

Administrative Classification of the Budget: Practical Experience of Reform in Tajikistan

Michael Parry, Principal, Michael Parry Consulting LLP

George Gridilian, Managing Partner, ECORYS-Tajikistan LLC

Abstract

This article examines the practical issues of developing and applying a financial classification in the context of Tajikistan. The problems of developing a coherent administrative classification consistent with international standards are discussed. The specific problems of applying international classification standards to the actual organisational relationships. These include the difficulties of linking the standard Classification of the Functions of Government (COFOG) to existing organisations. Also, the problems of identifying public sector entities that are not part of the General Government Sector (GGS), but are administratively mixed with entities that are part of the GGS. Ongoing problems of maintaining the integrity of the classification structure as new entities are created and suggested strategies to address the issues. Problems of applying a sectoral approach when there are multiple top level organisational entities (in Tajikistan Main Administrators of Budget Allocations (MABAs)) responsible for some sectors. The concept of clustering sectoral MABAs and identifying a lead MABA for each sector. The article shows how each of these problems has been addressed in the development of the new classification structure for Tajikistan.

1 Introduction

The Administrative Classification of the Budget of a national government is usually only mentioned in passing in the various international standards and literature. Yet the Administrative classification is typically the basis for appropriating budget funds and subsequently managing the use of such funds. Hence the administrative classification is of critical importance to managing government expenditures.

This paper considers some of the practical difficulties of establishing and managing an administrative classification based on experience in Tajikistan. The paper also proposes an approach to sectoral policy management within a Medium Term Expenditure Framework (MTEF) based on clustering government entities by sector and then identifying a lead entity for each sector.

2 The budget classification structure

Government expenditures are classified according to a number of dimensions for different purposes. This paper is based on the experience of Tajikistan where six dimensions, or segments, of the classification have been identified for the new Unified Chart of Accounts (UCOA), as illustrated in Table 1 below.

Table 1: Structure of new budget classification

Dimension/ segment	Description	Comment
1	Functional Classification	Based on the IMF Government Finance Statistics Manual (GFSM) 2001
2	Administrative Classification	Specific to Tajikistan
3	Economic Classification	Based on GFSM 2001
4	Classification of Funds	Specific to Tajikistan
5	Program Classification	
6	Geographic Classification	

Both the functional classification (Dimension 1) and the Economic Classification (Dimension 3) are based on international standards. The economic classification is based on GFSM 2001, though with additional detail to enable reporting in accordance with International Public Sector Accounting Standards (IPSAS).

The functional classification is based on the Classification of Government Expenditure (COFOG) as used in the GFSM 2001¹ and also the UN System of National Accounts (SNA). Thus COFOG is a universal classification applied across all countries, whereas the Administrative Classification is country specific.

Both functional and administrative classifications have their role in the management and reporting of expenditure, as illustrated in Table 2 below.

Table 2: Comparison of functional and administrative classifications

Functional classification	Administrative Classification
1. Universal - enables comparison between countries	Country specific
2. Stable over time - enables inter-period comparisons	Changes as administrative structures and responsibilities change
3. Based on generally agreed major functions of government	Structure based on management of functions within a particular country and political environment
4. Not linked to managerial responsibility	Directly linked to managerial responsibility
5. Not suitable as a basis for appropriating budget funds	Suitable for fund appropriation

A Medium Term Expenditure Framework (MTEF) approach typically is based on sectoral goals and resource allocation. Sectors are defined as the high level grouping of functions within COFOG, e.g. health, education, etc. This sectoral approach has to be translated into an administrative classification for legislative budget approval and resource appropriation.

In many situations the administrative structure will be close to the functional structure, e.g. the major functions of health and education are likely to be represented by separate Ministries. But

¹ The GFS Manual 2014 exists but only as a pre-publication version. There no changes to COFOG in the new version.

there will almost certainly be some differences between the functional and administrative structure, especially at the sub-function level.

Therefore it is essential to ensure mapping between the administrative and functional classifications. Such mapping will significantly strengthen Public Financial Management (PFM) system of a country, improve budget planning, allocative efficiency, strengthen accountability and, eventually better public service delivery. To enable mapping:

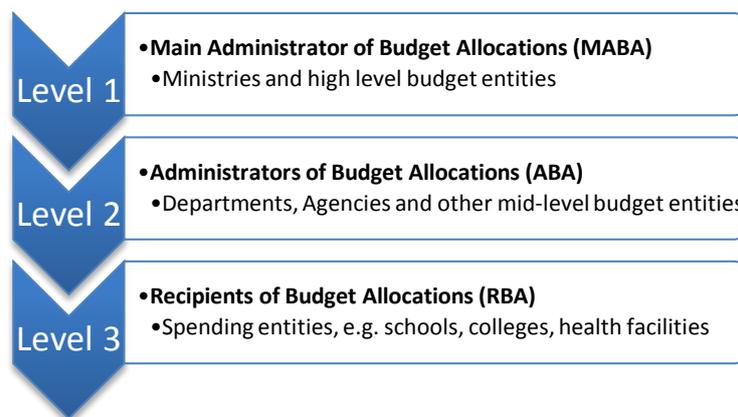
1. Each administrative entity must be linked to one, and one only, COFOG function
2. Each COFOG function must be identifiable with at least one administrative entity

This paper explores the problems of developing an administrative classification that enables such mapping in the context of Tajikistan. The paper focuses on the Administrative Classification of the general government sector for central government that includes ministries, state committees, departments and their subordinate spending agencies.

3 Structure of Government in Tajikistan

The Administrative Classification follows the three-level structure of the Government of the Republic of Tajikistan as summarised in Figure 1.

Figure 1: Overview of Administrative Structure of the Government of the Republic of Tajikistan



For budget management the administrative segment of budget classification must be comprehensive, consistent with international standards and regularly updated. All these prerequisites are indispensable for sound budget management, the use of budget IT software, formulating and executing the budget. Meeting these requirements for the administrative classification also facilitates reporting and statistical analysis.

A further issue relates to the introduction of an MTEF approach and the options for integration of the Administrative segment with the MTEF sector-based approach, as summarised in Box 1 below.

Box 1: MTEF approach

Three key features are embedded into MTEF design to help achieve a stronger link between plans and budgets:

- ***An extended budget calendar (strategic budget phase):*** This allows spending agencies to formulate a budget framework that is discussed at the strategic level by policymakers before final expenditure ceilings are set and detailed budget estimates are prepared.
- ***The division of budgets into sectors:*** The clustering of ministries and spending agencies into sectors makes it easier to translate policies into budget allocations.
- ***The integration of all expenditures into a unified budget:*** This allows activities and outputs to be fully aligned and traced to policy areas irrespective of the revenue source (recurrent, capital or donor). It also helps with the tracking of expenditures and output allocations.²

The challenge is that all budget organizations should be appropriately classified in the Administrative segment to enable clustering across sectors, so as to enable the MTEF sector-based approach.

In Tajikistan the administrative classification of budget organisations at the Republican level (i.e. central government) has been officially approved by the Ministry of Finance in June 2009 and introduced for the 2010 budget formulation process. The various issues that have arisen since adoption are summarised in the following sub-sections.

4 Practical issues of managing the administrative classification

4.1 Inclusion of entities in the administrative classification that are not part of the General Government Sector

This refers to entities that do not fall into the categories defined by GFS 2001 Manual to be included in the General Government Sector (GGS)³. Primarily this problem relates to public corporations (referred to as State Owned Enterprises, SOEs, in Tajikistan) that have been included in the administrative classification. These are commercially oriented entities that belong to the public sector but are not members of the general government sector⁴.

The importance of distinguishing the general government sector from the rest of the public sector is clearly stated in the IMF Code of Good Practices on Fiscal Transparency.⁵ But the government structure in Tajikistan makes this principle difficult to apply through the coding structure. The only solution is to ensure public corporations are identified and treated appropriately for reporting purposes.

² A guide to public financial management literature - For practitioners in developing countries, ODI, 2011, p.5

³ IMF GFSM-2001, Ch.2, p. 10; par. 2.28, 2.31

⁴ IMF GFSM -2001, Ch.2, p. 7, par. 2.9; p. 15; par. 2.62

⁵ IMF Code of Good practices on fiscal transparency (2007); Part I Clarity of Roles and responsibilities, p.1;

Box 2: Clarity of Roles and responsibilities

The government Sector should be clearly distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.

The requirements in Box 2 emphasize the requirement to distinguish the main constituents of the public sector. The IMF GFSM 2001 provides clear definitions for all components of the public sector and the economy on the whole, in accordance with which economic entities should be defined.

The experience gained in Tajikistan has shown that there may be some areas that prove to be difficult to match with the requirements of GFS. For example, there are some institutional arrangements such that some functions within the GGS are undertaken by a public corporations operating for profit.

An example in Tajikistan is the Housing and Communal Services. This has the legal status of a Public Corporation (in this case a State Unitary Enterprise). Hence it is not a member of General Government Sector (GGS) and therefore not eligible to be included in the administrative classification. Nevertheless this entity is providing public services that are of part of the COFOG GGS structure.

COFOG does not seek to impose on governments a particular mode of operation or institutional arrangements. Rather it is a matter of translating COFOG in terms of the structures that exist. Thus, there is no reason in principle why certain functions of government should not be carried out by public corporations operating for profit. But by definition such corporations cannot be part of the GGS.

If the expenditure of such public corporation is through budget allocations, then the function of government belongs to the funding agency. But in such a case there will have to be a careful analysis against the GFS definitions to ensure that the entity is properly described as operating for profit and hence a public corporation.

Thus there are three options:

- i. Assign an existing MABA to be in charge of the relevant sector policy, leaving the existing public corporation to operate commercially. In this case the lead MABA will be responsible for the policy to provide public goods and services.
- ii. Change the status and functioning of the public corporation so that it properly becomes an administrative entity within the GGS. In other words the entity should be converted into the budget organization with all related features. This should be done only if examination shows such a transformation is both feasible and appropriate.
- iii. Establish a new entity that would operate as an MABA paralleling the existing public corporation and would be responsible for the provision of the services.

4.2 Management of amendments to the administrative classification

The administrative classification needs to be updated and amended on a regular basis because of the creation, re-classification or abolition of budget organisations. In Tajikistan the Ministry of Finance has responsibility for such amendments.

However, although the roles and responsibilities of the Ministry of Finance have been set out in the Financial Instructions, prompt implementation of the required amendments has been

difficult to achieve. Issues have included the absence of a computerised database to manage the multiple budget organisations. The hierarchical structure of the Ministry of Finance also means all such decisions require multiple levels of authorisation, and officials may lack the appropriate training or motivation.

Also it is important that the internal audit department has an appropriate role in relation to all such amendments to ensure their consistency with the principles of the Administrative Classification.

The consequence is that the Administrative Classification often fails to promptly reflect organisational changes. This has important implications because if an organisation does not exist in the Administrative Classification it cannot be appropriated any funds of the budget.

4.3 Defining the level and hierarchy of new budget organisations

The legislation provides that Government Decree or legislation may create new budget organisations. In practice the majority of budget organisations are created by Decree. The Decree creating such budget organisations should specify the level of a new budget organisation. If the new budget organisation is assigned the level of ABA or RBA the Decree should indicate the MABA to which it should be responsible.

Various government units may initiate new budget organizations. If the initiating organisation is itself a MABA it is relatively easy to place the new budget organisation under that MABAs subordination and responsibility. In other cases it is more difficult.

A four-stage process is required for all new budget organisationto address the problems above:

- i. Identification of newly established budget organisation as either part of the GGS or as Public Corporations (SOEs)
- ii. Assigning an appropriate level (MABA, ABA or RBA) to new budget organizations that are members of general government sector
- iii. The decree clearly indicates the level of the budget organisation (MABA, ABA, or RBA)
- iv. If the new budget organization is created at the level of ABA or RBA then attribution of this new organization to the appropriate MABA. Preferably this should be consistent with the COFOG functional classifications, e.g. if the new organization has features and functional responsibilities that belongs to the sector of culture this organization should be placed under the Ministry of Culture.

4.4 Excess number of Level 1 budget entities

The principles of effective public sector management indicate that there should be a relatively small number of Level 1 budget organisations (MABAs). Typically this number is regarded as being in the range 20 to 30. In Tajikistan there are more than double this number of MABAs.

This is not an issue of classification but of management. However, an effective process for structuring and maintaining the administrative classification should incorporate processes to limit the creation of new MABAs and to identify opportunities for the rationalisation of existing MABAs.

There are of course many factors that lead to the creation of such a large number of MABAs. In any country government is a matter of consensus amongst competing pressure groups, and a Level 1 budget organisation confers both power and status on Ministers and officials. However, an excess number of Level 1 budget organisations dilutes the power of each and makes the

development of an effective strategy for sectoral resource allocation more difficult to implement.

For example, in Tajikistan there are three Level 1 MABAs that together have responsibility for the Agriculture sector. In consequence developing sector strategies and allocating resources is complicated by the need to negotiate and reach agreement between three separate entities.

Rationalisation of budget entities goes beyond issues of classification and is to do with the structure of government. But the need to develop rational classification structures so as to be able to implement sectoral policies does bring the issue into focus.

4.5 Roles and responsibilities for managing the creation of new budget entities

In Tajikistan most new budget organisations are created by decree. It follows that the decree should define the level and hierarchical responsibility of such new budget organisations. This will then define the appropriate Administrative Classification for such entities. Under this approach the role of Ministry of Finance staff is simply to implement the government decision.

However, in practice this often does not happen. The definitions are left to Ministry of Finance staff, who often lack the knowledge and authority to make appropriate decisions.

5 Strategy for tackling the practical issues

One of the primary objectives of this paper has been to examine the practical challenges that arise when implementing a new and structured approach to the administrative classification. Strategies for tackling the issues include the following:

- i. The adoption of clear criteria for assigning an appropriate status to any budget entity and the mechanism by which the Ministry of Finance would be guided when updating and using the Administrative classification
- ii. Integrating of the process of creating new budget organisations with the principles of the new classification structure.
- iii. Training of the staff involved so as to enable a better understanding of the process and individual responsibilities
- iv. Reforms to legal and institutional arrangements to enable the new classification structure to function effectively

The problems are often complex and varied. It is important to establish principles and guidelines that can be applied in a variety of situations.

The choices made by a government are conditioned by economic, institutional, legal and political arrangements. The problems identified above may be influenced by these factors and therefore require detailed analysis to identify specific solutions.

6 Administrative Classification and a Cluster Approach to a Sectoral MTEF

In parallel to other reforms Tajikistan has been implementing an MTEF approach to resource allocation and budget management. The MTEF approach has been initiated in pilot sectors and is being progressively extended across the whole of government.

A primary objective of an MTEF is to improve the budget planning process by linking the budget to strategic priorities. The latter should be articulated in officially approved policy

papers. The policy papers should be developed by the budget organisation responsible for the policy formulation and development of each sector.

The literature does not set out requirements as to the entities responsible for sectoral policy. In the context of Tajikistan logically the entities will be the MABAs responsible for a particular sector. For instance, the Ministry of Culture is the MABA responsible for the policy formulation in the culture sector, the Ministry of Health and Social Protection for the health and social protection sectors, and so on.

This implies that each sector should have a single MABA that is responsible for general sector policy. In MTEF terms, this MABA will develop the strategy paper that articulates and prioritise objectives to be addressed and achieved by allocating the appropriate budget resources over the medium term.

In practice in no country is there likely to be a perfect match between the administrative and sectoral structures. This is to be expected as government structures are created to meet the needs of the country not some international standard. An appropriately designed Administrative Classification can address this issue as follows:

- i. Cluster the existing MABAs to each sector
- ii. Assign a single lead MABA responsible for policy formulation in each sector
- iii. Ensure other sectoral MABAs plan and allocate resources consistently with the sectoral plan.

The concept of a lead MABA is consistent with the recently adopted new Public Finance Law⁶ in Tajikistan. Article 32 of the Public Finance Law states the key responsibilities of MABAs, responsible for developing and implementation of the public policy in a certain sector, accepting that there are other MABAs that are not responsible for this activity.

Hence, whilst an ideal institutional structure would be that the sectors exactly matched MABAs, a more realistic view, particularly within Tajikistan environment, suggests dealing with the different type of the institutional arrangement of the central government sector.

The concept of the Lead MABA is a solution to ensuring a single ministry is responsible for sector policy development even when there are multiple MABAs within the sector.

It is important to understand that this “Lead MABA” concept does not involve creating another, higher hierarchy in the three-level classification structure. The lead MABAs are not expected to negotiate the budget proposals of other MABAs within the same sector with the Ministry of Finance. The role of Lead MABAs is limited to outlining the sector policy. The process of developing the policy is exercised jointly and includes contributions by other sectoral MABAs that articulate their own “sub-priorities” to be aligned with the general sector policy. The concept of a Lead MABA only relates to the sectors where there are two or more MABAs.

For example, in Tajikistan the agriculture sector comprises the following MABAs: (i) Ministry of Agriculture, (ii) State Committee for Land Management and Geodesy, and (iii) Agency for Land Reclamation and Irrigation

Under the lead MABA approach, the Ministry of Agriculture undertakes the role of Lead MABA with responsibility for developing the general agriculture sector policy. The State

⁶ The Law of the Republic of Tajikistan “On State Finance of the Republic of Tajikistan” of 27.06.2011

Committee for Land Management and Geodesy and Agency for Land Reclamation and Irrigation will develop sub-sectoral policies consistent with the sector general policy.

Hence the Lead MABA must establish a close cooperation with other members of the sector. Conversely, the other MABAs within the sector should be willing to interact with the Lead MABA in terms of integration of their priorities into the sector policy paper. A detailed mechanism for interrelations between MABAs of the same sector must be developed and enshrined in law.

The approach described above allows the development of an integrated sector policy to meet the requirements and objectives of all the stakeholders involved. This implies that the role of line ministries (MABAs) should be enhanced, allowing prioritizing their objectives and linking them to the budget ceilings determined by the Ministry of Finance.

7 Conclusion

A summary of the proposed approach to the administrative classification is as follows:

1. The general government should be divided into sectors that can be mapped to the COFOG structure
2. General government sector entities (budget organizations in Tajikistan) are clustered and assigned to each sector;
3. Each sector has a lead entity (MABA in Tajikistan) responsible for general policy formulation and articulation of the sector priorities
4. Each entity within a sectoral cluster drafts their budget proposals on the basis of sectoral policy priorities agreed by the lead entity for that sector
5. The government assigns appropriate levels for all the entities within the general government sector

This approach does indicate the importance of integrating the Administrative and Functional classifications, and the requirement for structured approach to managing the administrative classification by government.

References

1. Government Finance Statistics Manual, GFSM2001, IMF 2001
2. Code of Good Practice on Fiscal Transparency, IMF 2012
3. Guide to Public Financial Management Literature, ODI 2011
4. Public Finance Law of the Republic of Tajikistan, 2011

Note: the views expressed in this article are the personal views of the authors and do not necessarily represent the views of any other organisation.

ANNEX: LIST OF ABBREVIATIONS

ABA	Administrator of Budget Allocations
COFOG	Classification of Functions of Government
GFSM 2001	Government Finance Statistics Manual
GGG	General Government Sector
GoT	Government of Tajikistan
HCS	Housing and Communal Services
MABA	Main Administrator of Budget Allocations
MoF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
PFM	Public Financial Management
RBA	Recipient of Budget Allocations
SNA	System of National Accounts
SOE	State Owned Enterprise
SUE	State Unitary Enterprise
UCOA	Unified Chart of Accounts