> We also used some information obtained from the Survey to answer a few questions relating to the Additional COLBI.

Figure 4: Transparency of local budget documents exchanged between local executive and local representative bodies (%)



In addition, the majority of respondents find the process of exchange of local budget documents between the LEXE and LREP transparent (Figure 5). These respondents answered that they knew what had to be done (relating to the exchange of documents between the LEXE and LREP), what the deadlines were, and who was responsible for what. LEXEs seem to be better informed about this process than the members of LREP.

Figure 5: Transparency in the local budgeting process between local executive and local representative bodies (%)



Thus many LREPs' members complain about too much improvisation and endorse the general opinion that the transparency in the local budgeting process between LEXE and LREP could be improved and the entire system made more efficient. For example, the Survey (see, Annex D2) showed that in six cities<sup>17</sup>, less than eight days elapsed between receiving a 2010 Budget Proposal Documents by LREP and adopting the local budget. The question is whether the LREP in these six cities really had a chance, in such a short time, to effectively analyze the 2010 Budget Proposal Documents prepared by the LEXE, and exert some influence on the budget adoption procedure itself.

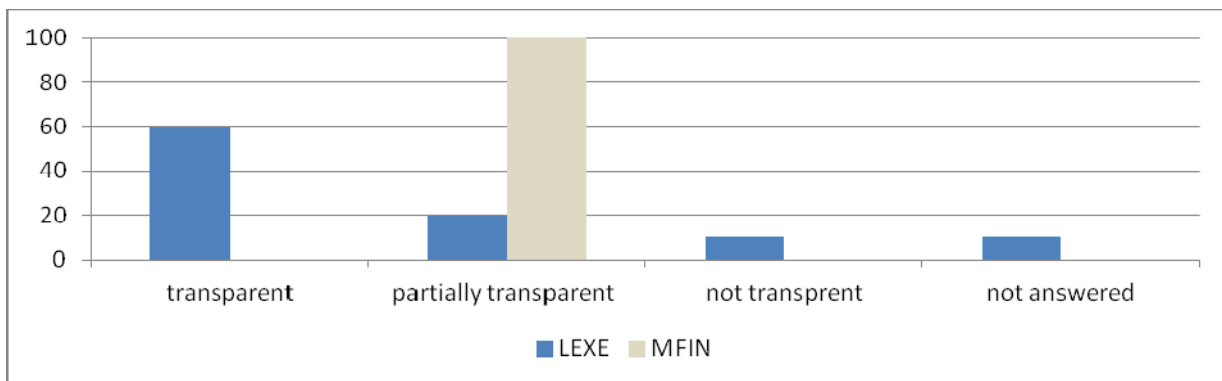
<sup>17</sup> Bjelovar, Crikvenica, Požega, Sisak, Split and Virovitica.



b) *THE LOCAL BUDGET DOCUMENTS EXCHANGED BETWEEN THE LOCAL EXECUTIVE BODY AND MINISTRY OF FINANCE AND THE PROCESS OF EXCHANGING THESE DOCUMENTS*

The majority of the EXE find the documents exchanged between LEXE and MFIN, as well as the process of exchanging these documents transparent; while majority of MFIN respondents find the documents exchanged between LEXE and MFIN, as well as the process of exchanging these documents partially transparent (Fig. 6 and 7).

Figure 6: *Transparency of local budget documents exchanged between local executive bodies and Ministry of Finance (%)*

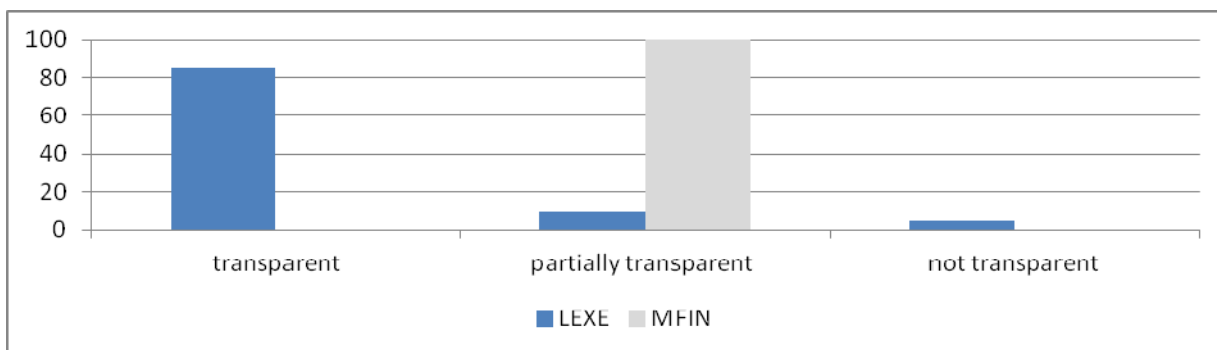


But some of LEXEs complain of the sloppy work of the MFIN, indicating that MFIN does not observe the deadlines for submission of the documentation to LEXE, and that MFIN is preoccupied with central government and therefore pays little attention to local units. Moreover, they complain that the LEXE's inquiries addressed to the MFIN are very often ignored and not responded to (Annex D1).

The respondents from the MFIN also set forth some of the most important reasons why local budget documents and the process of exchange of these documents between MFIN and LEXE is not fully transparent:

- MFIN pursues an unsystematic approach to local unit financing issues;
- there are frequent changes in regulations relating to local units financing within a relatively short period of time which result in omissions and errors, and, consequently, in numerous amendments which complicate and lengthen the document exchange between MFIN and LEXE;
- the laws are complicated and hard to understand, and their interpretations do not actually facilitate their application. Sometimes there are even multiple interpretations of the one and the same issue, which causes confusion for local units;
- local units are sometimes poorly equipped (both technically and in terms of personnel);
- there are too many local units (576); and
- MFIN - Local Units Financing Department with only seven employees is understaffed (Annex D5).

Figure 7: Transparency in the local budgeting process between local executive bodies and the Ministry of Finance (%)



EXE are often delayed with their submission of reports to MF due to above mentioned problems relating to the process of exchanging these documents between MF and EXE. For example, LEXEs are obliged by the Budget Act (Art. 40) to submit the Adopted Budget to the MFIN and State Audit Office within 15 days from the date of its coming into force. However, as at 8 March 2010, 3%<sup>18</sup> local units failed to send the Adopted Budget for 2010 to the MFIN (Annex G).

Again, although it is stipulated by the Budget Act (Art. 112) that LEXEs should submit Year-End Reports to MFIN and the State Audit Office within 15 days from its adoption by LREP, as at 8 March 2010, only 66%<sup>19</sup> of all local units submitted the Year-End Reports for 2008 to MFIN. The problem is that the deadline by which LEXEs are required to submit the Year-End Reports to LREP is set by, but the deadline for the adoption of the Year-End Report by LREP is not defined. Therefore, it happens that some of the local units fail to adopt the Year-End Report, and consequently fail to send the Adopted Year-End Report to MFIN (Annex G).

#### C) LOCAL CIVIL SOCIETY ORGANIZATIONS (REPRESENTATIVES OF CITIZENS)

We also surveyed LCSO in each city and asked them if they understood the local budget documents. A bit less than 50% of LCSOs argue that they understand very well the local budget documents they use, and another 41% of LCSOs indicate that they understand them partially. In their comments, most of LCSOs also indicate that they understand or partially understand only the part of the local budget documents relating to their LCSO (Annex D4).

Furthermore, the majority of LCSOs indicate that the biggest challenges in using the local budget documents are the unintelligible legal terminology, frequent changes in budget classifications and lack of time. Obviously, LCSOs are not using local budget documents very often, so they need simple explanations of legal terminology. They also need more basic information about the local budget and budgeting process (e.g. what the local budget is and what items it comprises), simple explanations of changes in budget classifications and simple guidelines on how LCSOs, as well as citizens, can participate in the local budgeting process.

<sup>18</sup> 3% = 15 out of 576.

<sup>19</sup> 66% = 379 out of 576.

### 3. CONCLUSIONS AND RECOMMENDATIONS

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#### CONCLUSIONS

Our research has proven that in Croatia in 2010, local budgeting processes and local budgets are not transparent enough. Thus, we come to similar conclusions and recommendations as other previously mentioned researchers dealing with budget transparency in Croatia (both at the central and local levels).

Our Survey proves that local budgeting process is, in some cases, only partially transparent. Some of the respondents (MFIN, LEXE and LREP) answered that they did not know what had to be done (relating to the exchange of local budget documents), what the deadlines were, and who was responsible for what. On the one hand, it seems that MFIN is understaffed and mostly preoccupied with the central government budget. On the other side, it seems that in the case of LEXEs and LREPs, the ruling party plays a major role whereas the opposition is just a marginal player, often not very well informed about the local budget issues and with little possibility to influence local budgets. Consequently, no one of them is keen on achieving transparency in the local budgeting process.

Now, if the local budgeting process is not transparent enough, how can we expect local budgets to be transparent? So, we have proven that the 2010 local unit budgets are also not transparent enough. Firstly, there are problems with the quality and quantity of the local budget information presented to the public in 33 cities. The cities do not publish all the relevant and correct local budget information, in a timely manner and in an understandable form. The average Main COLBI is 57 of 100, which means that, on average, from 33 cities we obtained about 57% of local budget information requested during our research. Obviously, much can be improved. Thus, for example, the cities should publish:

- the most important local budget documents (see Annex A);
- verbal descriptions (explanations) of various revenues and expenditures in the Budget Proposal Documents;
- expenditures by functional classification in the Budget Proposal Documents, the Half-Year Report or Year-End Report;
- macroeconomic forecasts underlying the budget proposal figures; and
- Citizens Budgets<sup>20</sup>.

Secondly, citizens are faced with problems when they decide to ask for local budget information directly from local units. The average Additional COLBI is relatively high, 82 of 100, which means that, on average, the cities provided us with about 82% of the expected openness-to-the-public indicators. In general, the cities are open to their citizens, but nevertheless, LINFOs, LREPs and LEXEs should try to answer all citizens' requests in the future. We have noticed that LINFOs, LREPs and LEXEs have often failed to answer our requests and that the local budget information provided by LINFOs directly to us

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<sup>20</sup> Only 7 out of 33 cities (21%) have published some sort of Citizens Budgets for 2009 or 2010 (Annex C). It is interesting to note that the Croatian central government has also not published a Citizens Budget for 2009 and 2010.

have often been incomplete or provided in a complicated way (Annex D2). For example, LINFOs from only 19 cities (58%) answered and returned our Survey, although they had all been obliged to do so within 15 day pursuant to the Right of Access to Information Act. In their responses to the question concerning the public disclosure of allocation criteria for current and capital donations from the local budgets for 2008 or 2009, 32% of LINFOs that responded to our Survey confirmed the existence of such a document, but failed to specify its location or to submit it to us, although we requested this document (Annex D2)<sup>21</sup>.

Thirdly, citizens also face problems when trying to obtain the local budget information from the cities' official websites. Consequently, local units should put more information on their official websites (such as the agendas of the City Council meetings) prior to the meetings and better organize their official websites. The main problems relating to the budget information present on the cities' official websites are the following:

- non-existence of a direct link to the budget;
- lack of a clear and user-friendly website design; and
- differences in the scope and layout of presented budget information for different years and among the cities (Annex F). One of the best official websites is that of the City of Karlovac and it could serve as an example to the other cities. Another thing to keep in mind is that, while people who often use the internet can find the budget documents without much difficulty, others who are not so familiar with computers and the internet will definitely face more barriers in trying to access these documents. It is important to bear this in mind in order to keep the website design as simple as possible, because these documents are of interest, and should be accessible to everyone.

As result of sometimes the partially transparent local budgeting process, often partial disclosure of the local budget information, and also very often of citizens' indifference to the participation in local budgeting or their lack of time, the local budget oversight is weak, and sometimes even impossible in some cities. Thus, in some cities citizens do not even know what is happening with the local budgets and/or are not able to hold LEXEs or LREPs accountable. For example, according to the Survey, in four out of 33 cities (21%) the Budget Proposal Documents for 2010 was presented to the public on the same day when the budget was adopted.<sup>22</sup> In five out of 33 cities (26%), the Budget Proposal Documents for 2010 was made public only after the adoption of the budget<sup>23</sup>. Public hearings on the city Budget Proposal Documents for 2010 were held in less than 40% of surveyed cities. It seems that citizens in those cities had little chance to influence the Budget Proposal for 2010<sup>24</sup>.

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<sup>21</sup> Similarly, in response to the question concerning the list of privileged users of city-owned apartments in 2008 or 2009, 47% of LINFOs who responded to the Survey confirmed the existence of such a list without indicating its location, or again failed to submit it to us, although we requested this document.

<sup>22</sup> Dubrovnik, Labin, Varaždin and Virovitica.

<sup>23</sup> Crikvenica, Požega, Sisak, Umag and Vrbovec.

<sup>24</sup> In addition given the obligation of city mayors to submit a series of reports to the MFIN (e.g. the local units' Adopted Budgets, Adopted Decisions on Budget Execution – see Annex G), we wished to find out whether the representatives of the MFIN consider their checks of these reports as adequate. Both MFIN respondents believe that they only partly verify the accuracy of these reports, primarily due to a shortage of staff dealing with these issues in the MFIN. They also emphasize that MFIN generally pays too much attention to the central government budget, and much less to the local units' budgets.

Hence, the local budget transparency and, consequently, the accountability of the relevant bodies are only possible if all the participants are actively involved. Below we provide some recommendations for LEXEs, LREPs, MFIN, the media and citizens.

## RECOMMENDATIONS

### LEXEs should:

- release the most important local budget documents in a timely manner (correct and timely release of all relevant local budget information in an understandable form), preferably on the local units official websites<sup>25</sup>;
- publish the Citizens Budget every year, explaining shortly and understandably all the most important issues relating to the current local budget and local budgeting process;
- organize public hearings, preferably with TV and radio broadcasts, whenever possible, especially those relating to local Budget Proposal Documents and the Half-Year Report or Year-End Report;
- call on citizens to more actively participate in the local budgeting process, especially during the local budget preparation (e.g. by encouraging citizens to submit their proposals or consulting citizens during public hearings)<sup>26</sup>;
- update and systematically organize the local units' official websites;
- invest more in the education of LEXEs;
- LINFOs should answer fully and understandably to all citizens' requests for information within 15 days; and
- if necessary, find adequate premises (e.g. to organize public hearings).

### LREP

According to the results of the Survey, all the respondents believe that LEXE has a much more important role in the local budgeting process than LREP. It also seems that much of the power of LREPs depends on their political party membership (in the position or opposition). LREPs belonging to the opposition often argue that they can change almost nothing as concerns the local budget. Our conclusion is that, despite these obstacles, LREPs need to:

- demand from the LEXE the full and correct disclosure of all relevant local budget information in a timely and understandable form;
- demand more time for consideration of the Budget Proposal Documents;
- be more active, i.e. scrutinize the budget documents more thoroughly, as well as discuss and influence budget policy;

<sup>25</sup> See Annex A for the most important local budget documents.

<sup>26</sup> Let us single out some of the cities with relatively good communication between the LEXE and citizens in the budgeting process. In Labin, for example, citizens received a booklet "Citizens Guide" at their home addresses during the preparation of the 2010 budget. Enclosed with the booklet (containing financial statements and their explanations) was a reply card on which citizens could express their proposals and suggestions concerning the local budget. Most of these suggestions were incorporated in the local budget. Another shining example is Rijeka. Despite having received no response from this city's LINFO, we found out that, before taking a vote on the 2010 budget, the mayor of Rijeka, invited citizens to vote on priorities in the realization of key municipal projects for 2010. The results of the survey on the municipal project priorities, carried out from 20 November to 22 December 2009, are available at <http://www.vojko-obersnel.com/hr/recite-mi/prioritet-projekata-proracuna-grada-rijeka>. The city budget for Rijeka was adopted on 22 December 2009.

- hold LEXE accountable; and
- demand better education (from LEXE and MFIN) as concerns local budgets and local budgeting processes.

**MFIN** should:

- send the documents to LEXE on time;
- reduce the frequency of changes to the laws, regulations and budget classifications relating to local units;
- inform the local units, as soon as possible, about the changes in laws and regulations that will affect them;
- if possible, include the local units in the preparation of changes on laws, regulations and budget classifications;
- find a way to promptly answer inquiries from LEXEs. For example, they could establish a body within MFIN whose function would be to consider and respond to the local units' questions, clear up their doubts and make recommendations;
- define by law what major local budget documents should be publicly available on the official local websites and how they should be presented (the name of the link and the number of years for which these documents should be available);
- define more clearly in the Budget Act how the budget supervision based on citizens' petitions<sup>27</sup> should be carried out;
- fix a deadline for the adoption of the Year-End Report by LREP in the Budget Act;
- try pressing the Government to reduce the number of local units; and
- employ more people to deal with the financing of local units, and allocate more funds for their professional training.

**MEDIA**

Although all the respondents to the Survey perceive local media as the most important subject in the unofficial monitoring and control of local budgets, they believe that media should be even more involved in the local budgeting process. This means that the media should more often and in a timely manner inform citizens about the key local budget-related events (e.g. the Budget Proposal Documents), discuss current budget issues, specify exactly how citizens can participate in the local budgeting process and publish reader-friendly summaries of local budget documents.

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<sup>27</sup> Article 116, paragraph 1 of the Budget Act stipulates that: "Budget supervision shall be conducted based on citizens' petitions, and the requests of the central government administration bodies, local and regional self-government units and other legal persons, which arise suspicion of irregularities and fraud, as well as by order of the Minister of Finance." It is not clear what 'citizens' petitions' are and what exactly citizens should do.

**CITIZENS** should:

- be made aware that it is their money that constitutes local budgets;
- be made aware that the local budget is not just a political affair and that they can participate in the local budgeting process (by analyzing the local budget policy or holding the government accountable) and thus influence that the local budget money is spent for the purposes they consider as necessary;
- demand from the LEXE simple information about the local budget in general (what the local budget, is, what different definitions mean, what the phases of the local budgeting process are and how to actively participate in it); such information can be presented to citizens in a Citizens Budgets or on a local unit's official website;
- demand from the LEXE simplified and available local budget documents that are intelligible to a common citizen.

*RESEARCH LIMITATIONS*

Finally, it should be noted that this is the first time that we measured the transparency of local budgets in Croatia, and that we learned a lot from this research. During the research, we became aware that some things could have been done better. For example, we should have asked the LINFO in each city how the process of the auditing of budget documents was performed and if it was performed regularly. An additional problem was that in the LINFO Survey we had a few questions with multiple answers (YES, NO, PARTLY, I DO NOT KNOW). However, we did not specify what exactly the answer "PARTLY" implied (see, Annex D2). Therefore, for example, the LINFO in one city answered YES, explaining that some documents were available at the Finance Department, and the LINFO from another city answered PARTLY, also indicating that documents were available in the Finance Department. For the purposes of our analysis, all answers to the questions were classified into categories according to the respondents' answers. However, in the future it would be helpful, if possible, to specify for this kind of questions what the answer PARTLY actually implies.

In addition, the problem of measuring the local budget transparency is related to the problem of data collection. As argued by Benito and Bastida (2009), although formal rules and procedures do exist in local units, maybe they are not implemented in the practice. For example, it may be defined by local regulations that citizens can attend the City Council meetings, but in practice, they cannot exert that right.

What is more, it might also be that some of the necessary information exists, but we cannot find it. For example, two different researchers tried independently to answer the Questionnaire for each city and it sometimes happened that one researcher found some data accidentally and after a long search by using the web search engines (such as Google). One researcher, for example, found that in the City of Rovinj, the Committee on Budget Issues existed, and he found the names of the Committee representatives only

after accidentally finding a document with the minutes of a City Council meeting.<sup>28</sup> Another thing is that the official websites of some local units are not well organized, and it is therefore hard to find data on them (e.g. the official website of Vinkovci at the time of our research).<sup>29</sup> In addition, the data and links on the official local websites often change. For example, the City of Zadar had the City Council's Rules of Procedure on its website during the GONG (2009) project. However, during our research in 2010, the City Council's Rules of Procedure were not available, neither did the City of Zadar send them to us on request. Consequently, this city appears to be less open (transparent) in our research than in GONG (2009). For more details about the problems encountered during the collection of local budget information from the local units' official websites, see Annex F.

We should also mention that the results for COLBI as well as the results for any other index should be interpreted with caution. In the research of this type, the biggest problem is how to measure the local budget transparency, or how to construct the index. Although our index (the Total COLBI) is well correlated ( $\rho=0.6$ ) to the only other index used for measuring the overall transparency of cities in Croatia (GONG, 2009), it is always possible that our index does not capture all the important criteria for measuring the local budget transparency.

Therefore, we hope that our next research on this subject will be more successful. However, we hope that this research will help other local budget transparency researchers in Croatia in future. We also hope that researchers in other countries will engage in similar projects and that some day we will have international comparisons of local units' transparency and accountability.

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<sup>28</sup> The data are available at <http://www.rovinj.hr/rovinj/gradska-administracija/gradsko-vijece/gradsko-vijece-sjednice/52>.

<sup>29</sup> Available at <http://www.vinkovci.hr>.



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