

Experience with Implementation of Financial Classifications Aligned with International Standards

Dushanbe, Tajikistan



The PEM PAL Treasury Community of Practice (TCoP) workshop on Experiences with Implementation of Financial Classifications Aligned with International Standards was hosted by the Ministry of Finance of Tajikistan in Dushanbe from October 11 to 13, 2010. This workshop was the first PEM PAL event ever held in one of Central Asia countries and it generated a lot of interest in the region. Special TV report on the event was broadcasted in Tajikistan and around the whole CIS through “MIR” TV Company.

Initially designed as a small group workshop (with participation of 2-3 countries), it has grown into a bigger event, as the topic raised a lot of interest among TCoP members. In the end, the workshop was attended by representatives of 6 countries, including Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan and Ukraine. The participants discussed the implementation of the integrated budget classification and chart of accounts (BC and CA) aligned with international standards. The objective of the workshop was to allow the TCoP members to exchange experiences and transfer knowledge related to the implementation of BC and CA.

In order to assess the existing situation in the BC and CA area, each country was asked to prepare a case study for presentation and discussion, following the recommended format and structure.



The workshop was facilitated by the World Bank team, representatives of donor institutions supporting PFM reforms in Tajikistan (EC delegation, DFID, SECO) participated at the meeting as observers. The Center of Excellence in Finance (CEF) supported the organization of the meeting in the capacity of the PEM PAL Secretariat.

Day 1

The meeting was opened by **Ms. Elena Nikulina**, PEM PAL Team Leader at the World Bank, and **Mr. Shavkat Sohibov**, Deputy Minister of Finance of the Republic of Tajikistan. In his speech, Mr. Sohibov reminded the participants about the common history of the participating countries. In his opinion, the new states that have emerged in the FSU space face at present similar difficulties in implementing international standards in public finance management. Therefore, knowledge and experience sharing become even more significant for these countries. The Ministry of Finance of Tajikistan is preparing for implementation of international standards in the context of the ongoing PFM reform and appreciates the opportunity to learn from the experiences of other countries offered by PEM PAL program.

Introduction of participants around the table followed the opening addresses.



The first day concluded with a [country presentation of the hosting country, Tajikistan](#), which was delivered by Tajik MoF representatives (**Mr. Rustam Boboev, Ms. Lola Saidova, and Mr. Ismatullo Hakimov**).

After presenting brief information related to the history of the BC and CA reform in their country, and describing shortly the existing BC and CA, Tajik representatives informed the

participants about their plans for BC and CA reforms. They have prepared and circulated among workshop participants the list of issues they are facing in preparing for the reform implementation. Later, in their country presentations, the workshop participants have addressed these questions providing responses and advice based on their experience.

Tajik delegation has also asked their colleagues from PEM PAL member countries to review the draft of the Chart of Accounts they have been elaborating and provide them with their views and suggestions for its improvement.

Questions and answers followed the presentation.

Day 2

The second day started with the [presentation](#) by **Mr. John Zohrab**, the IMF Regional Fiscal Advisor, who talked about Budget Classification principles. In his presentation he explained the importance of budget classification and provided the main features of sound budget classification. He continued with explaining the desirable budget classification structure and the relationship between budget classifications and the

chart of accounts. He concluded the presentation with providing preconditions for successful implementation and defining critical steps in reform of budget classification. Time for questions and answers was allotted after the presentation.



Russian Federation have expressed intention to participate in the survey and provide information immediately upon return from the workshop.

In continuation of the day **Ms. Elena Nikulina**, Senior Public Sector Specialist at the World Bank, PEMPAL Team Leader, presented [results of the member countries survey](#) on [Budget Classification and Chart of Accounts](#). 12 PEMPAL member countries have responded to the survey, including 5 countries represented at the workshop. Representatives of the



delivered by **Mr. Anton Dubovnik**. The last presentation on the [country case of Kazakhstan](#) was delivered by **Ms. Zaifun Yernazarova**.

Questions/answers sessions followed all the country presentations.

Country presentations followed the expert presentations. **Ms. Cholpan Saparbayeva** delivered the [presentation from Kyrgyzstan](#). The [country case of Moldova](#) was delivered by **Ms. Angela Voronin**. [Ukrainian case](#) was presented by **Ms. Natalia Botsman**. The case of the [Russian Federation](#) was

Day3



The last day of the workshop started with a [presentation](#) of **Mr. Michael Parry**, a public finance expert, who spoke on Linking Budget Classification and Chart of Accounts. In his presentation he argued that it is essential that budget classification and chart of accounts interface. Complete integration of BC and CA were described as the logical solution, although this presents problems of design and

implementation. In his opinion there are no quick fixes, as each case requires careful consideration and time to resolve.

The agenda of the third day continued with small group discussions which were



organized on the request of the TCoP members, who voted for this format as most efficient way of organizing the work during the last TCoP survey performed on May, 2010. All workshop participants were divided into three groups. A list of questions to be discussed during these sessions has been prepared during the workshop.

The topics of the group work included methods of integration of economic classification with the chart of accounts, where each group had to describe the pros and cons of each of the methods. The groups also discussed the difficulties and risks of transition to unified chart of accounts. In addition to the two main topics, the groups also provided comments and recommendations on the chart of accounts of Tajikistan.

After the small group discussions, a joint session has been held and each group presented the report (Group Report I; Group Report II; Group Report III) on the exercise. The experts assigned to each group provided their comments on the exercise and the results achieved. It has been agreed, that all TCoP member countries will provide Tajik colleagues with their written recommendations for improving the draft Chart of Accounts reviewed.

At the end of the third day of the workshop, TCoP Leadership Group met to discuss the matters related to TCoP participation in PEM PAL plenary meeting, planned for January, 2011. Proposals for the event format and topics that might be of interest for all PEM PAL CoPs have been identified. Ms. Narghiz Djumaeva was delegated to present TCoP views regarding PEM PAL plenary meeting organization during the next meeting of the Organization Committee of the January event.

The main conclusions of the workshop were:

- There was general agreement that a unified chart of accounts is essential for the development of modern PFM. Two options were considered by groups: (i) a flexible approach where the budget classification and chart of accounts remain distinct but are linked within the overall coding structure, and (ii) a rigid approach, where the budget classification becomes part of the chart of accounts coding with fixed linkages. Advantagesⁱ and disadvantages of both approaches have been identified. There was no consensus on the best of these two options, as it was acknowledged that solution in each case would depend on specific country situation. However, all participants agreed that the chart of accounts should embrace all budget organizations and government funds, e.g. including special funds such as social funds, pensions, etc;
- So called “Big-bang approach” in the area of BC and CA reform has more advantages than partial implementation with pilot projects, but countries should be very well prepared to reduce the risks and pursue the big-bang approach. A number of risk mitigation recommendationsⁱⁱ have been proposed during the seminar.
- Due to the different accounting background of participants and external advisers, it became clear that some terms (“chart of accounts”, “budget classification”, “ledgers and sub-ledgers”, “fund accounting”) were used with different meanings by different participants. There is a need for clear and agreed definitions of these terms and also linkages of Russian and English terminology in order to avoid such confusion;
- There was a consensus that IT systems were needed to implement a new classification structure. There was desire to see good models of successful IFMIS;
- All participating countries, except Russia, indicated general intent of IPSAS compliance, but there appeared problems of understanding what this involved and how IPSAS accrual differed from the form of accrual accounting presently used by most countries. Clarifications of the definitions of modified cash and modified accrual methods requested;

- During the workshop participants agreed that learning the rules is a necessary prerequisite to develop and implement integrated budget classification and chart of accounts, although specific practices cannot be directly translated from one country into another. They also emphasized that sharing of best practices and experience is beneficial for learning from one another and important for avoiding discrepancies;
- Workshop hosting country got valuable advices and recommendations that might be used in the process of ongoing new BC and CA reform implementation;
- New topics proposed for future TCoP discussions include use of the program classification for budget execution and reporting on budget programs and linkages to program budgeting, implementation of IPSAS standards.
- The approach when all participating countries present their country cases on a specific topic proved to be successful and is recommended to be used in the future TCoP activities;

- **RESULTS OF THE EVALUATIONS FORMS COMPLETED BY PARTICIPANTS AT THE END OF THE EVENT**

ⁱ Flexibility to change budget codes without affecting the stability of the account is one of the first approach advantages, while difficulties in managing the system and problems related to the training process of the users are considered as its weak points. The rigid approach has as advantage a high stability for training and management, but is more difficult to operate changes

ⁱⁱ The risks could be reduced by (i) Pilot testing, (ii) Only implementing essential elements at first stage.