



Republic of Croatia  
Ministry of Finance

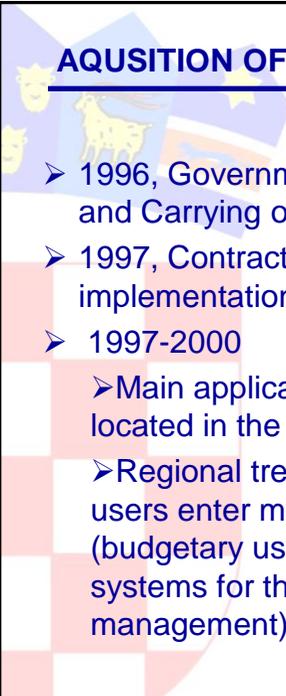
## REFORMS IN THE AREA OF PUBLIC FINANCE MANAGEMENT IN CROATIA

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### AQUISITION OF THE SYSTEM

- 1996, Government Decision on Procedures for Organizing and Carrying out the Project of State Treasury System
- 1997, Contract is signed with the IBM for SAP application implementation
- 1997-2000
  - Main application software and associated data bases are located in the Ministry of Finance – State Treasury
  - Regional treasuries are installed, via which budgetary users enter money transfer requests to their own accounts (budgetary users have developed their own, stand alone IT systems for the purpose of accounting and financial management)



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## IMPLEMENTATION PHASE

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- 2001 / 2002
  - New Budget Law
    - new dynamics of the budgetary process
    - budgetary classifications (including programmatic)
    - internal financial control system
  - Accounting system reform
    - changes in the accounting plan
    - introduction of a modified principle of the occurrence of an event (cash based budget)



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## STATE TREASURY ORGANIZATION IN THE REPUBLIC OF CROATIA

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- Administration within the Ministry of Finance
  - Budget preparation Sector
  - State budget execution Sector (includes State accounting Office)
  - Public Debt Sector
  - Independent Sector for second instance system and administrative procedure support



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## STATE TREASURY FMIS AND BUDGETARY USERS' INTEGRATION

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### ➤ Why integrate?

- Lack of information during decision making process (in State Treasury system there are no complete data on budgetary users' liabilities)
- Double entry of identical data
- Necessity to develop the concept of Treasury's single account
- Implementation of business rules and discipline
- 2005, Preliminary system analysis – Rationalization study
- 2006, Development of a conceptual design (TAL-2 Ln WB)



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## II PHASE OF FMIS DEVELOPMENT

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- 2006, accounts of the second level budgetary users are closed (Ministries and some Agencies)
- Strategy for the Development and Modernization of the State Treasury for 2007-2011
- New Budget Law for 2008
  - Development of the strategic plans and Government programs for three year period
  - Multiyear budgetary framework – t+2
  - Higher level of flexibility in the field of budgetary execution
- 2009, New system concept
- 2010, Initiation of second level budgetary users' system integration with the State Treasury's system



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## NEW PHASE OF MODERNIZATION

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- 2012, Contract between International Bank for Reconstruction and Development, IBRD (the World Bank Group) and the Republic of Croatia
- 2013, Initiation of State Treasury's System Modernization Project implementation, financed from the Foundation for empowering accounting and fiduciary environment's grant (SAFE grant)
  - Performing analysis and enabling connection between financial management systems
  - Development of the methodology and tools for incident management and for change management procedures within State Treasury



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## KEY FUNCTIONAL MODULS

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- **SEM** – Budget preparation
- **FI** – State Accounting – Recording transactions in Treasury's General ledger book, a basis for all financial reports
- **FM** – Budget execution based on detailed developed financial plans of budgetary users, previously adopted by the Parliament
- **BW** – Production of reports from SAP and other data sources



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## BUDGET PREPARATION PROCESS SUPPORTED BY FMIS

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- Budget development process / top-down budgeting approach
- Mid-term budgetary framework
- Program budgeting and introduction of performance data (performance indicators)
- Budgetary classifications
- Estimate on fiscal influences of draft laws, decrees and other regulations



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## APPLICATION FRAMEWORK

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- SAP BW/SEM BI platform
- Supporting adjusted Web applications
  - Budgetary classification
  - Budgetary rationale
  - Fiscal influences' estimate



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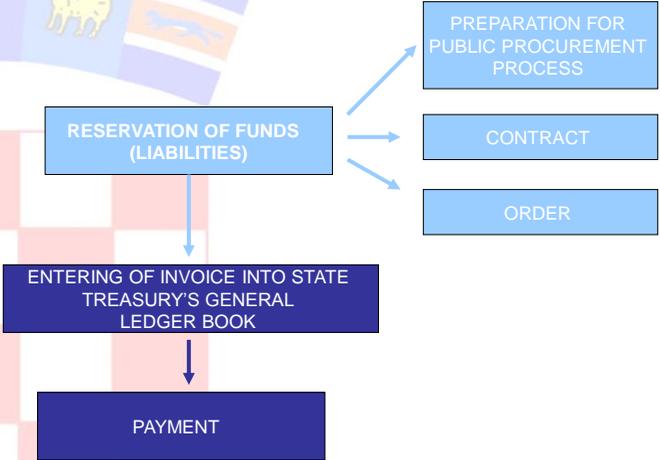
## BUDGET EXECUTION – LEGAL FRAMEWORK

- Legal framework
  - Law on the State Budget
  - Law on the State Budget Execution (enacted every year alongside state budget)
  - Rulebook on the Manners and Conditions of State Budget Execution
  - Rulebook on Budgetary Classifications
- Control and monitoring of financial liabilities
- Budgetary execution related flexibility
- Roll-over of unspent budgetary funds to the next budgetary year



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## BUDGET EXECUTION PROCEDURE



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graph TD; A[RESERVATION OF FUNDS (LIABILITIES)] --> B[ENTERING OF INVOICE INTO STATE TREASURY'S GENERAL LEDGER BOOK]; A --> C[PREPARATION FOR PUBLIC PROCUREMENT PROCESS]; A --> D[CONTRACT]; A --> E[ORDER]; B --> F[PAYMENT];
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The flowchart illustrates the budget execution procedure. It begins with 'RESERVATION OF FUNDS (LIABILITIES)', which leads to three parallel steps: 'PREPARATION FOR PUBLIC PROCUREMENT PROCESS', 'CONTRACT', and 'ORDER'. From 'RESERVATION OF FUNDS (LIABILITIES)', an arrow points down to 'ENTERING OF INVOICE INTO STATE TREASURY'S GENERAL LEDGER BOOK', which then leads to 'PAYMENT'.



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## PROGRAM EXECUTION RELATED FLEXIBILITY IN CONNECTION TO THE SOURCES OF FINANCING

- Sources of financing that allow maximal flexibility in execution:
  - Own revenues
  - Earmarked revenues
  - Grants
  - Donations
  - Earmarked receipts from borrowing
- Execution of expenditures and outlays in the amount of generated revenue and receipts
- Execution of expenditures and outlays in the amount of generated revenue and receipts even if not planned in the state budget
- Transfer of generated and unspent revenue and receipts for the purpose of next budgetary year' spending



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## MAIN RECCOMENDATIONS IN THE IMPLMENETATION PHASE

- Step-by-step implementation approach
- Development of a realistic plan of implementation, as well as of a regular and transparent reporting procedure on implementation progress for all relevant stakeholders involved
- Implementation team should include individuals from functional areas, and not just to rely on employed IT experts
- Training and education should be a permanent process
- Top management should be trained for utilization of reporting system and for reading (interpreting) of reports produced



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## BENEFITS

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- Increased availability for cash, debt and financial liabilities management
- Reduced costs of financial transactions
- Utilization of the budget as a management tool
- Improvement related to the public funds usage
- Access to timely and accurate budgetary information
- Managerial decisions become more efficient
- By making comparisons of costs between units / activities and performance targets, we are reaching the increased level of efficiency



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