

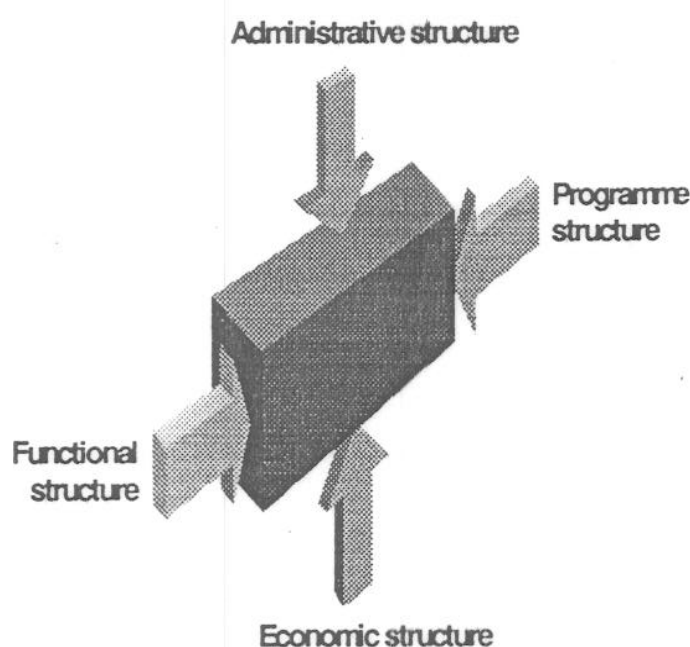
5. CLASSIFICATION

5.1. Purpose and form of classification

5.1.1. Budgets are organised into an analytic framework so as facilitate rational expenditure allocation and income generation decisions, and subsequently to monitor and control implementation of these decisions. The analytic framework is judged by its efficacy in achieving optimal decisions, and subsequently by its usefulness for monitoring. This analytic framework is operationalised through a system of classification, which logically should be consistent between budget and accounting system. This classification system allows aggregation and organisation of the multitude of transactions which take place within and by Government.

5.1.2. There is no single, self-evident analytic framework which is suitable for all purposes. Any system of classification and aggregation of transaction information by its nature means the loss of detail. If the classification system does not provide for identification of data in some particular way, then it is infeasible subsequently to identify data in that way. This is less of a problem in budgets, where the figures are by their nature forecasts of aggregates; but it is a real problem for accounting information. For example, under the present classification system in Bangladesh, if it was desired to find the total expenditure by hospitals on telephone calls, this could not be achieved from the accounting system, and a special exercise of sending circulars requesting the information would result.

5.1.3. Even within the budget process information is required differently for different purposes. For fiscal management, highly aggregated data focusing on the balance of inflows and outflows, relationships with the external world, and public sector borrowing requirements are paramount. Planning and resource allocation will focus on sectoral priorities and programme objectives. Parliamentary approval focuses on the administrative structure of government. It is the conflict between these objectives which has largely been responsible for the evolution of the separate Development Budget in many countries, in which the budget focus is on sectors and programmes, rather than administrative structures.



5.1.4. It would therefore appear that almost unlimited classification capabilities are required to meet all conceivable needs. In fact, a four dimensional analysis is normally the maximum that are required, as illustrated in the diagram. The significance and purposes of the dimensions are summarised below.

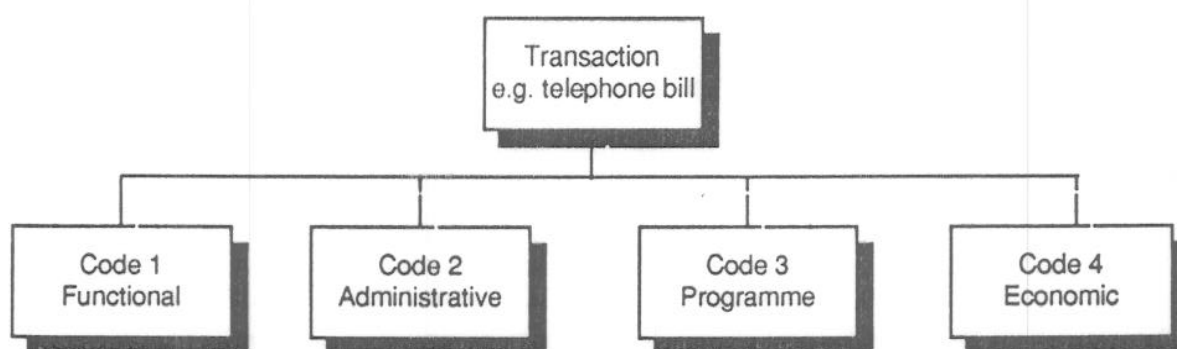
Table 7: classification dimensions

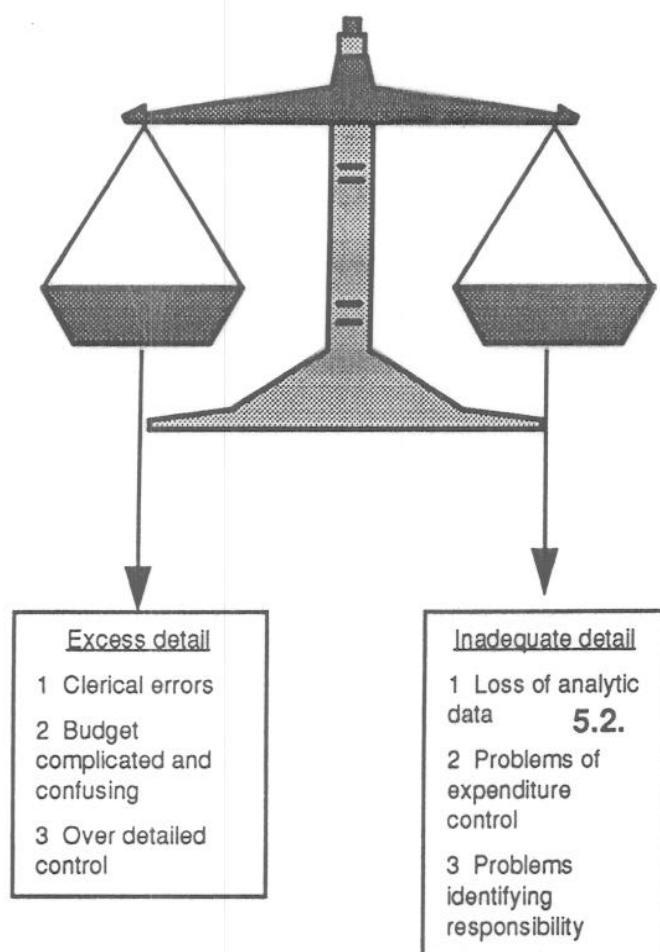
Classification Dimension	Meaning	Purpose
Functional	A functional classification divides into the broad functions of government, e.g. defence, law and order, transportation and communications	Useful for identifying broad sectoral allocations of resources, and identifying priorities. <i>Sectors often, but not invariably, coincide with Ministries or groups of Ministries</i>
Administrative Structure	The Government organisation, from Ministries at the top to the smallest unit responsible for expenditure, and also taking account of such legal differences as Consolidated Fund and Public Account	This structure is essential for legal authorisation of expenditure. It is also suitable for identifying responsibility for expenditure control, especially if classified down to the lowest levels of responsibility
Programme	Classification of expenditure by programmes and projects, which may extend over more than one Ministry	Essential information to monitor and control development expenditure
Economic	The type of expenditure, e.g. capital, revenue, payroll, equipment, telephone, and so on	Used for economic analysis and comparisons

5.1.5. The above descriptions based on expenditure. Income analysis is usually simpler, concentrating on the type of income (tax, grants, license fees), and the source (domestic, foreign). Lending and borrowing is normally treated as a separate group of flows. Finally, in countries which have inherited a British style system, government accounts are divided between the Consolidated Fund (recording normal income and receipts), and the Public Account (mainly containing funds held in trust, and temporary balances). All of these have to be accommodated in a classification system.

5.1.6. Computers have impacted significantly on the process of classification. With clerical systems, the ability to analyse data in different ways was severely limited by the sheer time and organisational problems. As a result a single classification had to be adopted as compromise, centred around the main area of concern, usually the administrative structure. This is the way in which the Revenue Budget is presently structured in Bangladesh. Computerisation changes this, because it is possible to attach to the record of each transaction in the computer virtually unlimited codes, and the data can be sorted and aggregated using any combination of these codes. This capability provides enormous extra scope and flexibility to the classification process.

Figure 6: concept of attaching multiple codes to individual transactions





5.1.7. However, whilst computers make analysis easy, the quality of the output depends totally on the decisions about classifying transaction items made by clerical staff. The nature of classification of transaction items must derive from the transaction itself, so that the clerk is able to make an appropriate classification system. The greater the number of classification requirements, the greater the decision requirements imposed on that clerk, and the greater the risks of mis-classification. In Bangladesh this is a particular problem, where clerks typically have little or no formal training, may lack basic education, and operate in less than ideal physical conditions. To ask a clerk to apply a classification system that effectively asks for four classification decisions would not be realistic. The design of a classification system is therefore a matter of balance.

Criteria against which to evaluate a classification system

5.2.1. It is essential to develop criteria against which both present and proposed classification systems can be evaluated. These are set out in the table below. In the subsequent sections we will review the present classification system against these criteria, and then make proposals for a new system which also needs to be matched against the criteria.

Table 8: criteria for classification system

No.	Criteria	Explanation
1	Analysis by function	As described above
2	Analysis by administrative structure	As described above
3	Analysis by programme	As described above
4	Analysis by economic category	As described above
5	Comprehensive	Covers all categories of income and expenditure
6	Structured	So that the different categories of codes are clearly segregated, and analysis is made possible
7	Simple and workable	In order to make analysis feasible given the level of clerical skill and automation available
8	Meets budget, expenditure control and accounting needs	So that one system can be used for all purposes
9	Suitable for computerisation	This is an essential requirement for any modern system

10	Capable of developing	The system must be designed so that it is capable of being developed and amended to meet additional and changing requirements without a fundamental re-design
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5.3. The IMF approach to an analytic framework

5.3.1. The IMF have developed an approach to classification in *The Manual of Government Financial Statistics*. However, as its name implies, this focuses on statistical information particularly for fiscal and economic control. In particular this provides highly aggregated data on flows of funds.

5.3.2. The IMF approach recognises that Government accounting is only concerned with recording transactions that involve a money inflow or outflow to or from Government. The approach concentrates on such money flows, and hence favours a cash based rather than an accrual approach to Government accounting (in contrast to the UN System of National Accounts which favours an accrual approach).

5.3.3. The IMF approach organises these money flows into broad categories as indicated in the matrix below. Note that the layout of this and subsequent presentations differs from that used in the IMF Manual, in order to improve comprehensibility.

Figure 7: IMF analytic framework

Description		Current	Capital	Total
Revenue and Grants				
	Taxes and other income	2,000	1,500	3,500
	Grants	1,000	800	1,800
	Total	3,000	2,300	5,300
Expenditure		-3,200	-1,700	-4,900
Lending - repayments				
	Lending			-1,100
	Repayments			500
	Net			-600
Deficit/surplus on current account				-200
Financed by:				
	Increase in government liabilities to others			-600
	Increase in others liabilities to Government			400
	Net financing			-200

Note: figures are for illustrative purposes only

5.3.4. The distinction between capital and revenue is a fundamental part of the classification of receipts and expenditure. The definition used by the IMF is that capital transactions involve payments or receipts for the acquisition, construction or sale of non-financial assets meant to be used for more than one year in the process of production. Intangible assets and land are included in capital assets. Taxes are regarded as revenue receipts, and grants are capital receipts only if for the purpose of acquiring capital assets. Lending minus repayments is not classified as capital or revenue.

5.3.5. Government lending or borrowing may be either for public policy purposes, in which case it is classified as lending minus repayment, or for liquidity management, in which case it is classified as financing. Since this involves confusion, the IMF suggest the following principles are applied:

- (i) transactions in non-negotiable financial assets should be classified as lending;
- (ii) a government statement as to the objective of its acquisition of negotiable financial assets should be taken as decisive;
- (iii) in the absence of other indications, government transactions in negotiable financial assets should usually be classified as lending minus repayment if they involve securities issued by lower levels of government, and as financing if they involve securities issued by higher levels of government (in Bangladesh it would appear that in all cases such securities are issued by higher levels of government)

5.3.6. Thus under this approach there are three groups of money flows which have to be categorised:

- Revenue and grants
- Expenditure and lending minus repayments
- Financing

5.3.7. The approaches to all of these are summarised in the paragraphs that follow, and then our conclusions on the system as a basis for classification in Bangladesh.

Revenue and grants

5.3.8. These are classified according to the following system (upper case roman numerals in parenthesis are those used in the Manual):

Table 9: IMF analysis of Revenue and Grants

Main category	Examples	Illustrative values
Tax Revenue (IV)	Taxes on income	200
	Property taxes	100
	etc.	<u>150</u>
	Total	450
Non-tax Revenue (V)	Fees and charges	80
	Property income	60
	etc.	<u>20</u>
	Total	160
Total current revenue (III)		610
Capital Revenue (VI)	Sales of fixed capital assets	90
	Capital transfers from non-government sources, e.g. residents abroad	<u>120</u>
	Total	210
		820
Total Revenue (II)		
Grants (VII)	From abroad	150
	From other levels of national government	20
	From/to supranational bodies	<u>220</u>
	Total	390
Total revenue and Grants (I)		1,210

5.3.9. This is an analytic framework which is acceptable for most purposes. However, note that it fails to identify revenue in terms of units of government, which are likely to be required for control and management purposes. Also the accounting system will need to identify individual sources of grants.

5.3.10. The present system in Bangladesh broadly follows this approach, but it does not use the same definition of capital and revenue receipts.

Expenditure and lending minus repayments

5.3.11. The IMF Manual proposes a two way split of these items:

- functional
- economic

5.3.12. The functional classification divides expenditure according to the broad functions of Government, e.g. defence, law and order, health, education and so on. This will usually, but not invariably, follow the administrative structure of Government and the various Ministries. For example in Bangladesh the education function is divided between the Ministry of Education and the President's Office, with the latter being directly responsible for primary education.

5.3.13. The economic classification divides expenditure according to the nature of that expenditure, e.g. payroll, interest, subsidies. This is sometimes referred to as an object classification. In order to reconcile these two classification approaches, a matrix is proposed which is reproduced below in a simplified format, and without showing the sub-divisions of the economic classification.

Table 10: IMF economic and functional cross classification

Economic classification →	Total expenditure and lending minus repayments	Total expenditure	Current expenditure	Capital expenditure	Lending minus repayments
Functional classification					
1 General public services					
2 Defence					
3 Public order and safety					
4 Education					
5 Health					
6 Social security and welfare					
7 Housing and community services					
8 Recreation, culture, religion					
9 Fuel and energy					
10 Agriculture, forestry, fishery and hunting					
11 Non fuel mining, manufacturing and agriculture					
12 Transportation and communications					
13 Other economic services					
14 Non-classified					
Total					

5.3.14. We were frequently told that the Bangladesh classification system is modelled on the IMF system. It is correct that the system of grants follows a functional classification system. However, there is no comparable economic analysis, and the treatment of lending and repayments is different.

5.3.15. This classification system is again broadly acceptable. However, we must question whether it is worthwhile setting up a completely different functional and administrative classification system when they both almost entirely coincide. Rare exceptions, such as the primary education cited above, can easily be identified and re-classified where important. Therefore our approach has been to treat the functional and Ministry/Division classifications as being identical.

5.3.16. The above analysis is not intended to provide a system for expenditure control, in that it does not identify managerial responsibility for expenditure decisions. This highlights the multi-dimensional role of classifying Government expenditure. From the IMF perspective, it is primarily information for economic analysis; from the perspective of public sector managers it is primarily a system of expenditure monitoring and control. The latter requires information focused on individual responsibility, information which is irrelevant for economic analysis.

5.3.17. It is also noteworthy that the above analysis does not allow for any analysis of expenditures by programmes. We therefore conclude that the analytic framework is appropriate for the purpose intended, but incomplete as a system of management control.

Financing

5.3.18. The distinction of financing, essentially used for management of the public debt, and lending and borrowing, used for policy purposes, has been discussed above. The IMF proposes to classify financing simply by type of debt holder.

Table 11: classification of financing

Description	Illustrative values
Domestic financing	
From other general government	200
From monetary authorities	150
From deposit money banks	100
Other domestic financing	<u>180</u>
Total domestic financing	630
Financing abroad	
From international development institutions	250
From foreign governments	150
Other bank borrowing abroad	120
Changes in cash, deposits, securities held for liquidity purposes	<u>130</u>
Total foreign financing	650
Total financing (I)	1,280

5.3.19. This broad analytic framework is adequate for general analysis, but in accounting terms individual sources will need to be identified. It would be unusual to identify lending and borrowing between financing and other types on an ongoing basis, as the purpose will not always be clear. This will normally be left to post-event analysis.

Conclusions on the IMF analytic framework

5.3.20. Our conclusion is that it provides a broad framework for analysis, which is both acceptable and valuable. Our only change would be to substitute a Ministerial/Divisional classification system for the functional classification, as being substantially identical and more useful for a lower level analysis by responsibility.

5.3.21. What is clear is that the analysis is inadequate either for accounting purposes, or for providing a framework for managerial control, or for programme monitoring. Therefore the classification system needs to extend beyond the IMF analysis to meet these needs.

5.3.22. We cannot accept the claim that the present Bangladesh system follows the IMF classification. Indeed there is no single system in Bangladesh, since the Revenue and Development Budgets use different systems. The functional classification is followed for expenditure, but not the economic classification. The classification of revenue and grants, which is fairly universal, is also followed, but capital and revenue are treated in a different manner. In fact the system we propose is closer to the IMF model than the present system.

5.4. The present classification system in Bangladesh

5.4.1. At present a single classification system is used for both Revenue Budget and accounting purposes. The Development Budget and the related monitoring system are explained separately. The classification system for the Revenue Budget and accounting classification system is based on Major, Minor, Sub and Detailed-heads.

Major heads	a functional classification based on the IMF functional classification structure (see above). It does not match up with Ministries, in that often one Ministry comprises several functions. Divisions are closer to the functional classification. Grants are made on the basis of function heads.
Minor heads	These are a mixture of administrative units (e.g. Department of Shipping) and economic classifications (e.g. repairs).
Sub-heads	These are also a mixture of administrative units and economic classifications
Detailed heads	These are economic classifications, though broken down into much more detail than would be normal, e.g. some 20 types of pay allowances are budgeted for in detail.

5.4.2. There is no analysis by the geographic administrative units. Also the accounting system often breaks expenditure items down in more detail than provided for above, using names for accounts. Revenue is simply classified by type of income, and not related to administrative units responsible for collection.

5.4.3. The Development Budget, on the other hand, is presented at a high level of aggregation, simply by project. IMED monitors expenditure under eight broad economic heads, but this is not captured within the accounting system.

Table 12: evaluation of present classification system against criteria

No.	Criteria	Conclusion
1	Analysis by function	This analysis is provided
2	Analysis by administrative structure	Analysis provided at level of larger units, e.g. Ministries, Divisions, Departments. There is no analysis by Thana or District, nor to lower levels of administrative units
3	Analysis by programme	The development budget and the IMED system provide this analysis. Project and programme expenditure is not easily available from the budget
4	Analysis by economic category	Provided in excessive detail for payroll costs on the revenue budget, adequate detail for other revenue costs, and not at all for the Development Budget
5	Comprehensive	The budget is comprehensive; the accounting system does not comprehensively capture all the data. However, the latter is more an accounting problem
6	Structured	The present system is poorly structured below Major heads, because economic and administrative divisions are contained within the same classification element
7	Simple and workable	There is evidence of substantial mis-classification, suggesting the system does not work as well as might be expected
8	Meets budget, expenditure control and accounting needs	The lack of any reporting system makes this difficult to assess. However, the comments above suggest that it only partly meets such needs.
9	Suitable for computerisation	No - present structure could not easily be computerised
10	Capable of developing	No - the present system is not structured in a way that makes development within the existing structure very easy

5.4.4. It must be concluded that the present system, designed before computerisation to work under a manual system, meets some but not all of the needs of users, and requires revision. This is made inevitable by the need to computerise. This conclusion is in line with the CORBEC report.

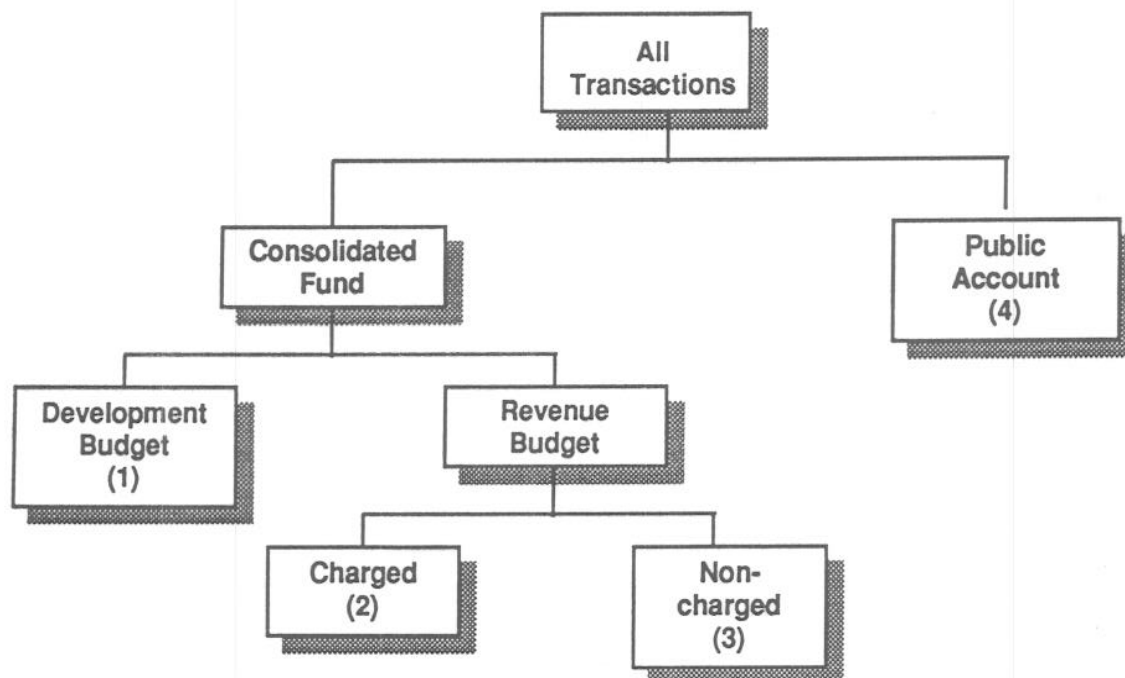
5.5. Approach to a new classification structure

5.5.1. In designing a new classification structure, certain parameters have been set:

- it must follow the existing administrative and legal structure; it would not be realistic to suggest this structure should be changed to meet the needs of budgeting and accounting;
- it must be kept simple initially, but allow scope for later refinement and development as computerisation becomes more widespread;
- it must be designed so that the accounting system can provide the information needed for monitoring and expenditure control;
- the codes must be entirely numeric, because of the problem of two languages with different alphabets.

5.5.2. Constitutionally the government monies are divided between Consolidated Fund and Public Account². In practice, the Consolidated Fund is further divided between the Development Budget and the Revenue Budget. Finally, expenditure from the Revenue Budget is divided between charged (i.e. that expenditure which does not have to be voted on and debated by Parliament) and non-charged. The distinction between Consolidated Fund and Public Account is important, and reflects the very different nature of the transactions in terms of both budgeting and expenditure control.

Figure 8: important accounting categories in Bangladesh

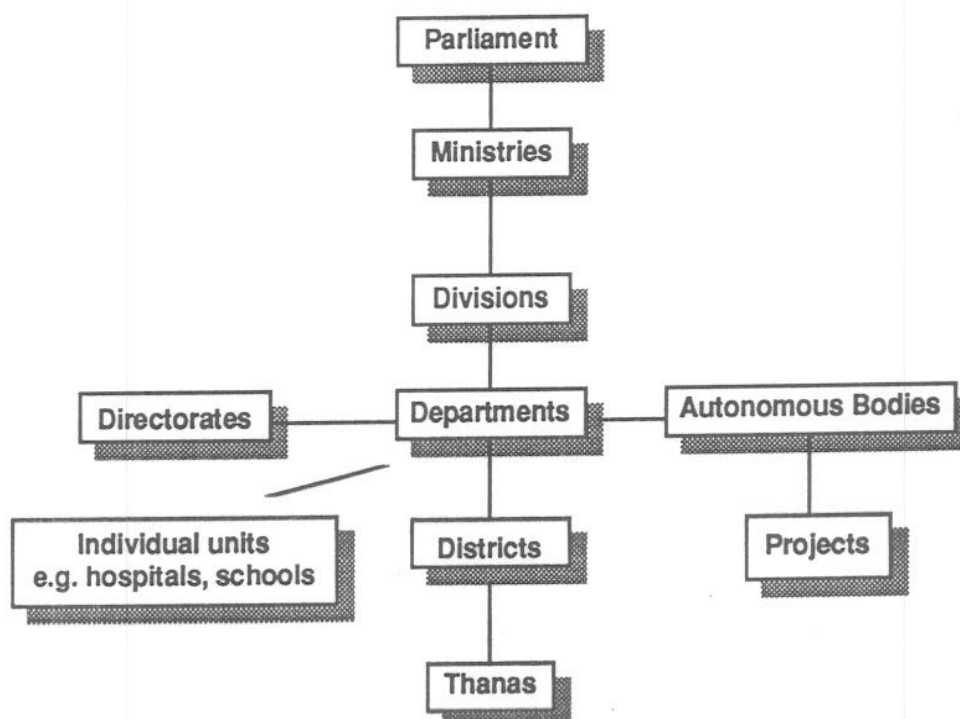


5.5.3. It will be essential that any classification system enables the identification of these categories of income and expenditure. The numbers below the lowest levels illustrate how a single digit is sufficient to illustrate these items.

5.5.4. The next level organisationally is the present administrative structure, because this defines Parliamentary responsibility. This is summarised below.

² The Consolidated Fund is the normal income and receipts account. The Public Account is used for transactions which the Government in effect holds on trust (e.g. Provident Fund), plus accounts which are temporary and should cancel to zero (e.g. suspense accounts) over time.

Figure 9: administrative structure



Note: levels in the diagrams, and the lines, do not necessarily indicate levels in the administrative structure or lines of responsibility, as these vary considerably from case to case. In particular both projects and administrative units can be responsible to almost any other level in the diagram.

5.5.5. The present system does not identify Thanas and Districts at all, and only occasionally the individual units. Projects are identified in the Development Budget, but there is no system in the accounts to aggregate data by project. The ability to provide this aggregation is regarded as fundamental to expenditure control, and for the accounting system to become the database for all financial monitoring.

5.6. Legal requirements

5.6.1. The only legal requirements are contained in the Constitution. This requires that the financial statements of the Government shall distinguish Consolidated Fund and Public Account, and within the Consolidated Fund shall distinguish charged from non-charged expenditure (see above). There is also a requirement that "expenditure on revenue account" shall be distinguished from other expenditure. Though there is no definition of the term, this is generally interpreted as requiring a distinction between revenue and capital expenditure. It could also be interpreted to require a distinction between the Revenue and Development Budgets.

5.6.2. It is therefore clear that the form and presentation of the Government Budget is not significantly constrained by constitutional requirements. There are no other legal requirements, and all the detailed requirements are contained within Rules and Regulations, which can be altered internally.

5.7. The proposed classification structure

5.7.1. There is no single correct classification structure for Bangladesh. Any system must be to some extent a compromise between differing requirements, and particularly between the need for simplicity and practicality, on the one hand, and the capability for sophisticated analysis on the other hand. In the design of the system, we have taken account of the ten criteria identified above.

5.7.2. The broad approach adopted is a hierarchical coding structure, with groups of digits representing differing levels in the hierarchy. This requires more digits than using number ranges within a single system, but is easier to understand. It also means that pre-printed forms for differing functions can have much of the coding pre-printed within the form, minimising the amount left to discretion by the clerk.

5.7.3. It is designed so that cross analysis at different levels is possible, so meeting differing analytic needs. Also, in order to meet the needs for simplicity, we propose that only a basic analytic framework is introduced during Phase II, with more sophisticated and detailed analytic coding being introduced later as experience is gained with the system, and also as computerisation becomes more widespread.

5.7.4. It is unlikely that any central system will meet all the analytic needs of all the components of government, and therefore the software design should allow individual units to add extra coding to meet their requirements without impinging on the integrity of the central system. Thus for example, a particular project with multi donor financing may need to identify specific expenditure with specific donors; the system allows this information to be available within the project, but it would not be required centrally.

5.7.5. The system set out below uses the digits in different ways for different categories of income and expenditure.

Table 13: The proposed classification system

Basic category	Income expenditure	Coding structure			
Consolidated fund - non-development	1 Income	<u>Division</u> xx	<u>Economic</u> xx	<u>Detailed</u> xxx	
	2 Charged Expenditure	<u>Division</u>	<u>Economic</u>	<u>Detailed</u>	<u>Unit of appropriation</u>
	3 Uncharged expenditure	xx	xx	xx	xxxx
Consolidated fund - development	4 Income	<u>Source</u> xxx	<u>Economic</u> xx		
	5 Expenditure	<u>Division</u> xx	<u>Economic</u> xx	<u>Detailed</u> xx	<u>Project</u> xxx
Public account	6 Income		<u>Economic</u>	<u>Detailed</u>	
	7 expenditure		xx	xxx	

5.7.6. Under this approach the classification varies according to the type of income and expenditure, and as determined by the first digit. No problem is foreseen with this difference, as different persons are likely to be coding different types of expenditure. The maximum number of digits in any code is 11 for both development and non-development expenditure. However, in practice, the number of codes to be entered could be dramatically reduced by the use of pre-printed stationery. Thus for example if a project had its own pre-printed coding forms, only the economic and detailed codes (four digits) would need to be entered for each item of expenditure.

Recommendation

27 A new classification structure should be established following the system set out in the text, which provides for both the IMF analysis, managerial and expenditure control, and programme financial monitoring

5.7.7. The various categories of expenditure are further analysed as follows:

<i>Basic category</i>	This has already been explained above.
<i>Division</i>	In Bangladesh, Divisions are sometimes sub-units under Ministries with their own Secretaries, and sometimes a Ministry has in effect one division. This is therefore the basic administrative unit, which broadly coincides with the IMF functional classification.
<i>Economic</i>	This is again the same analysis as used by the IMF, modified as appropriate to meet the specific classification needs in Bangladesh.
<i>Detailed</i>	These are detailed breakdowns which have been made as a matter of custom. We would express our reservation about the utility of this level of disaggregation, but it will be very difficult to obtain acceptance of a system which did not provide for such detail (see below).
<i>Units of appropriation</i>	These could also be described as cost centres. They are the point in the organisation where actual responsibility for the expenditure exists, e.g. school, hospital. At present there is no general concept of providing cost information at this level, but it will be required in the future if the concepts of managerial responsibility are to be developed. This level of analysis could be deferred until Phase III.
<i>Projects</i>	It is essential to provide information on costs by project. Where several projects form a programme, the information can be aggregated to provide programme information.

5.7.8. It will be essential to ensure that sub-heads are not extended into excessive detail. The proposed sub-heads (see Annex 3) are a considerable simplification over the present system, and those applied to Projects are also at a simple level. There are many sub-heads relating to Exchange and Suspense Accounts which undoubtedly should be rationalised, as per the technical paper on accounting, but this cannot be done simply by a review of the headings. A substantial exercise of looking at every account is required. The principle should be that the meaning of any classification should be clear, and any balance in the related account should be identifiable and meaningful. Similar comments apply to the detailed analysis of pay allowances. It is difficult to see why these are required, when important information on payroll costs levels in the organisations is omitted.

Recommendation

28 As part of the exercise of bringing the accounts up to date, a detailed review should be carried out of all accounts with a view to considerable simplification and elimination.

5.7.9. Although where programmes equate to Projects (which is generally the case in Bangladesh), programme information can be obtained, the above does not provide a generalised system of programme budgeting. In our view the system above will be adequate for a first move to programme budgeting, but there should be provision for the introduction of a sophisticated programme analysis in Phase III.

5.7.10. Flows to and from autonomous bodies will only be analysed under broad heads, i.e. loans, interest, grants, subsidies, equity, dividends. Projects relating to autonomous bodies should similarly be identified and shown only as on-lending cash flows.

5.7.11. The system of identifying cost centres, and also Thanas/Districts, is intended to coincide with the distribution of primary accounting data processing to CAOs in Phase III. However, there is no reason why individual Ministries cannot experiment with this approach in Phase II; though such data would not be recorded centrally.

5.8. Concepts underlying classification structure

Capital and revenue

5.8.1. Capital transactions involve payments or receipts for the acquisition, construction or sale of non-financial assets meant to be used for more than one year in the process of production. Intangible assets and land are included in capital assets³. The distinction is regarded as important because it provides a broad distinction between expenditure for current consumption and expenditure for long term consumption. Note that the definition primarily focuses on the intention of the expenditure. However, there is some dispute about the definition of capital in the public sector, and some authorities link it to the source of funding. Furthermore, the value of the capital/current distinction is much reduced under cash accounting where there is no attempt to record capital assets in a balance sheet as an asset.

5.8.2. There is a constitutional requirement in Article 87 to "*distinguish expenditure on revenue account from other expenditure*". However, the term revenue account is nowhere defined.

5.8.3. In Bangladesh, the most important distinction is between the Development and Revenue Budgets. Development expenditure is perceived as linked to the development process, and hence long term benefits, whereas the Revenue Budget contains non-developmental, or current expenditure. In our view this is the important pragmatic distinction, and would form an adequate surrogate measure of capital and current expenditure.

5.8.4. However, during discussions it has become clear to us that this would not be accepted either by the Government or by donors who are used to a more theoretical view of the distinction between capital and revenue. This means that will be a four way division.

Figure 10: the capital/revenue analysis

	CAPITAL	REVENUE
Revenue and grants	X	X
Expenditure - Development Budget	X	X
Expenditure - Revenue Budget	X	X

5.8.5. Note that using the IMF analytic approach, lending and borrowing are not classified as either capital or revenue income, but simply under the heading "lending minus repayments", or "financing".

Recommendation

29 The distinction between development and revenue budgets should be based on the IMF definition, and should be incorporated within the economic codes by using separate ranges for "capital" and revenue", respectively.

Treatment of borrowing and lending

5.8.6. As indicated above, the IMF attempts to differentiate net lending for policy purposes, from financing involving borrowing and lending to manage liquidity. It is interesting that commercial accounting has moved away from attempts to classify financing by purpose for which raised, because of the fungability of money and the practical problems of classification. In our view it would be infeasible to attempt such a distinction in Bangladesh, and we therefore have adopted an approach which focuses on source of financing, rather than purpose.

³ "A Manual on Government Financial Statistics", IMF 1985

Food account

5.8.7. The section on accounting, above, indicates a format for handling the food account. This would be a memorandum analysis outside the government accounting system, since the latter is on a cash basis. Therefore all the classification system needs to identify are the cash receipts and payments relating to the food account.

Public enterprises operated as departments

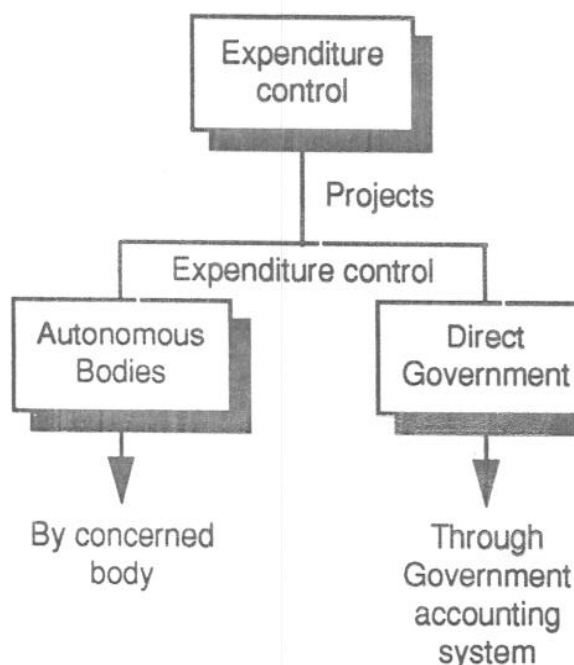
5.8.8. Both Railways and Telegraph and Telephones are properly described as public enterprises, but both are operated as government departments. In both cases the information in the government budget and accounts should be on a cash basis, but the enterprises because of their commercial nature need to keep memorandum accounts on an accrual basis. This should be dealt with on the same basis as the food account, i.e. showing the cash flows in the accounts and presenting as a memorandum statement in both budgets and accounts on a full accrual accounting basis.

Autonomous bodies

5.8.9. Autonomous bodies include three categories of institution:

- (i) state owned financial institutions;
- (ii) state owned commercial enterprises
- (iii) other non-commercial entities, e.g. welfare associations, educational bodies

5.8.10. At present it is not possible to identify net flows of funds to or from these organisations from the budget. Furthermore, though there is a monitoring system for the last two categories (SABRE) the data from this system, which is on an accrual basis, cannot be reconciled with the Government budgets. In the development budget, no distinction is made between projects where the funds are on-lent to autonomous bodies, and therefore move out of the direct legal control of Government, and projects which are conducted directly by the Government.



5.8.11. The coding structure proposed identifies clearly gross flows of funds to and from Autonomous Bodies as being: (i) subsidies or grants; (ii) loans or repayments; (iii) interest on loans; (v) dividends or profit share paid to Government; (vi) equity investments. This system is extended to development expenditure so as to clearly identify projects which pass through the government accounting system from those accounted for by the public enterprises.

5.8.12. This has implications for expenditure control. Whereas the government accounting system will provide the source data for financial management of projects operated directly by Government, for those operated through autonomous bodies expenditure control information must come from the autonomous body itself.

Recommendation

30 The system should identify net flow of funds to and from autonomous bodies, and also clearly segregate projects for which funds are on-lent to autonomous bodies from those directly executed by Government

Suspense, exchange and Personal Ledger accounts

5.8.13. It is not possible from a review of the present titles of these accounts to determine their underlying nature. There is an urgent need to review these accounts in detail, with a view to eliminating as many as possible. A guiding principle should be that the purpose and meaning of all accounts should be clear, and furthermore that in every case the account should be reconcilable with specific items comprising the balance.

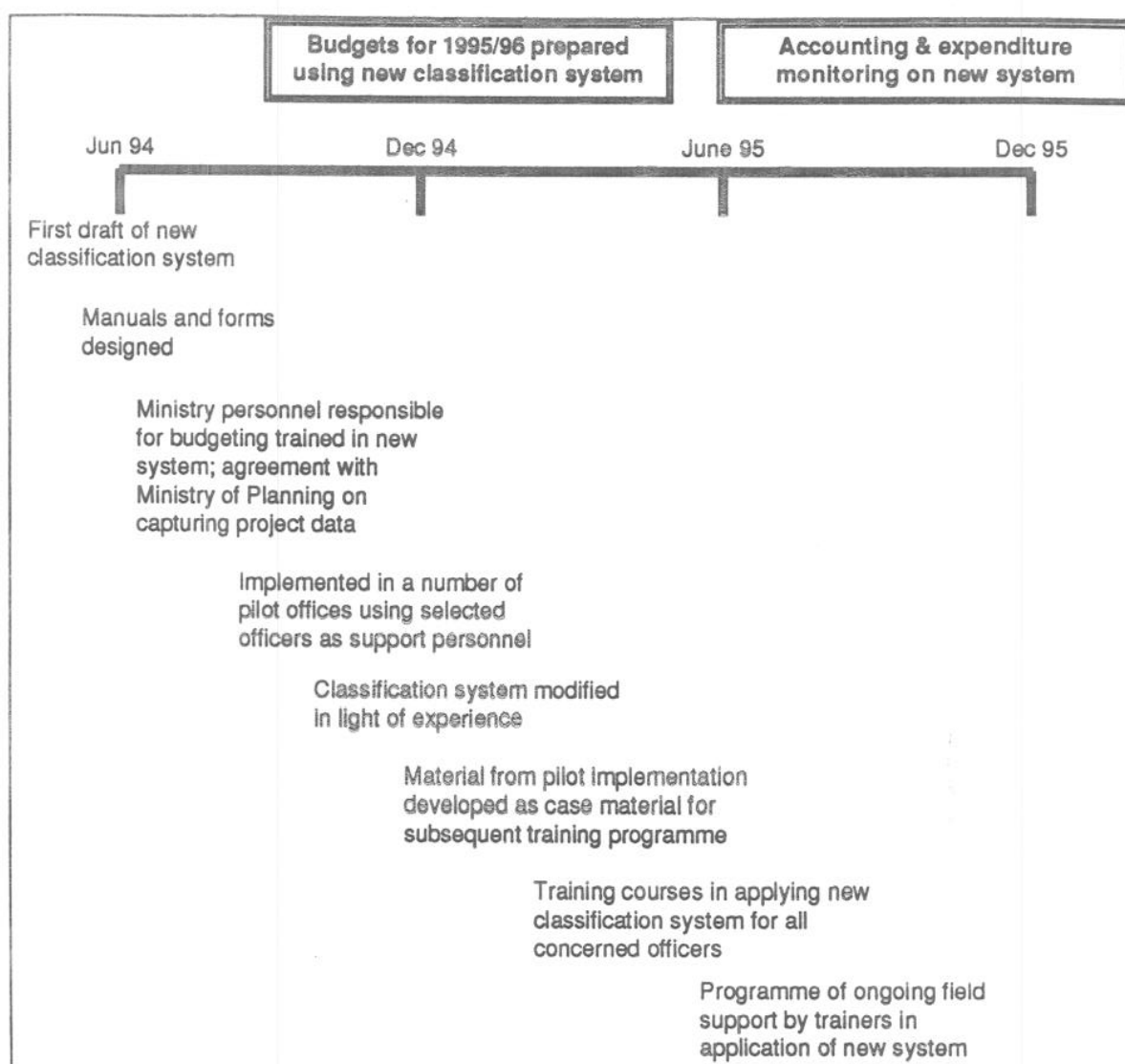
5.9. Implementation

5.9.1. It is not possible to implement this new structure simply by issuing a circular notice. The process requires the following components:

- (i) careful planning of the new system and the preparation of manuals
- (ii) design of new coding forms
- (iii) pilot testing
- (iv) a training programme extending to all accounting units

5.9.2. The diagram below illustrates the stages involved, on the assumption Phase II started early in 1994 and the new classification system was implemented for 1995/96.

Figure 11: introduction of new classification system



5.9.3. It is apparent that the introduction of the new coding system will be a large and complex operation, which will need careful planning. However, if the new system is to be a success without extensive mis-classification, such an exercise must be carried through. Examples of appropriate structures are shown at Appendix 3.

5.10. Strategy

No.	Strategy	Comment
9	Develop in detail a new classification structure, and implement in a planned manner	The classification structure should follow the structure outlined in the above sections, and illustrated in the Annexes, but be the result of discussions between Finance Division, ERD, the Planning Ministry and other concerned Ministries. As part of the process existing accounts should be reviewed and wherever feasible simplified or eliminated.