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The reform of the budget process in Bulgaria – problems and ways of development

European law does not specify for a particular model of organization and operation on the public finances of the EU members it is necessary for our country to take the proper steps in order to ensure the efficient control of the EU budget as well as its own resources.

According to Chapter 29 “Financial and budgetary issues” (CONF-BG 14/00) Bulgaria assumes the following responsibilities as of the date of acceptance to the EU:

- To adopt the legislation of the European Union (EU) as stated in Chapter 29 “Financial and budgetary issues”.
- To adopt the necessary organization and coordination for the accurate estimation, collection, reporting, control and transfer of the country’s resources to the EU budget (taxes from agricultural and industrial commodities from third parties, sugar taxes, DDS installments, BND installments) upon becoming a full member of the EU in accordance to the clauses of the European legislation.
- To develop a reliable budget system, according to the common standards of the EU member countries, which to ensure an effective control on the financial flows from and to the EU budget.

Since 1998 Bulgaria conducts a reform in the budget, targeting improvement in the planning, administering and controlling of the budget resources. In this way Bulgaria makes an effort to synchronize its own budgetary procedures and practices with the best achievements in this field of the EU members. Contemporary methods for an efficient financial control are implemented in all phases of the budgeting process: planning, implementation, payment, accounting and reporting of the completed work. The critical goal of the implemented budgetary reform is the achievement of an efficiently working framework for the expenditures and the consolidation of the programmed budgeting as the primary approach in all phases of the budgeting process.

Changes were made in the process of the budget reform, regarding:

1. Preparation of a three-year budget prognosis.

The target point of the budgetary procedure, in accordance to the Organization of the State Budget Law, is the preparation of a three-year budget prognosis, which is based on an actualized three-year macro-economic framework. This framework should clearly reflect on the macro-economic program, the fiscal strategy, the objectives of the fiscal policy and the instruments needed for their achievement. The primary coordinators of the budgetary credits should, as well, prepare three-year budget prognoses, based on thorough analyses and in accordance with the averaged prognosis, the National plan for economic development and the available financial resources. For the effective utilization of the state financial resources the obligatory coordination with The Ministry of Finance for suggestions for the issuance of new

state subsidiaries is crucial. The State Subsidiaries Law requires that the grounds for the issuance of new state-provided subsidiaries to be presented along with the projected budget of the coordinators of the budget credits. As to this moment the prepared three-year budget plan and the expenditure limits /PRBK/ represent the first step in this direction.

2. Type of budgeting

The preparation of budget prognosis and budget planning are targeting toward a productive budget programming. The point is to achieve an effective allocation of the resources and efficiency in the state services expenditures. The current budget preparation is resource-oriented. An emphasis is put on the amount of the resources, which are to be received by the primary coordinators of the budget credits, rather than, on the objectives, for which the budget expenditures are allotted, as well as the expected results from their use. In the recent years the scope of the government offices, preparing the initial budgetary programs as a part of the preparation for the implementation of the program budgets as a primary means in all phases of the budget process: planning, preparation, acceptance, implementation, reporting and control, is expanding. Pilot program budgets of seven government offices were developed and moved in the National Assembly as independent appendices to the State Budget Law of the Republic of Bulgaria in 2005. In 2006, four more offices prepared budget programs. A total of ten primary coordinators took part in the process of development and presentation of budget programs for 2006. The final goal is the pilot inclusion of all government offices in the budgetary procedure for 2007 and the legislative regulations of the program budgeting.

Budget 2006 is the first budget from the beginning of the transition, which, on the planning level has a zero deficit balance – as it was estimated in the Three-year budget prognosis for the 2006-2008 period. The balanced budget is in accordance with the high negative balance of the current bill in the payment balance, works for the reduced level of the state debt and increases the financial discipline and stability of the public finances.

In order to make the transition to a programmed budgeting it is necessary to implement changes in the budget classification system. The functional and economic types of classification are to be completed with a classification of the programmed type. It is also necessary for the Ministry of Finance to develop instruments for the analysis and estimation of the policies, including the identifiers for the accomplished results, which are to measure the efficacy of the budget programs.

3. Budgetary documentation

As toward the current situation the budget is represented by a unified budget classification of the incomes and expenditures. However, this way of representation does not demonstrate the priorities and programs behind the concrete numbers. We believe that this obstacle changes with the transition to a programmed type of budget classification.

Considerable improvements have been made in the budget documentation. The report, enclosed to the annual appropriation bill for the state budget represents an important document for the economic policy. It includes not only the macro-economic framework and fiscal objectives for the next three years, but also the priorities in the economic policy, the primary objectives and instruments to achieve these objectives. The report also contains the tables for a consolidated fiscal program. The report on the State Budget Law of the Republic of Bulgaria as well as the official report on the realization of the state budget are publicly accessible and the budgetary process can be controlled by the public.

4. The approval of the State Budget Law of the Republic of Bulgaria for the corresponding year

The appropriation bill for the state budget, approved by the Council of the Ministers, is proposed for review and approval by the National Assembly no later than two months before the end of the year. Suggestions on additions or changes to the project for the annual law of the state budget can be made by the National Assembly after the first reading. They are discussed on the meetings, held by the commissions in the National Assembly, the budget and economic commissions having the leading role.

During the second reading the appropriation bill and the suggestions are discussed upon and approved by the National Assembly. The approved budget law includes the budget of the republic, which consists of the central budget, the budget of the government offices and structures and the budget of the judiciary authority. After being published in "State Journal", the Ministry Council approves a special regulation for the budgetary proceedings. The National Assembly accepts with separate laws and in accordance to the Constitution and the special laws, the budgets for the National Health Insurance Fund and the national Social Institute. The municipality budgets are not included in the central budgets and are prepared on the grounds of the approved by the State Budget Law subsidiaries and the municipality resources.

5. Introduction to the state treasure system

In accordance to the recommendation for the proceedings, provided by the annex to the "Partnership for Admittance"¹ document in 1999 the Bulgarian government initiated a preparation for the introduction of the state treasure system. Its primary functions are to assist for the execution of contemporary methods for budgetary planning, implementation, report and control.

The number of out-of-the-budget bills and funds was significantly reduced from around 100 to 12 on a central level. The trend toward reduction of their numbers and their consolidation in the state budget continues. The rules for preparing prognosis, report and control of those bills and funds are the same as those used in the state budget.

6. Establishment of a new information system for financial management (ISFM).

A principal role in the realization of a budgetary reform and the introduction of the system for state treasure is played by the establishment of a new information system for financial management. The system allows for integration and a high level of computerization of all accounting operations, which facilitates the analysis, prognosis and management of the budget funds. ISFM is based on the program product SAP R/3 and is developed on the basis of the best practices of the member countries of the Union. The primary functional areas, which will be realized at the time - Financial Accounting, Budget Management and Management of the Financial Flows are introduced in the central administrations of the primary budget credit coordinators.

7. Establishment of a new accounting framework in the budget sector.

With the development of the new accounting plan for the budget sector a new framework was established. The introduction of the plan was initiated in the beginning of 2001. The new accounting plan allows for a consolidated report on the base deficit, the preparation of reliable reports and on the reinforcing of the control on the budget realization. The principles and the rules for classification of the assets, liabilities, incomes and expenditures are in accordance to the Government Financial Statistics (GFS), the System for

¹ Resolution of EU Council № 1999/857/EC from 06.12.1999

National Accounting (SNA 93) and the European System for national Accounts (ESA 95). Directions for the application of the new accounting plan are prepared. An important element of the budget reform is the improvement in the administration of the bank accounts. A system for unified accounting was introduced. In this way the state funds became centralized in a unified account and the payment process was rationalized.

The unified accounting facilitates the effective transfer of budget funds through a banking system and increases the expenditures control on the budget credit coordinators. By the end of 2001 the system for unified accounting covered all leva budget accounts with the exception of the municipality accounts. This system uses the System for Electronic Budget Payment (SEBP) and its introduction in the primary budget credit coordinators is advancing fast since February 2001. The process of establishment of the system "Unified Accounting" as a component of the reform of the budget sector was finalized with the introduction of the judiciary body to the Unified accounting. The budget documents provide thorough information on the expenditures, incomes and budget balance of the consolidated state sector.

8. Harmonizing Bulgarian and EU laws in the sphere of budget policy.

The Bulgarian Constitution and the Law of State Budget Management form the legal framework of the budget process in Bulgaria. According to the Constitution the annual law for the state budget as well as all international contracts, containing financial obligations are approved and ratified by the National Assembly. The Law of State Budget Management, since 1997, defines the role of the different national institutions in the budgetary process. This law also outlines the cornerstone principles in the preparation, realization, management and report of the state budget as well as the basic budget principles, in accordance with the international practices and the best achievements of the EU members. These principles include annual revisions, universality and expenditures correctness. The State budget is composed and executed for one fiscal year. The incomes are not purpose-oriented, but are used to cover the expenses.

Other laws, completing the normative framework are:

- The annual decrees of the State Budget and the accompanying regulations;
- The Accounting Law (rnwd. 10.11.2000, in force since 01.01.2001);
- The Statistics Law (rnwd. 25.06.1999, in force since 28.06.1999);
- The Chamber of Accounts Law (rnwd. 11.08.1995, in force since 15.08.1995)
- The bill for the Law for Foreign Audit of the public sector (LFAPS), the bill for State Financial Inspection Law (SFIL), bill for the Financial Management and Control of the Public Sector (FMCPS)
- The Community Commissions Law (rnwd. 22.06.1999, in force since 05.07.1999);
- The Community Budgets Law (rnwd. 24.03.1998, in force since 28.03.1998);
- The Customs Law (rnwd 23.01.1998, in force since 01.01.1999);
- The Tax on the Additional Cost Law (rnwd. 07.10.1993, in force since 01.04.1994);
- The annual budget for the state insurance laws;
- The annual laws for the budget of the National Health Insurance Fund.

As of the present moment the in the NA there are 3 appropriation bills: The bill for the Law for Foreign Audit of the Public Sector (LFAPS), the bill for State Financial Inspection Law (SFIL) and the bill for the Financial Management and Control of the Public Sector (FMCPS), which regulate the improved management of the public funds. Their primary purpose is to improve the legislative, the economic, the effective and the efficient utilization of public funds and of the financial resource, which our country will use in the following years from EU. The three appropriation bills, prepared in accordance to the recommendations by the European Commission, will replace the currently-

applicable Interior Financial State Control Law. The objective is to develop the Bulgarian legislation in the direction of separation of the functions on interior audit and financial inspection by decentralizing of the interior audit and the development of the management responsibility. The bills for LFAPS and FMCPS regulate the management responsibility and the interior audit as the obligations of the managers of the organizations, and the bill for SFIL regulates the execution of a specialized financial-inspectional function with a sanctioning authority. In 2005 were approved changes in the System of the State Budget Law. Their objective is to achieve the stability of the medial-period framework and the expenditure predictability.

9. Medial-period fiscal framework

The Republic of Bulgaria uses a Medial-period fiscal framework (MFF) as a technical instrument for prognosis and simulation of the budget trends, based on macro-economic indicators. The used model is based on financial programming. MFF targets at the provision of conditions for a stable economic growth and the increasing of the standard of life of the population, keeping, in the same time, the stability of the macro-economic environment. MFF ensures a thorough consolidation, covering all budget and out-of-the-budget funds. MFF is still not utilized as a stable expenditures framework, which to fix the approved political decisions on the expenditures limits of the branch ministries for a longer period of time. As a result there is not a clear connection between the macro-framework of the budget and the suggestions of the primary budget credits coordinators. MFF is still not an instrument to realize an obligatory political engagement.

10. Budget discipline and fiscal stability

During the last several years, in the context of the budgetary discussions, on a national, as well as on EU level, the concept of the "quality of the public finances" is getting a greater importance. The achievement of a budget discipline and fiscal stability are key priorities of the budgetary policies. Supporting these policies the EU member countries view on the "quality" as on an instrument to guarantee an effective and an efficient utilization of the resources within the limits of the general budget limits, targeting the improvement of the economics growth potential. A major political challenge with obvious macro- and micro-economical influences is the restructuring and management of the public incomes and expenses, leading to an increase in growth and efficiency.

Only on the stable basis of a high level of fiscal discipline will the government have the ability to concentrate its efforts on the effective allocation of the resources, leading to the growth and employment in the spirit of the Lisbon strategy. The topic of the quality of the public finances finds its place in the new General directions on the economic policy for the 2005-2008 period and the reformed Pact for stability and growth.

The contribution of the fiscal framework of the growth can be illustrated in three general dimensions of budgeting: a) steadiness; b) stability; c) effective allocation of the resources. Taken together the dimensions for steadiness and stability represent the macro-economic aspects of the fiscal policy. In the same time the budget policy is to be carried out in such a way, that complying to the demands for discipline and stability will add to the third dimension of budgeting, namely, the separation of allocation and technical effectiveness.

A priority in the context of the Lisbon strategy, also underlying in the New general directions for the economic policy for the 2005-2008 period is the long-run economic growth. A leading principle for the EU member countries in the encouragement of the effective allocation of resources is: directing the structure of the public expenses to categories, leading to an improvement in the economic growth; the adaptation of the taxing structures so that to increase the growth potential and the guarantees for the creation of mechanisms for estimation of the interconnection among the public expenses and the achievement of the political goals, through ensuring a general synchronization of the reforms.

The general directions of the economic policy for the 2005-2008 period include the recommendation: *“the introduction of institutional mechanisms, targeting to control public expenses and guaranteeing the presence of mechanisms for the estimation of the connection between the public expenses and achieving the political goals”*. This requires for: (1) the enforcement of rules for the expenses in the medial-period of the expenses; (2) the enforcement of a results-oriented budgeting. In the context of the increasing pressure on the budget, the effective utilization of public resources becomes more and more crucial, i.e. to be achieved objectives, declared by the community, at a minimal cost.

On the basis of the above analysis on the realized budget reform the following problems, which are to be resolved until the end of the budget reform, can be distinguished:

The necessary legal norms are to be implemented in the financial legislation of the Republic of Bulgaria, as well as indicators and criteria, assuring the existence of real prognosis for the concrete budget policy as well as the monitoring of its development. It follows that the government needs to be legally prevented from making expenses, which are not provisioned in the state budget and are financed from the overfulfilment of the incomes in the budget, without the approval of the National Assembly.

It is necessary to be formulated and approved obligatory legal criteria for the control of the credibility of the proposed budget projects, as well as the presence of legal organs, which to enforce the control.

In the budgetary legislation The Parliament should provide for not only administrative, but penal sanctions in cases of corruption and improper management of the state resources by the state employees and the political cabinets. The Parliament should also control the correction of the discovered, after an audit, errors.

Criteria for verification of the legal and effective actions of the organs of the state power should be established and used, when making a project for the state budget and this process should be effectively controlled by legally appointed body. The Chamber of Accounts should be obliged to confirm that all public expenses and incomes are in accordance to the budget law, that the resources are optimally used in regard to quality and quantity.

Except for an advisory and jurisprudal functions the budget control has a law-restoring function. In the budget law, the prosecution for breaking the law, as long as the Bulgarian jurisdiction has such, even minimal, possibility, is proceeded either independently by the competent organs, or the collected proofs and materials are sent to and handed in to legal organs, whose responsibility is to exert the necessary authority. This is why we consider that considerable changes in the jurisdiction are needed in the direction of realizing a budget-legal liability with a more simplified procedure, emphasizing on the law-restoring function of the sanctioning.

The solution to the above problems will, in our opinion, provide for a higher effectiveness in realizing the budget reform and in the budget process as a whole. We think, that the efforts of the law-makers and the administration should be concentrated in this direction, along with completing the budget reform.

Използвана литература:

Преговорна позиция на Република България по глава 29 "Финансови и бюджетни въпроси".

Преговорна позиция на правителството на Република България по глава 28 "Финансов контрол".

Bulgaria: Report on the Observance of Standards and Codes-Fiscal Transparency Module. August 2005, International Monetary Fund, Washington, D.C.

Key words : budget, budget process, budgeting, budget prognosis, budget planning, unified accounting, cash implementation of budget, program budget, program budget, consolidated fiscal program.

Resume :

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