


Institute of Public  
Finance Bangladesh



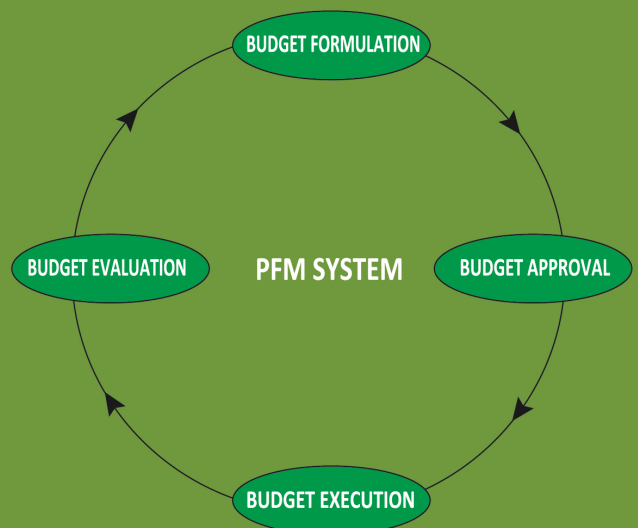
# PUBLIC FINANCIAL MANAGEMENT HANDBOOK

For Local Government  
Institutions  
(Union Parishads)  
in Bangladesh

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and Cooperation SDC



# Institute of Public Finance Bangladesh



## **PUBLIC FINANCIAL MANAGEMENT HANDBOOK**

For Local Government Institutions  
(Union Parishads) in Bangladesh

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*We must consult our means rather than our wishes.*

*G. Washington*

*Sustainable development is the pathway to the future we want for all. It offers a framework to generate economic growth, achieve social justice, exercise environmental stewardship and strengthen governance.*

*Ban Ki-moon*


## Message

I feel extremely joyful to know that ‘Public Financial Management (PFM) Handbook for Union Parishads’ is finally coming out as a published document. The handbook, prepared by the joint endeavors of the Institute of Public Finance Bangladesh (IPF) and the Sharique-implemented by the Helvetas Swiss Intercooperation, will provide the government and non-government stakeholders of Ups with the useful insight that is required for an advanced understanding of PFM issues at the local level.

As we know, the constitution of Bangladesh has considered the UPs as an integral part of the overall governance with the responsibility to deliver basic public services to the doorsteps of the people and undertake the functions relating to the preparation and implementation of plans involving economic development at the local level. To raise the capacity of the UPs to deliver and manage the public services and implement development activities, Ups need to enhance their financial management capacities substantially. This handbook has not only explained how UPs’ day-to-day activities is generally carried on but also analyzed how fair and sound PFM should be practiced based on international best practices.

The book covers the whole processes of PFM cycle (also known as the budget cycle in practice): starting with strategic development planning, carry on with budget formulation, budget implementation and procurement, and conclude with accounting, reporting, audit, and public scrutiny, All these concepts have been tried to be presented in the UP context of Bangladesh. On top of that, there has been an attempt to present the national government’s PFM practice to some extent. Some concepts like estimation technique of fiscal variable such as revenue have got orientation in the local government level in Bangladesh through this handbook. I believe readers would get an overall picture of current PFM practice at UPs and some future reform directions.

Finally, I would like to thank the IPF and Sharique for drafting and finalizing this handbook. I also want to extend my special thanks to all who were engaged to review and editing process.

  
17.09.2020  
Abdul Rouf Talukder  
Finance Secretary

## Message from the Embassy of Switzerland in Bangladesh

Switzerland's overall goal in Bangladesh is to bring about a more equitable society that enjoys inclusive and sustainable growth, aligned with the 2030 Agenda of the United Nations, the Government of Bangladesh's 7th and 8th Five-Year Plan and the Perspective Plans (2011-2020 and 2021-2041). Through its agency for international cooperation, SDC, Switzerland supports programmes in the areas of democratic governance, safer migration and income and economic development, and contributes to the international humanitarian response to the Rohingya refugee crisis, through Swiss Humanitarian Aid. Moreover, Switzerland supported several COVID-19 response initiatives, through the existing programmes and by mobilising additional resources.

The Constitution of the People's Republic of Bangladesh underscores the importance of local governance, which is strongly reaffirmed through a number of reform initiatives and the importance is further reiterated in the main strategic policy document of the Government of Bangladesh, the Seventh and Eighth Five Year Plan. Switzerland supports local governance reforms, at different levels, to establish strong and accountable local government structures, which strengthen public service delivery and promotes broader participation in decision-making.

Since 2006, through the SHARIQUE project, Switzerland has been supporting initiatives to facilitate the better functioning of union parishads and enabling better public service delivery to citizens. These initiatives include capacity development of citizens and union parishad members and staff and equipping the national training institutions with better training curricula. SHARIQUE has also facilitated partnerships with central government institutions such as, the Institute of Public Finance (IPF) and the National Institute of Local Government (NILG).

It is encouraging to see that, in partnership with SHARIQUE, the IPF has developed a training hand book on public financial management. We hope that this initiative will make a positive contribution to enhancing the understanding and knowledge of current public financial management practices at the local government level. Experiences from the local level can also be used to inform and contribute to policy reforms at the national level.

On behalf of the Embassy of Switzerland, I would like to thank all colleagues who have contributed to develop this hand book and hope that our joint efforts will continue to enhance transparency of the union parishads' activities and accountability towards the citizens of Bangladesh.



Head of Cooperation/Deputy Head of the Mission  
Embassy of Switzerland, Bangladesh

## Preface

Strengthening local government institutions has been an overriding agenda of the development pursuit of Bangladesh since independence. The Constitution of the People's Republic of Bangladesh, while underscoring the importance of local governance, provides a basic framework of a local government system facilitating effective participation of the people. An effective Local Government system is crucial for conceptualizing and implementing a pro-poor development agenda, widening participation in decision making and ensuring that resources are targeted to constituents where they are most needed.

The Union Parishads (UPs) among the local government institutions (LGIs) in Bangladesh, are uniquely placed to take basic public services to the doorsteps of the people at the grassroots. In order to raise the capacity of LGIs to deliver and manage their resources, there have been successive reform interventions by the Government with support from its development partners. These interventions include inter alia, enactment of enabling laws; provision for flow of funds; building infrastructure; and penetration of information technology. It is to be noted that the enabling legal and regulatory framework has broadened the responsibilities and jurisdictions of LGIs, in particular those of UPs.

The Local Governance Programme - Sharique began its journey in 2006 and has stepped into its fourth phase (2017- 2020) having successfully implemented its agenda in Phase I, II and III (2006-2016). The principal aim of this programme is to address poverty at the grassroots level through improved local governance. Sharique supports local citizens (demand side) by letting them know and understand about their rights and instilling them with confidence to engage with UPs. On the supply side, Sharique strengthens local government at the Union level so that they can operate with enhanced capability, responsiveness and accountability.

Sharique in its third phase drew up an implementation strategy, which focussed on an integrated approach to local governance, by linking actions and results across three levels of interventions (micro, meso and macro). The goal of this phase of the programme was to contribute to the empowerment of local citizens to make and implement inclusive, gender-sensitive and pro-poor collective choices about their lives and livelihoods through more democratic, transparent, inclusive and effective local government systems.

Derived from this strategic focus, emphasis was laid on: (i) a systemic approach to local governance; (ii) interlinking the different tiers towards more responsive, inclusive and coordinated local development; and (iii) harnessing operational experience and evidence towards a more conducive and functional local governance system and framework.

In this context, one of the objectives for Sharique was to improve the financial management capacity of the UPs. To meet this objective, Sharique developed a comprehensive capacity building package to strengthen the capacity of local governance actors so that they can effectively manage their finances along the cycle of annual planning and budgeting.

This publication is the outcome of a series of training interventions made through the design of a training course on Local Government Public Finance Management for the UPs. Developed by the Institute of Public Finance (IPF) and Sharique, the training curriculum was found to be highly effective in building the capacity of UPs. The training modules developed in line with the various stages of the PFM cycle were tested through pilot training before being cascaded down at the field level. Over a period of two years, Sharique delivered the PFM training courses to a total of 5787 participants from across 207 UPs of 4 districts (Rajshahi, Chapainawabganj, Sunamganj and Khulna).



More recently, under Phase IV of Sharique, PFM training for UPs has been extended to all UP Chairmen and Secretaries in Gaibandha and Barisal districts, and also to staff of the National Institute of Local Government (NILG), the National Academy of Planning and Development (NAPD), the Bangladesh Rural Development Board (BRDB), the Finance Division, Ministry of Finance (MoF) and Local Government Division (LGD).

The drafting of the manual has seen some interesting twists. The initial draft prepared by Stefan Pfäffli and Ranjit Kumar Chakraborty was examined by a panel of experts from the Finance Division, led by Sirazun Noor Chowdhury, Joint Secretary, Finance Division. It was observed that the draft manual though was an elaborate treatise on PFM in the local government (Union Parishad) perspective, the Bangladesh context needed to be reflected more in detail. The panel recommended to complete the manual on the basis of their comments. Subsequently another panel from IPF re-examined the draft text, purged it and enriched it with relevant local content in collaboration with the initial authors. David Morley, Senior Team Leader at Helvetas attended all the sessions of the panel and made important contributions. Thus, the final handbook is the outcome of the joint efforts of Stefan Pfäffli, Ranjit Kumar Chakraborty and the panel of IPF experts. It is reasonably expected that the jointly prepared handbook would live up to the expectation for the need of a comprehensive handbook on UP PFM and prove to be useful to all categories of users.

With the publication of this Handbook, the journey that began with the agenda of building capacity of UPs in 2014 under the able leadership of Lilia Tverdun, the then Director of Sharique, will come to an end. This publication would not have been possible without the persistent endeavours and dedication of the Sharique team working both at the headquarters and the field, in particular, Tirtha Sarathi Sikder, National Coordinator and Hosne Ara Begum, Public Financial Management Specialist who not only followed up the progress but also provided very useful insights during development stage of this Handbook to make it comprehensible for the local users. Finally, our thank also goes to David Morley, Senior Team Leader at Helvetas in Dhaka, who supported the completion of this handbook.

We would like to place on record our sincere appreciation to both main authors of this Handbook, Prof. Stefan Pfäffli and Ranjit Kumar Chakraborty, for presenting and explaining major PFM processes and requirements for the local level in the most comprehensible way bearing in mind the need and capacity of the intended audience. We would like to put here on record our utmost gratitude for the subsequent contributions of the IPF panel of experts: Muhammad Aminul Islam; Md. Aminul Islam; Dr Kurshid Alam; and Elish Sharmin, on the basis of the recommendations made by Sirazun Noor Chowdhury, Joint Secretary, Finance Division. Readers will be able to understand international best practices on local PFM with emphasis on the Bangladesh perspectives, as well as raise awareness on what improvements are needed to raise the profile of our PFM practice at the local level.

We believe that the use of this Handbook will ensure a uniform standard of local PFM training across Bangladesh and contribute to the process of local level capacity development for more democratic, transparent, inclusive and effective local government systems. The document will be updated to meet the emerging requirements of the intended users. Any suggestions for further improvement of this publication will be welcome.



Tahmina Begum  
Director General  
Institute of Public Finance Bangladesh  
Dhaka

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## List of Abbreviations and Acronyms

ADP	Annual Development Plan
BBG	Basic Block Grant
CIPFA	The Chartered Institute of Public Finance and Accountancy
CPTU	Central Procurement Technical Unit
CS	Collective Services
DC	Deputy Commissioner
DS	Deputy Secretary
5YP	5 Year Plan
FY	Fiscal Year
GFR	General Financial Rules
GoB	Government of Bangladesh
IMF	International Monetary Fund
IPF	Institute of Public Finance Bangladesh
IS	Individual Services
n.e.c.	not elsewhere classified
LGD	Local Government Division
LGSP	Local Governance Support Project
MTBF	Medium-Term Budgetary Framework
NAPD	National Academy of Planning and Development
NGO	Non-Governmental Organisation
NILG	National Institute of Local Government
NOA	Notification of Award
OCAG	Office of the Comptroller and Auditor General
OTM	Open Tendering Method
PBG	Performance Based Grant
PPR	Public Procurement Rules
R&D	Research and Development
RFQ	Request for Quotation
SDC	Swiss Agency for Development and Cooperation



SDP	Strategic Development Plan
SI	Strategic Issues
SIDA	Swedish International Development Cooperation Agency
SLGDFP	Sirajganj Local Governance Development Fund Project
SWOT	Strength, Weakness, Opportunity and Threat
TK	Taka
UDCC	Union Development Coordination Committee
UNO	Upazilla Nirbahi Officer
UP	Union Parishad
UPOM	UP Operational Manual
VAT	Value Added Tax

# Glossary

<b>Term</b>	<b>Explanation</b>
Accrual Accounting System	An accrual accounting system recognises transactions and events when they occur irrespective of when cash is received or paid. For example, at the end of 2019, a local government outfit bought office stationery to use in 2020. Under accrual accounting, this expense belongs to 2020, not to 2019.
Action Plan	An action plan is a detailed plan outlining actions needed to reach one or more goals which may be specified in a strategic development plan.
Allocative Efficiency	In standard PFM context, allocative efficiency refers to the capacity of government to distribute resources on the basis of the effectiveness of public programs in meeting the strategic objectives. It entails the capacity to shift resources from old priorities to new ones, and from less to more effective programs.
Basic Block Grants (BBG)	Basic Block Grants (BBG) is a formula-based fiscal transfer system to UP under the Local Government Support Project (LGSP) comprising 85% of total grants to a project. All UPs, irrespective of audit opinion, get 25% of a flat amount of BBG allocation equally. The remaining 75% of the BBG allocation is linked to the audit compliance of the UPs meaning that UPs that have clean audit reports receive an allocation following the ratio of 90% for population and 10% for geographical area. The fund is transferred directly to the UP-bank account in two tranches in a FY.
Budget	A budget is a compilation of planned revenue and expenditure used to achieve specific objectives. If we talk about the budget of a UP, it includes revenue and expenditure for all its activities over a fixed period of time. Conventionally, it covers a time horizon of one year; however, at the national level in Bangladesh, budgets are also prepared in the medium-term time horizon covering three years.
Cash-Based Accounting System	A cash-based accounting system measures the flow of cash resources. It recognises transactions when cash is received or paid. For example, at the end of 2019, a local government institution bought office stationery to use in 2020. Under cash-based accounting, this expenditure belongs to 2019; not to 2020.
COFOG	COFOG - Classification of the Functions of Government - is an international classification standard for government expenditure. COFOG groups the functions of government in a systematic way into ten main functions. Each main function is further broken down in groups and classes.

Fiscal Discipline	Fiscal discipline is the close alignment of expenditure with revenue; generally speaking, it denotes keeping overall spending within available resources limits.
Five-Year Plan	A 5YP of a UP is a document that shows the realistic development goals of a UP, and priority strategic actions to achieve these development goals.
Gender Responsive Budgeting	Gender responsive budgeting (GRB) integrates gender equality into public finances through the budget process. GRB aims to improve resource allocations to enhance gender equality and women's empowerment.
Local Governance Support Project (LGSP)	Local Governance Support Project (LGSP), started in 2006, is a reform project that aims to empower UPs by giving them greater authority in the decision-making process. In line with the government's decentralization process, LGSP-1, LGSP-2 and LGSP-3, introduced a number of systems such as direct fiscal transfers to the UP-Bank Account, fiscal transfers depending on audit reports and a performance assessment of PFM process quality and resource mobilisation.
Medium-Term Budget Framework	The Medium-Term Budget Framework (MTBF) allows governments to widen the horizon for fiscal policy making beyond the annual budget calendar to align policy, resource availability and performance in a strategic way while maintaining fiscal discipline.
MBFs	Ministry Budget Frameworks
Operational Efficiency	When services and projects are implemented with appropriate controls in place to avoid wastage of resources, we can say resources are used efficiently and operational efficiency is achieved. If resources are used efficiently, more goods and services are available for the community for the same amount of money.
Performance-Based Grants (PBG)	Performance-Based Grants (PBG) are often used in the context of a formula-based fiscal transfer system as it is used under the Local Government Support Project (LGSP). Allocation of a PBG depends on the UP's performance against different indicators including growth of local taxes, transparency and accountability, people's participation in spending, planning and budget formulation, and reporting.
Public Procurement	Public procurement is the acquisition process for goods, works and services by a public entity using public funds. In UPs, procurement is regulated by the provisions laid down in the Public Procurement Rules (2008, section 61 to 82 and annex) and in the Union Parishad Operational Manual (2012, section 4).
Strategic Development Plan	A Strategic Development Plan, in the context of UP, is the articulation of the development goals in the medium or longer term and the means of achieving these.
Ward Shava	The Ward Shava is a council at Ward level of the Union Parishad comprising all individuals in the voter list of a Ward.

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## CHAPTER

# 1

## Introduction

The PFM handbook aims to make readers familiar with the processes of Public Financial Management (PFM) at the UP level. It has been prepared for PFM trainers at Union Parishad (UP) level. However, it could also be useful for self-study and improved understanding of PFM issues at the local level for a variety of government and non-government stakeholders. The handbook is prepared as complementary to the contents of IPF/National Institute of Local Government (NILG) course-based training materials. Together, they form the PFM training package for UPs in Bangladesh.

The handbook will show how fair and sound PFM should be practiced in the day-to-day functions of UPs. PFM practices are fair if they adhere to the principles of transparency, participation, predictability, efficiency, effectiveness, and accountability. Sound PFM practices comply with the rules of budget discipline considering what is affordable. The handbook lays emphasis on good PFM processes that are fundamental

The handbook builds on PFM training modules developed in the framework of the Local Governance Programme-Sharique, implemented by HELVETAS Swiss Intercooperation and financed by the Swiss Agency for Development and Cooperation (SDC). Development of the training modules started with a UP PFM needs assessment conducted in 2014. Following this, an outline design workshop took place attended by specialists from the Institute of Public Finance Bangladesh (IPF) and Finance Division, Ministry of Finance as well as concerned

Sharique consultants and staff and the two authors of this handbook. Subsequent module preparation was led by IPF: each module was field-tested and improved. To ensure consistency and coherence between modules and to ensure uniform quality standards, the modules were reviewed by Sharique consultants. To complete the journey, and to ensure that the training modules and their contents are embedded within Government of Bangladesh (GoB) UP training systems, NILG and IPF worked together between 2018 and 2020 to develop a final and updated suite of PFM training modules.

New guidelines on Five-Year Planning have been developed by the National Academy of Planning and Development (NAPD) in 2019, and these have been incorporated into this handbook.

The handbook consists of eight chapters, the first two of them are introductory, the subsequent six chapters are structured around six PFM training modules.

The introduction in the first chapter provides a short overview of the content of this handbook, while the second chapter explains the context of local governments in Bangladesh at Union Parishad level; The chapter points out the functions of UPs, the PFM cycle<sup>1</sup> in the context of UPs, and it describes the existing formula-

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<sup>1</sup>Instead of the term PFM cycle used in this handbook, the term budget cycle is also used in practice.

based system of transfers to Union Parishads.

Chapters three to eight of the PFM training handbook follow the PFM cycle; they start with strategic development planning, continue with budget formulation, budget implementation and procurement, and they conclude the PFM cycle with accounting, reporting, audit and public scrutiny. An additional chapter is dedicated to budget analysis, a technique that can be used at different stages of the PFM cycle. Chapters three to eight can be considered as the core chapters of this handbook.

The third chapter is dedicated to strategic development planning. It covers the rationale for strategic development planning, the legal requirements, the structure and content of a strategic development plan, the participants and steps for SDP elaboration, and it concludes with communication, implementation and monitoring of the strategic development plan.

The fourth chapter covers budget formulation. Besides describing the budget preparation process from a strategic top-down and operational bottom-up perspective, special issues are addressed such as budget comprehensiveness, revenue estimation techniques, project costing, and gender-responsive budgeting.

The fifth chapter deals with budget implementation. It includes revenue mobilisation and expenditure management, asset management, internal control and audit and bank reconciliation.

From a technical point of view, public procurement is a sub-process of budget implementation. However, in view of the importance of the procurement process, a special chapter is dedicated to it. The sixth chapter on public procurement starts with explaining the specific procurement terminologies and the procurement objectives; moreover, it addresses the risk of corruption, describes the different procurement methods and when to apply them; finally, it describes the procurement process.

The seventh chapter considers accounting, reporting, external audit and public scrutiny. Finally, in the eighth chapter, budget analysis together with its purpose and content as well as methodologies to conduct budget analysis are explained.

It is to be noted that the extracts from different enactments, rules and orders relating to UP governance that have been presented in the handbook are unofficial English translation from original Bangla. In the event of any confusion, the original enactments, rules and orders in Bangla shall prevail.



## CHAPTER

# 2 Union Parishads in Bangladesh and Public Financial Management

Chapter 2 is dedicated to the context of Union Parishads. At the beginning, the chapter points out the legal mandate of UPs. It also discusses the different stages of PFM that could be used in UPs. Then, it explains an improved financing mechanism of UPs with formula-based block grants, and it shows the advantages of this transfer system for UPs.

## 2.1 Legal Mandate of UPs

The areas of responsibilities of a UP are defined in section 47 of Local Government (Union Parishad) Act, 2009. They are further specified in subsection 1 of the second schedule of this act.

Section 47 of the Local Government (Union Parishad) Act, 2009 enumerates four main functions of Parishads as follows:

- (a) matters relating to administration and establishment;
- (b) maintaining public discipline;
- (c) delivery of public welfare services; and
- (d) preparation and implementation of the local economic and social development plan.

The detailed list of UP responsibilities as specified in the second schedule of the Local Government (Union Parishad) Act 2009 is presented in Box 1<sup>2</sup> below:

### Box 1: List of UP responsibilities

THE SECOND SCHEDULE (See Section 47) FUNCTIONS OF UNION PARISHADS
1. Preparation of development of plans of various time horizons including the five-year plan
2. Development, protection and maintenance of rural infrastructure.
3. Undertaking activities relating to education, primary and mass education
4. Implementing activities relating to health and family planning.
5. Undertaking necessary measures for the development of agriculture, fisheries, livestock and other economic development.
6. Undertaking necessary measures for epidemic control and disaster management.
7. Carrying out assessment and collection of taxes, fees, tolls, etc.
8. Accomplishment of necessary measures relating to resolution of family conflicts, women and child welfare.

<sup>2</sup>You can also consider Annex 1 where the UP functions are regrouped in line with the COFOG classification used internationally.

9. Taking necessary initiatives and extending cooperation in organising sports, games, social and cultural events etc.
10. Undertaking necessary steps for environmental development and conservation.
11. Ensuring necessary measures for maintaining law and order.
12. Facilitating registration of birth and death.
13. Taking care of public places, open spaces, gardens and play grounds.
14. Electrification of the UP roads and public places.
15. Ensuring tree plantation and nurturing; protection of trees from stealing and damages.
16. Ensuring operation and maintenance of the burial grounds, cremation grounds, public meeting places and other government property.
17. Prevention of unauthorized access to public streets, highways and public places, and prevention and abatement of nuisance on those places and their causes.
18. Prevention of damages or destruction of public streets, highways.
19. Ensuring collection, removal and management of waste.
20. Regulation of offensive and illegal trades.
21. Removal and regulation of carcasses of dead animals and regulation of the slaughtering of animals.
22. Regulation of new houses, building construction and reconstruction and unsafe building structures.
23. Management and maintenance of wells, water pumps, tanks, ponds and other sources of water supply.
24. Preventing the contamination of the sources of water supply for drinking and prohibition of public health.
25. Prohibition and regulation of bathing, washing of cloths and watering of animals at or near wells for drinking water, ponds or other sources of water supply.
26. Prohibition and regulation of the steeping of hemp, jute or other trees in or near to ponds or other sources of water supply.
27. Prohibition and regulation of dyeing or tanning of skins within residential areas.
28. Prohibition and regulation of excavation of earth stones or other material within residential areas.
29. Prohibition and regulation of establishment of brick kilns, potteries or other kilns within residential areas.
30. Undertaking necessary measures and providing all possible support to Government to encounter fire incidents, flood, hailstorm, earthquake or other natural disasters.
31. Preservation of list of the widows, orphans, poor and destitute and providing them support.
32. Encouraging cooperative movement and rural crafts.
33. Undertaking measures for additional food production.
34. Regulation and maintenance of cattle pounds.
35. Provision of first-aid centres.
36. Undertaking measures for security, convenience or facilities for Union inhabitants.
37. Promoting application of e-governance.
38. Extending cooperation to other organizations engaged in work similar to Union Parishad.
39. Any other responsibilities as the Government from time to time devolves.

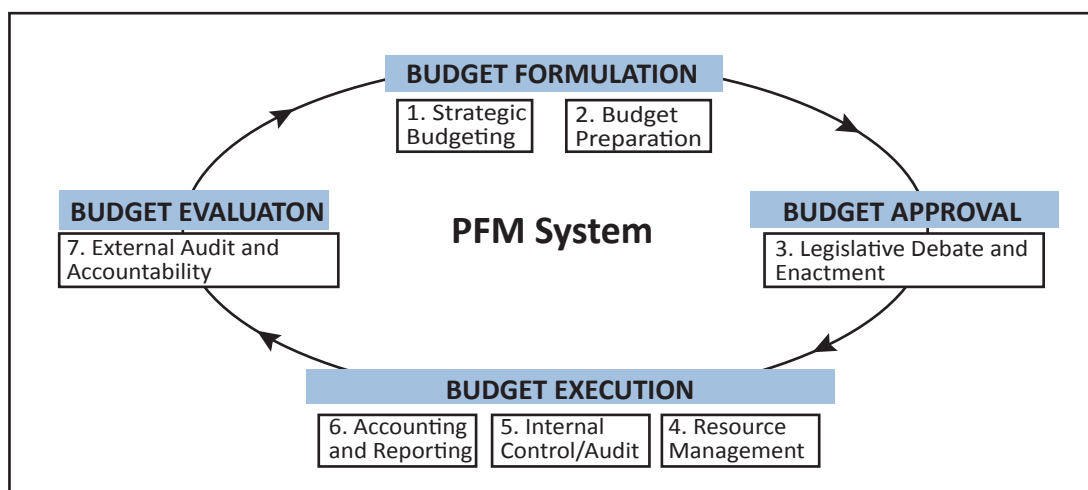
In addition to the functions officially assigned to the UPs, Annex 4 of the Local Government (Union Parishad) Act 2009 spells out many specific functions and institutions that could be transferred from government directly to the UPs. This optional transfer of functions and institutions covers the following areas: engineering of local infrastructure, agriculture, health inspection, family welfare, primary education, livestock and fisheries, social work, etc.

## 2.2 Public Financial Management in the Context of UPs

In general sense, Public Financial Management (PFM) is the way governments raise and use public funds for carrying out state functions e.g., law and order, education, health, social welfare, infrastructure etc. to perform its constitutional obligations and commitments made in policy documents, and manage the immediate and medium to

long-term impact of such spending on the society and economy as a whole. The government raises its revenue from taxes, fees charged for various services (car registration, passport, etc.) and foreign and domestic borrowings provide deficit funds. Overall PFM system is seen as a cycle of processes, as Andrews et al. (2014) argued that PFM systems are entrenched in—and impacted by—broader sets of processes, systems and institutions. Though such processes may vary across the countries, the PFM cycle has four main stages: budget formulation, budget approval, budget execution and budget evaluation. Among them, the budget formulation stage has two functional stages: 1. Strategic Budgeting, and 2. Budget Preparation; and the budget execution stage contains three functional stages: 1. Resource Management, 2. Internal Control/Audit, and 3. Accounting and Reporting. Based on Andrews et al. (2014, p.2), the simple view of the PFM cycle is shown below in figure 1.

Figure 1: The stages of a PFM System – a simplified view



In the context of UP, PFM be defined as the way to raise, receive and use funds for carrying out UP functions detailed in UP Act, 2009

and policy documents. Interestingly, all the PFM processes and stages applicable for national government as shown in the above

figure are applicable in local government system with necessary adjustment.

In UPs, we can identify eight PFM processes:

1. Strategic Development Planning;
2. Budget Formulation;
3. Consultation and approval by UP;
4. Resource Management;
5. Internal Control and Audit;
6. Accounting and Reporting;
7. External Audit; and
8. Budget Analysis.

In this handbook, PFM for UPs has been discussed around these processes. Though PFM is generally seen as a structured and integrated process, it cannot be regarded as definitive for every country irrespective of their development status.

## 2.3 Present Local Public Financial Management Reform Initiatives

The launching of the Local Governance Support Project (LGSP) has been a major push for reform in local PFM of UPs in Bangladesh. It is summarised below and the lessons learned are reflected subsequently.

### 2.3.1 Local Governance Support Project

Drawing lessons from the success stories of the pilot initiatives of the Sirajganj Local Governance Development Fund Project (SLGDFP) and the Local Governance Support Projects (LGSP-1, LGSP-2 and LGSP-3), LGD emerged with an improved and enlarged canvas for institutionalizing local governance reform in the UPs. Starting with nearly 1100 UPs, the LGSP III covered gradually all UPs for strengthening their capacities to deliver better services to the people including engaging the people themselves in the process.

In line with the government's decentralization

process, LGSP-1, LGSP-2 and LGSP-3, as inbuilt design of the projects, introduced a number of systems, which were milestone reforms in the process of empowering UPs as local government bodies by giving them greater authority in the decision-making process. The reforms also entrusted the UPs with better control over their resources. Major highlights of the reform agenda under LGSPs are as follows:

**Direct Fund Transfer to UPs through Bank Account:** LGSP-1, LGSP-2 and LGSP-3 reinforced the idea of direct fund transfer from the LGSP Project Account to that of the UP Account. By doing so, LGSP proved that UP is capable of implementing demand driven schemes using the fund.

**Formula based UP Grant:** The introduction of a formula-based grant for UPs was also an important innovation of LGSP. The formula followed under LGSP-1 was based on a single criterion, the population size of UPs. LGSP-2 has added another criterion, the geographical area of UPs; this practice was continued under LGSP-3. The formula-based Basic Block Grant (BBG) increased the predictability and transparency of LG financing.

**Disbursement of Fund in two tranches:** LGSP has introduced the transfer of BBGs to UPs in two tranches instead of four tranches which is the common government system for transferring government money to any pay point. This has empowered UPs in timely planning and implementing the schemes.

**Regular Audits of Union Parishad by Private Audit Firm:** The mandatory annual audit of all UPs by private audit firms (chartered audit firms) was introduced under LGSP with a view to ensuring transparent financial transactions in compliance with laid down financial rules. This has also contributed to the strengthening of UPs as local government institutions. UPs have gradually adapted well with the audit culture on a regular basis in terms of preparing for them well by keeping all necessary documents and records.

**Announcing three years' indicative ceiling of BBG in advance:** The introduction of three-year indicative ceilings for UPs has been in place from the very start of LGSP-3 following the guidelines of the Medium-Term Budget Framework (MTBF). Under the formula-based BBG allocation system, calculation of the indicative ceiling for UPs in advance is possible, although it could be subject to change in case of some non-compliance issues and/or some other practical reasons. Announced indicative ceilings were updated every year. This helps UPs to plan and also to identify the schemes to be implemented in advance as they know the indicative size of BBG to be received.

**Restructuring the formula-based fiscal transfer:** The population-based criterion for fiscal transfer followed by LGSP-1 has further been restructured under LGSP-2 by adding the criterion of geographical area of the UPs to make BBG allocation among UPs more objective and equitable. Both criteria were used also under LGSP-3 for BBG calculation. In this formula-based fiscal transfer system, the BBG is allocated following the ratio of 90% for population and 10% for geographical area. As the BBG allocation has been linked to audit compliance of the UPs, provision has been kept so that no UPs are absolutely deprived of BBG allocation in case of failure in audit compliance. So, all UPs, irrespective of the audit opinion, get 25% of flat amount of BBG allocation distributed among UPs equally. The remaining amount of 75% is divided only to those UPs that have unqualified audit reports following the formula-based fiscal transfer as stated above. In addition, a Performance Based Grant (PBG) is allocated to UPs which have passed the performance assessment. This has widened the ability of UPs to respond to local needs and to better manage their funds, although scope remains for further improvements.

Specific features of the Block Grant allocation system are as follows:

**30% of allocation earmarked for schemes selected by women:** With a view to enhancing women's participation in the decision-making process, 30 % of BBG and PBG allocation is earmarked for women. It ensures that 30% of the schemes to be implemented by BBG and PBG money should be prioritized by women.

**Giving a discretionary power of using 10% of BBG and PBG to UP functionaries:** Based on the implementation experience of LGSP-2, a discretionary power of using 10% of BBG and PBG is given to UP functionaries under LGSP-3 for facilitating the scheme preparation as well as scheme implementation. The Union Parishad Operational Manual (UPOM) has outlined a number of areas outside the scheme for using the discretionary 10% funds by the UPs. This discretionary power has been very instrumental for UPs, especially for getting necessary technical support where they may have capacity constraints around procurement, accounts, data entry, preparing estimates, etc.

**Ensuring Disclosure of Information at UP Level:**

In order to ensure transparency and accountability in the activities of UPs, LGD has formulated a set of guidelines entitled "Guidelines for Information Disclosure by Union Parishad". This guideline contains: citizen charter; compliance with the provisions contained in the "Right to Information Act" in respect of disclosing information to the citizens; use of websites; budget session; Ward Sabha; list of beneficiaries etc. LGD has also issued a circular to all the relevant stakeholders including Union Parishads to comply with the provisions of the guidelines regarding disclosure of information by Union Parishads. In addition, LGSP-3 has provided clear guidance in this regard through its Union Parishad Operational Manual (UPOM). In the UPOM, it has articulated the mechanisms of public disclosure of UP performance through a UP notice board of specified size at UP office and scheme sites, and other locations.



### Instructions to all branches of Sonali Bank Ltd:

In order to ensure the proper utilization of all funds under LGSP-3 transferred to Union Parishad, and to improve the UP financial management system, the Project Management Unit ensured that all the UPs should follow the instructions and the branches of Sonali Bank Ltd issued by the Head Office of this bank. The instructions focus on the following areas:

- No money shall be drawn against any cheque other than crossed cheque/account payee cheque;
- Any cheque must be signed by the Chairman of the concerned Union Parishad, one Woman Member and Union Parishad Secretary;
- There must be a Work Order in the case of a Request for Quotation (RFQ) and Open Tender Method (OTM), and in the case of Direct Procurement and Earth Works, there must be a copy of the contract signed between Union Parishad Chairman and Chairman of the concerned Ward Committee.
- There must be a certificate/report from the concerned Scheme Supervision Committee stating that the scheme has been implemented properly; and
- No money shall be withdrawn/debited from the Bank Account against any single cheque which has been issued to withdraw all the money at a time. The cheque must be issued against specific implemented schemes with proper documents as mentioned above.

### 2.3.2 Good Practices and Learnings from LGSP Reform Initiatives

The good practices put in place as a result of direct fund transfer to UPs through Bank Accounts have been shown as follows:

- Formula based Basic Block Grant BBG to UPs.
- Disbursement of BBG fund in two tranches.
- Regular annual financial audits of UPs by deploying private audit firms.
- Announcing three- year indicative resource ceilings of BBG in advance under MTBF.
- 30% of allocation earmarked for development schemes selected by women.
- Online monitoring of project activities.
- Representatives from women in every committee related with UP.
- Discretionary power of using 10% of UP grants by UPs.
- Screening of environmental and social safeguard compliances before and after implementation of schemes.
- Practicing participatory planning and budgeting through the involvement of citizens in Ward Shava and Open Budget Meetings.
- Involvement of Field Administration in implementation monitoring of UP activities.
- Compliance of procurement methods in implementation of development schemes.



## **2.4 The Main Points of this Chapter**

In chapter 2 we saw that the functions and responsibilities of UPs are mandated by UP Act, 2009. UPs collect and use funds to implement these functions and fulfil their responsibilities. PFM is used to manage the funds along the different core stages and processes of the PFM cycle. The LGSP initi-

ated important PFM reforms, such as the formula-based system of transfers to Union Parishads; it contributed to the improvement of a series of important PFM processes.

The next chapter will discuss the strategic development planning, the starter of the PFM cycle, in the context of UPs.

## CHAPTER

# 3

## Strategic Development Planning

The chapter starts with explaining the rationale for undertaking strategic development planning; then, it elaborates on the legal requirements for strategic development planning at local level in Bangladesh. It also discusses the structure and content of a strategic development plan (SDP), identifies the participants and steps for SDP elaboration, and it concludes with communication, implementation and monitoring of the SDP.

As we will see further down, the strategic planning document of local governments in Bangladesh is the Five-Year Plan (5YP). For more general considerations on strategic planning of local governments, the term SDP will be used, while the term 5YP will be used when the specific application in Bangladesh is considered.

### 3.1 Rationale of Strategic Development Planning

A strategic development planning document for local governments serves several important purposes (Pfaffli, 2012, p. 52):

**Agreement on desired future**

During a participative elaboration process of the SDP, stakeholders elaborate a shared view of the desired future of a local government institution, e.g., of a UP. This includes a broad consensus on the strategic development objectives of the UP.

**Identification of strategic priorities**

The SDP identifies the important policy issues for the Union; it provides guidance for the allocation of scarce resources in the budget formulation process of the UP.

**Promotion of sustainable partnerships between actors within and outside the UP**

It makes it easier to convince potential development partners, private actors or donors to get involved in UP development activities if there is a clear and well communicated development plan.

**Performance improvement: more effectiveness of resource allocation based on priorities**

If resources are allocated in a way that serves best the strategic priorities and are not wasted for all kinds of less important areas, there will be more progress towards the desired future.

**More transparency on future policies and better communication between elected representatives, employees, citizens and other stakeholders**

Transparency is a key feature of good governance. A well formulated SDP enables the UP to communicate the long-term policy objectives and to justify budgetary decisions. Furthermore, a well-communicated and shared strategic plan, elaborated in a participative manner, fosters alignment and support of stakeholders for the development policy of a UP.

**Improved accountability for managing limited financial resources more effectively and efficiently**

Accountability is another key feature of good governance. Therefore, the implementation of the SDP needs to be monitored periodically and in an open manner. Having done this, the UP is in a better position to explain to local citizens and other stakeholders the development progress that was made, and stakeholders may ask more relevant questions. This process of holding the UP accountable leads to better development results; scarce resources of the UP may be used more effectively and efficiently.

## 3.2 Strategic Development Planning at the UP Level

The SDP of a local government is a prerequisite for goal-oriented development. When government and non-government stakeholders are well-aligned and stand behind the development goals, communities progress faster towards these development goals.

A good SDP has several essential features. It includes a realistic but at the same time also a challenging action plan which motivates the UP to undertake effective steps towards the development goals. The SDP should be shaped by the desire of change and filled with an innovative and creative spirit. Moreover, it must rely on an accurate evaluation of the current situation and identify eventual risks and uncertainties. Participation of all stakeholders is highly important to create ownership. Strategic issues to be addressed and the projects included in the action plan must be prioritized; however, the SDP needs to be flexible and should be subject to review to reflect changes in the environment. Finally, the SDP must be a concise and clear document which is easy to understand and which can be used for a wide-range of communication purposes (Pfäffli, 2012, p. 53).

When the SDP for an organisation is prepared, it is important to be aware of the area of administrative jurisdiction of this organisation. This is also the case for UPs. Primarily, the SDP for a UP, in particular its 5YP, includes development activities or projects that belong to the area of responsibility of the UP as described in section 2.1.

### 3.2.1 Legal Requirements for Strategic Development Planning by UPs

Strategic development planning is the foremost function of UPs; it is laid down in the second Schedule of the Local Government (Union Parishad) Act, 2009. It stipulates that the UPs shall prepare “development plans of various time horizons including five-year plan”. This provision is further specified in the Union Parishad (Development Plan Preparation, Control and Implementation) Rules, 2013. Rule 3 of these rules stipulates that:

- (1) The Union Parishad shall formulate a Five-Year Plan and Annual Development Plans for implementing its development activities.
- (2) The Union Parishad shall prepare its Annual Development Plan every year, following its Five-Year Plan.

- (3) The Union Parishad shall include such projects in the Development Plans on a priority basis as they can implement them in an efficient and effective way and the projects have drawn people's demand/attention.
- (4) All projects that have been transferred to the Union Parishad by the Government or Zila Parishad or Upazilla Parishad, shall be included in the lists of the development plan.
- (5) All projects, including those of the government, that are being implemented, proposed for implementation or demand action for implementation within the Union Parishad, can be included in the development plans of the Union Parishad.
- (6) All projects that are being implemented by different Non-Governmental Organizations (NGOs) and demand action for implementation within the jurisdiction of the Union Parishad can also be included in the development plans.
- (7) The development plan should mention which projects will be implemented by which agencies.
- (8) The development plans must reflect the long-term goals and objectives and the five-year plans of the government.
- (9) All development activities or projects on infrastructure development, services, social development and all development activities or projects to be implemented by non-governmental organizations or individual entrepreneurs shall be included separately in development plans.
- (10) A financial estimate of the concerned plans shall be prepared along with the formulation of development plans.

The UP 5YP needs to be broken down each year into the annual development plan (ADP) together with the annual budget of the UP. The 5YP must be very comprehensive covering all classes of development projects affecting the UP, i.e., it may or should also include development projects of national government, the Zila Parishad, non-governmental organisations (NGOs), as well as those of private actors. The FYP must be based on UP development objectives. However, these objectives must reflect the development priorities of national government. Furthermore, the 5YP should identify who should implement a project; it should be accompanied by a cost estimation for the planned development projects included in the 5YP.

### **3.2.2 Structure, Contents and Characteristics of a UP Five-Year Plan**

Strategic planning at local level means that resources are systematically directed towards the medium and long-term development goals of the community; in the context of Bangladesh, these are the development goals of the UP. Therefore, the SDP of a UP needs to determine realistic development goals first and then identify the core strategic action lines to achieve these development goals.

A good 5YP has several essential features. It includes a realistic but at the same time also a challenging action plan which motivates the UP to undertake effective steps towards the development goals. The 5YP should be shaped by the desire of change and filled with an innovative and creative spirit. Moreover, it must rely on an accurate evaluation of the current situation and identify eventual risks and uncertainties. Participation of all stakeholders is highly important to create ownership. Strategic issues to be addressed and the projects included in the action plan must be prioritized; however, the 5YP needs

to be flexible and should be subject to review to reflect changes in the environment. Finally, the 5YP must be a concise and clear document which is easy to understand and which can be used for a wide-range of communication purposes (Pfäffli, 2012, p. 53).

The steps involved in the preparation of a UP 5YP outlined below are adapted from NAPD (2019) 5YP guidance:

### **Step 1: Organisation of the 5YP Preparation Process in the Union Parishad**

Organisation of the 5YP elaboration process should be entrusted to the UP-Planning Committee. Rule 6 of the Union Parishad (Development Plan, Control and Implementation) Rules require that an UP-planning committee shall be established in each UP to prepare the 5YP. It should consist of the following members:

- a) One member nominated by the Parishad who shall be the convenor of the committee;
- b) The Secretary of the UP who shall also be the member-secretary of the committee.
- c) Heads of the line departments at Union level.

The role of the UP-Planning Committee is specified in Rule 7 of the Union Parishad (Development Planning, Controlling and Implementation) Rules, 2013. The UP-Planning Committee has a preparatory role; it includes needs analysis in the Ward Shavas, collection of departmental or sector perspectives and of project proposals from Standing Committees, identification of projects and technical analysis, formulation of plans/blueprints, and determination of priorities.

This UP-Planning Committee should take the responsibility for the operational management of the 5YP elaboration and for the

involvement of stakeholders. The UP-Planning Committee should agree on the methodology for the 5YP elaboration, clarify the roles and responsibilities and prepare the work plan.

The involvement of the concerned stakeholders in the process of 5YP elaboration is crucial for creating ownership. The support of the 5YP depends on the inclusiveness of the 5YP preparation process. The following stakeholders should be invited to participate in the workshops where the 5YP is elaborated:

- UP Chairperson
- UP Members
- UP Secretary
- NGOs and CSOs

To ensure coherence and understanding of the process, the UP-Planning Committee will meet Standing Committee representatives in UP monthly meetings, UDCC meeting (bi-monthly) and Standing Committee meetings (bi-monthly).

### **Step 2: Union Situation Analysis**

The UP-Planning Committee carries out an assessment of the needs, development potentials and proposals in the 9 wards of the Union and considers external factors that could influence the development of the UP.

A situation analysis is not just data collection. It is important to assess the importance of the data collected for the development of the UP. Specific issues to be explored should be as follows:

**General Description:** Information related to: area or boundary; history of the UP; population with distribution into male and female; people with disabilities and ethnic minorities; and number of households with distribution into poor families, and female headed families. This information needs to be distributed ward-wise.

The UP-Planning Committee will assign its Standing Committee for Births and Deaths Registration for collecting this information. It may also need to engage village police to collect some of this information.

**Physical infrastructure:** information related to: road networks, classification of roads, total mileage, bridges and culverts, rivers, canals and other water bodies, habitats and productive areas outside the proper communication network, water-logging, flood and water scarce areas. Road network and water bodies have to be shown with proper maps. UPs need to know and mention key issues and problems related to physical infrastructure.

The UP-Planning Committee will assign its Standing Committee for Rural Infrastructure Development, Protection and Maintenance to lead the process of collecting these data and information.

**Agriculture and irrigation:** Information related to: farm households; classification of farm household on the basis of land ownership; land classification; land under cultivation; land under human settlement or housing; fallow land; forest land; high-low, medium high, flood free, flood prone; agricultural zoning (if any); cropping pattern; irrigation facility and use of agricultural instruments; quantity of production (rice, wheat, vegetables, fruits, flower, etc.). UPs will also need to identify key issues and problems related to agriculture and irrigation.

The UP-Planning Committee will assign its Standing Committee for Agriculture, Fishery and Livestock to collect required information.

**Fisheries:** Information related to: total water bodies; water bodies under fish culture; types of fish grown; fisher folk; fish breeding and fingerlings supply situation; fish culture technology; environmental issues. UPs will also need to identify key issues and problems related to fisheries.

The UP-Planning Committee will assign its standing committee for Agriculture, Fishery and Livestock to collect the required information.

**Livestock:** Information related to: number of cattle, buffalos, goats, sheep rearing households and number of animal population in each category; situation in milk production; types of milk cow people rear; milk production level; fodder and grazing land; veterinary services situation; artificial insemination of animals; poultry birds; chicken and egg production farm; household level poultry farm; duck farm; pigeon and other birds. UPs will also need to identify the key issues and problems related to livestock.

The UP-Planning Committee will assign its Standing Committee for Agriculture, Fishery and Livestock to collect the information.

**Education:** Information related to: education institution wise students; teachers; class wise annual results; institution wise physical facilities; quality of education with defined indicators; number of children out of school; male and female education and school attendance ratio; school-wise stipend programme; situation of School Management Committees (SMCs); sports and cultural activities in the schools. UPs will also need to identify key issues and problems related to education.

The UP-Planning Committee will assign its Standing Committee for Education, Health and Family planning to collect the information.

**Health and family welfare:** Information related to: population and household; population of different age and gender categories; children under 6 years of age; eligible couples; number of pregnant and lactating mothers; government health facilities in the Union; number of doctors and paramedics; how many patients visit the centre daily; what type of treatment the visitors receive;



private health facilities in the Union; birth control and contraceptives supply and services. UPs will also need to identify the key issues and problems related to health and family welfare.

The UP-Planning Committee will assign its standing committee for Education, Health and Family Planning to collect the information.

***Sanitation, water supply and sewerage:***

Information related to: households with safe drinking water coverage, number of deep tube wells, shallow tube wells and hand tube wells; households without safe drinking water; nature of unsafe water; arsenic or other situation; salinity situation, households without sanitary latrine; public toilet system; situation of water contamination; sewerage and industrial waste; indiscriminate use of insecticides etc. UP will also need to identify the key issues and problems related to sanitation, water supply and sewerage.

The UP-Planning Committee will assign its Standing Committee for Sanitation, Water Supply and Sewerage with the responsibility of taking the lead in collecting data and information.

***Social welfare and disaster:*** Information related to: number and types of socio-cultural organizations in the union; number of NGOs working; number of cooperatives and their memberships; total number of safety net programmes operated in the union; safety net programme-wise beneficiary list; poverty mapping of the union; disaster records (flood, drought, Earth quake, river erosion) and victim list. UPs will also need to collect key issues and problems related to social welfare and disaster management.

The UP-Planning Committee will assign its Standing Committee for Social Welfare and Disaster management to collect the information.

***Environmental protection and plantations:***

Information related to: major environmental issues of the Union; conditions of rivers, canals and other natural endowments such as forest and low-lying land and fish sanctuaries; situation of environmental degradation; impact of environment degradation on water, agriculture, food security and human and animal health; scope for afforestation. UPs will also need to identify the key issues and problems related to social welfare and disaster management.

The UP-Planning Committee will assign its Standing Committee for environment development, protection and plantation to collect the information.

***Women and children's development:***

Information related to: women's education; women's involvement in different NGO groups; participation in economic activities; domestic violence; dowry and dower; marriage age; child right and child health; child abuse; child labour; number of cases at UP or village courts; and records of disposal of the cases related to theft, robbery, hijack, eve teasing, acid throwing and dowry. Union Parishad will also need to collect key issues and problems related to women and children development.

The UP-Planning Committee will assign its Standing Committee for Family Dispute Resolution, Women and Children development to collect the information.

***Sports and culture:***

Information related to: sports facilities in the Union (playground, indoor games, school base sports); coaching facility on sports such as football, hand ball, cricket, and hockey; annual sports events; facilities for cultural events; sports and cultural organisations; public library; community halls; open air events; music schools, music as special course in normal schools; drama and theatre; fairs, festivals



and exhibitions. UP will also need to identify the key issues and problems related to sports and cultures.

The UP-Planning Committee will assign its Standing Committee for Culture and Sports to collect the information.

**Resource Mobilisation:** Information related to the income and expenditure figures of the UP for last five years; annual budgets of last five years; last five years' tax assessment and tax collection; flow of funds from external sources in the last five years; cash and kind; Safety Net delivery in the Union for the last year and estimation for the current and projection for next financial year; programme expenditure of NGOs working in the union for the current year and projection for the next financial year; expenditure of projects and programmes of Government departments in current year and projection for the next financial year; expenditures of National projects under implementation in

the Union and Upazilla Parishad schemes/ programmes.

**The UP-Planning Committee will assign its three Standing Committees:** Finance and Establishment; Tax Assessment and Collection and Accounts and Audit to collect and compile this information.

### Union Situation Assessment

The UP-Planning Committee will receive compiled information from all the assigned Standing Committees, and will then further analyse and compile the data and information, and finalise the Union Situation Assessment Report for the five-year plan. The UP Chair may need to convene a special meeting with the Planning Committee and representatives of Standing Committees to finalise the situation assessment report.

Data can be compiled using MS Excel software. Examples of data compilation are shown in Template 1 and Template 2 below.

**Template 1: Compilation example - the Sunamnagar Population Table**

<b>Name of Union:</b> Sunamnagar <b>Upazilla:</b> A <b>District:</b> X <b>Area:</b> 50 sq. km <b>Boundary:</b> East (Pirganj Union), West: Meghna River, South: Dhumchori Union, North: Najipur pouroushova <b>Year of information collection:</b> 2019													
Location	Population			Total SEG* people	Elderly people (above 65)			Disable People			Total households	Poor Households	Female-headed Households
	M	F	Total		M	F	Total	M	F	Total			
Ward-1													
Ward-2													
Ward-3													
Ward-4													
Ward-5													
Ward-6													
Ward-7													
Ward-8													
Ward-9													
Total													

\*SEG=small ethnic group

**Template 2: Compilation example-Water and Sanitation Information of Sunamnagar**

<b>Key Issues:</b>												
- Many children often suffer diarrheal and other water borne diseases with some incidences of death - Many people still use unsafe water for drinking and household purposes - Many people still use un-sanitary and country latrines												
	# of HTW (S)	# of HTW (D)	# of HHSL	# of CSL	# of ponds	# of out of order HTW	# of arsenic HTW (S)	# of out of order SL	# of HHs not using safe water	# of HHs not using SL	# HHs defecate in open places	# of schools without separate SLs for girls
Ward-1												
Ward-2												
Ward-3												
Ward-4												
Ward-5												
Ward-6												
Ward-7												
Ward-8												
Ward-9												
Total												

HTW (S): Hand Tube Well (Shallow)  
 HTW (D): Hand Tube Well (Deep)  
 HHSL: Household based Sanitary Latrine  
 CSL: Community sanitary latrine  
 SL: Sanitary Latrine

**Step 3: UP Vision Statement and Mission Statement Setting**

**Vision Statement**

A vision is a realistic dream, a desired scenario

for the future. It is a projection of the central development idea for the Union; it anticipates how the Union should look like in the future. The vision is a product of imagination and must be shared and internalised by the citizens to inspire them how to further develop the Union jointly towards this desired future. The more vivid the vision, the stronger its motivational effect. The vision should be put in short, concrete and catchy words as shown in Box 2.

**Box 2: Example of a UP vision statement**

By 2030, Digholia UP will be a model UP with access to primary education for all, reduced unemployment, a well-functioning communication system, standard sanitation services for all, adequate agriculture and health services and zero tolerance for dowry and early marriage.

**Source: Digholia Union Parishad**

The example of the Digholia UP has many of the features of a good vision. It shows in a vivid way, how the UP will look like in the future. Moreover, it shows a concrete and almost tangible picture of how life will be in Digholia UP in the future. It is multi-stakeholder oriented and refers to shared values in Digholia. This vision is meaningful. It is suited to align the inhabitants of Digholia

behind a shared development idea. Furthermore, it gives strategic directions for development-oriented policy making in Digholia UP. Note, the vision is long-term oriented; it reaches beyond the planning horizon of the next 5YP.

### Mission Statement

A mission statement explains in short and simple words the purpose of an organisation. The main difference between the mission and the vision is that the former is the cause and the latter the effect: a mission is something to be accomplished whereas a vision is something to be pursued.

A stakeholder analysis is an important preparatory step that feeds into the mission statement. Firstly, we must identify the persons or groups who constitute the stakeholders. Stakeholders are defined as persons or organisations who have an interest or concern in an organisation. We can make a distinction between internal and external stakeholders of the UP. Internal stakeholders are the UP chairperson, the UP members, school administration, local citizen groups, parents of school children, local farmers, shop keepers, local NGOs, etc. External stakeholders may be line ministries, national government, the Upazilla Parishad, funding agencies, national NGOs, the UNO, members of Parliament, business communities, etc.

With the stakeholder analysis, we want to find out what these stakeholders expect from the UP, how the UP should respond to the needs of stakeholders, in which way stakeholders can influence UP decisions, and how important the different stakeholder groups are. An essential part of this are directives from central GoB agencies on sector strategic priorities and goals. These need to be, through an iterative process, married with locally identified priorities.

A mission statement takes stakeholders' interest into account (Bryson, 1988, p. 76). An example of a mission statement is presented in Box 3.

### Box 3: Example of a UP mission statement

We stand to provide local services to enhance the lives of all citizens of our Union; ensure transparency and participation in public life; promote social and gender equality as well as ethnic inclusion and facilitate access to good education for all sections of the community.

Source: Digholia UP

### Step 4: Identifying the Strategic issues for UP

Strategic issues are fundamental challenges for an organisation, such as a UP. They affect the UP's mission and values, its vision, life of a large number of citizens, products or service level and the mix of services provided; in addition, they may affect costs, financing and management as well as the organisational structure of an organisation (Bryson, 1988, p. 76).

Strategic issues can be identified from the problems and issues identified in the situation analyses. To make problem solving more manageable, clusters of interrelated issues identified are formed. These clusters are considered as strategic issues. Designation of the strategic issues cannot be done in a mechanical way; it needs experience and a holistic way of strategic thinking.

The UP-Planning Committee will facilitate some exercises with all UP members and its Standing Committees to identify the strategic/bigger Issues of the Union. The UP-Planning Committee will prepare a list of problems and issues from the Union Situation Assessment Report. Participants will prioritize only the bigger and strategic Issues from this list. There are some smaller problems that are mainly symptomatic. These should not be considered as 'issues' for a five-year plan. A medium to long term plan mainly addresses the strategic/bigger Issues. The UP-Planning Committee will

identify strategic issues by using the following criteria to select and develop strategic/-bigger issues:

i. Strategic/bigger issues have a broad impact on a large number of citizens

*Question: is our 'big problem' affecting a large number of citizens? If yes, then this might be a strategic issue.*

ii. Strategic/bigger issues cannot be solved easily and fast, requires some time.

*Question: Does this problem need a lot of time (two to five or more years) in order to be fully solved? If yes, then this might be a strategic issue.*

iii. The issue can be tackled in many ways.

*Question: Are there different ways and opportunities to solve the problem? If yes, then it might be a strategic issue.*

iv. Can there be major negative consequences if not addressing this issue?

*Question: Will there be poor development outcomes if this problem is not solved? Like what? If this is the case, then this is most likely a strategic issue.*

v. It is a sensitive issue for the Union, it is related to the Union's vision and mission.

*Question: Is the problem affecting the whole Union (or a good part of it?). Will a solution to this problem help the Union reach its vision? If yes, then this is most likely a strategic issue*

An example of the differentiation between a symptomatic problem and a strategic issue can be understood from Box 4.

**Box 4: Symptomatic problem vs. strategic Issue – an example**

Symptomatic Problem	Strategic Issue
Some families don't have hand-tube wells	There is a crisis of safe water in the whole union
Schools have shortage of good classrooms	Significant drop-out of children from schooling every year

After the strategic issues are selected, a list of priority strategic issues can be prepared based on the following consideration:

1. Importance for the Union and the UP.
2. Feasibility of solving the strategic issue-does the Union have the human, institutional and financial resources for resolving the strategic issue?
3. Is it the UP's mission to do this job e.g. within the legal mandate of the Union Parishad?

From this exercise, the UP-Planning Committee will finalize a prioritized list of strategic

Issues (maximum of 5-7) which are feasible for the UP to address.

**Step 5: Strategic Objectives**

When the strategic issues are identified, an agreement on strategic objectives is then needed. A strategic objective defines clearly what should be achieved to overcome the challenges identified under the strategic issues. Strategic objectives should be adequate, i.e. they should respond to the strategic issues; furthermore, they should be realistic and in line with the vision and mission of the Union.

Based on practical experience, it is certainly reasonable to consider the advice of John Wright (2015) to keep things simple and short with strategic objectives and use simple wording so that everybody can understand and remember them. In analogy

to Wright, we suggest the following sentence structure:

Issue + Change + Metric + Unit + Time

The use of this sentence structure is illustrated in Box 5.

#### Box 5: Examples of strategic objectives

- The number of pre-school children with underweight is reduced by 30% by 2025.
- Job opportunities for poor and marginalized inhabitants of the Union improved by 500 new jobs by 2025.
- The share of girls and boys that complete primary school education increases by 5% every year.
- The ratio between girls and boys attending secondary education increases by 2% every year.
- Water resource quality is improved so that the population of crustaceans has increased by 500% by 2025.

It would be seen from the way strategic objectives are phrased in Box 5 that ideally an objective describes the change that should be achieved, e.g. the situation improved or the number increased, etc. The strategic objectives should be shown to be aligned to both national and international development commitments.

#### Step 6: Alignment of the Strategic Objectives to the SDGs and National Five-Year Plan

It is important to show that the strategic objectives are aligned with the Sustainable Development Goals and the targets of the National Five-Year plan. The UP-planning Committee can make this alignment using Template 3 below.

Template 3: Alignment of strategic objectives with overarching strategies

Sl. No.	Union Strategic Objective Statement	Related SDG*	Related National five-year plan target**
1			
2			
3			
4			
5			
6			
7			

\* Simple and broad sentence of SDGs to be used.

\*\*Simple and broad sentence of National five-year plan target to be used.

The UP-Planning Committee can use examples of SDGs and of the National Five-Year plan as presented in Box 6 and 7 for showing necessary alignments in the table.

**Box 6: Sustainable Development Goals**

1. End poverty in all its forms everywhere.
2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture.
3. Ensure healthy lives and promote well-being for all at all ages.
4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
5. Achieve gender equality and empower all women and girls.
6. Ensure availability and sustainable management of water and sanitation for all.
7. Ensure access to affordable, reliable, sustainable and modern energy for all.
8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
10. Reduce inequality within and among countries.
11. Make cities and human settlements inclusive, safe, resilient, and sustainable.
12. Ensure sustainable consumption and production patterns.
13. Take urgent action to combat climate change and its impacts.
14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development.
15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification and halt and reverse land degradation and halt biodiversity loss.
16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.
17. Strengthen the means of implementation and revitalize the global partnership for sustainable development.

**Box 7: Key targets of the 7th National Five-Year plan of the Government of Bangladesh**

**Human Resource Development (Education, Health and Population)**

- Achieving 100 percent net enrolment rate for primary and secondary education.
- Percentage of cohort reaching grade 5 to be increased to 100 from current 80 percent.
- Under 5 mortality rate to be reduced to 37 per 1000 live birth.
- Maternal Mortality Ratio to be reduced to 105 per 100,000 live births.
- Immunization, measles (percent of children under 12 months) to be increased to 100 percent.
- Reduce proportion of underweight children among under-five children to 20 percent.
- Births attended by skilled health staff to be increased to 65 percent
- Reduction of Total Fertility Rate to 2.0.
- Increasing Contraceptive Prevalence Rate to 75 percent.

**Water and Sanitation**

- Safe drinking water for all.
- Proportion of urban population with access to sanitary latrines to be increased to 100 percent.
- Proportion of rural population with access to sanitary latrines to be raised to 90 percent.

**Gender Equality, Income Inequality and Social Protection**

- The ratio of literate female to male for age group 20-24 to be raised to 100 from the current 86 percent.
- Encourage female enrolment in technical and vocational education.
- Reduce or maintain the current income inequality of 0.45.
- Spending on Social Protection as a share of GDP to be increased to 2.3% of GDP.

**Environmental Sustainability**

- Increase productive forest coverage to 20 percent.
- At least 15% of the wetland in peak dry season is protected as aquatic sanctuary.
- Environmental, Climate Change and disaster risk reduction considerations are integrated into project design, budgetary allocations and implementation process.

**ICT Development**

- All primary schools to have at least 1 and all secondary schools to have at least 3 multimedia classrooms; 30% of primary schools and 100% of all secondary schools to have an ICT laboratory.
- 25% Community Health Clinics provide teleconsultation with specialists in urban areas.
- Most vital government services are made available at all Digital Centres through the national portal and over mobile devices; 100% of citizens and residents have digital ID that is used in service delivery.
- Social media is regularly used for communication with various demand and supply side stakeholders.

The objective doesn't say how to achieve the desired change. This is what comes next, in the action plan.

**Step 7: Identification of Available Resources**

The UP-Planning Committee together with the Standing Committees for Finance and Establishment and Tax Collection, will forecast the anticipated resource inflow (cash and kind) into their Union in the next five fiscal years. They will further analyse the situation assessment reports to get this information.

UPs can organise the information in the table presented in Template 4 as shown below:

**Template 4: Resource mobilization forecast over 5 years**

	2020-21		2021-22		2022-23		2023-24		2024-25		Remarks
<b>Resource analysis</b>											
<b>Five-Year Resource Mobilization Forecast</b>											
<b>Sources</b>	cash	kind	cash	kind	cash	kind	cash	kind	cash	kind	cash/kind (if applicable)
<b>HH Tax</b>											
<b>NHH Tax</b>											
<b>Direct transfer from LGD</b>											
<b>LGD and ADP allocation via Upazilla</b>											
<b>Upazilla Parishad projects at Union</b>											
<b>Zila Parishad projects at Union</b>											



<b>1% from land transfer and development</b>											
<b>Line departments allocation at Union</b>											
<b>NGO allocations at Union</b>											
<b>Project by contracts with development partners</b>											
<b>Other Union Parishad income</b>											
<b>TOTAL</b>											

**Step 8: Selection of Programmes and their Projects**

For each strategic issue, the next step is to identify the actions needed to achieve what was agreed by the stakeholders and laid down in the strategic objectives. This implies that actions included in the action plan must always be linked with strategic objectives. At the same time, the actions should consider and address the causes of strategic issues as well as obstacles in eliminating the causes (Bryson, 1988, p. 77).

Usually, there is not just one way on how to address a problem; there are different options for possible actions which should be compared and evaluated; then, the optimal solution for solving the problem should be selected.

In the sense of a combined approach, the actions to achieve the strategic objectives are clustered together in programmes. Normally, a programme consists of several projects. This is illustrated further below.

The UP will organise Ward Shavas in each of the 9 wards. At these meetings, the UP-Planning Committee will present the strategic issues and the strategic objectives, the alignment of the strategic objectives with overarching policies and the programmes planned to achieve the strategic objectives in each Ward Shava, and they receive feedback especially on the ideas of interventions and actions.

Based on this feed-back, the UP-Planning Committee will review the suggestions of programmes from the Ward Shavas and finalise a list of programmes. The UP-Planning Committee can present the list of programmes as suggested in the table of Template 5. Programmes should be cost-effective; therefore, a rough cost estimation is needed. In addition, to make the action plan more realistic, funding sources and possible stakeholder contributions should be identified.

Finally, the duration of a programme needs to be estimated and it should be shown in the programme plan in which years the implementation of the programme should take

place. Obviously, not everything can be done at once. Therefore, the programme plan covers a period of several years in line with the time horizon of the SDP.

**Template 5: Five-yearly projection of programmes**

Objective Statement *	Name and short description of the Programme	Estimated cost	Source of funds	Duration of each Programme				
				Year 1	Year 2	Year 3	Year 4	Year 5
<b>Objective 1</b>	Prog-1							
	Prog-2							
	...							
	...							
<b>Objective 2</b>	Prog-1							
	Prog-2							
	...							
<b>Objective 3</b>	Prog-1							
	Prog-2							
	...							
	...							

\*Number of Objectives will vary from 5YP to 5YP

\*Number and type of programmes will depend on the Strategic Objectives

### Step 9: Implementation Plan of 5YP

The UP-Planning Committee, together with the Standing Committee for Finance and Establishment will develop these programmes

into individual projects/schemes. The relationship between programmes and projects can be understood from an example showed in Box 8.

**Box 8: An example of the relationship between programmes and project**

Programme	Project/Scheme
100% Sanitation Programme	Project 1: Installation of 9 community latrines in 9 wards.
	Project 2: Supply of sanitary latrine materials to 50 households in ward no. 2, 6, 9.
	Project 3: Hand washing training in 10 primary schools and 3 secondary schools.

The UP-Planning Committee should use Template 6 to show the 5-year distribution of projects/schemes across each ward.

Template 6: Distribution of projects/schemes

	The name of priority projects/scheme				
	Year 1	Year 2	Year 3	Year 4	Year 5
Ward1					
Ward2					
Ward3					
Ward4					
Ward5					
Ward6					
Ward7					
Ward8					
Ward9					
Multi-wards					
Union Parishad central					

### **Making the 5YP work: The Annual Development Plan**

Every year, the UP is required to develop the Annual Development Plan together with the Annual Budget. For this purpose, the UP will validate the list of projects/schemes included in the 5 YP in each Ward Shava and select the projects or schemes for their annual development plan and annual budget.

After selection of this updated list of projects or schemes for their Annual Development Plan, the UP-Standing Committee for Finance and Establishment will do the necessary costing of each project/scheme. This estimate will constitute the main component of the UP's draft annual budget which will be required to be presented in an UP level Open Budget Meeting.

Projects identified in the 5YP should be included in the Annual Budget for the year

of implementation. In the case of multi-year projects, we include in the Annual Budget only the expenditure part of the respective year together with all elements of revenue (from internal and external sources) for that year for the specific project.

Before the project is included in the Annual Budget, a thorough reassessment of the adequacy and technical feasibility of the project must be carried out, possible alternatives must be evaluated, and the project costs reviewed. Price information that was used for the 5YP may be outdated and new technical solutions may be available in the meantime.

### **Step 10: Drafting the Five-Year Plan**

After completing these processes, the UP-Planning Committee will dedicate themselves to write a complete five-year planning document. The document starts

with an 'Introduction' chapter that basically describes the process and methodology for developing the five-year plan. A Preface can also be written on behalf of the concerned UP. The main body of the 5YP includes the statistical portrait of the UP as a result of the problem analysis, the vision and mission of the UP, a list of the strategic issues and objectives together with the alignment with the overarching strategies, the programmes and costed projects per strategic objective, and an estimation of the UP's resources available over the next five years and a distribution of the projects per year and ward. The templates shown in this chapter can support the presentation of the 5YP in a concise form.

#### **Step 11: Approval of the Five-Year Plan**

The final draft will again be shared with the UP for their comments. Based on their comments, the UP-Planning Committee will prepare the final draft of the five-year plan. The UP Chairman will then call a consultation meeting presided over by the UNO and then place it to the next immediate monthly meeting for approval. Once approved, a copy of the five-year plan will be sent to the UNO.

#### **Step 12: Communication of the 5-Year Plan**

It is essential that the 5YP is communicated internally and externally by the UP. The document helps the UP to explain its policy to the citizens of the Union as well as to external stakeholders like the Upazilla Parishad, field outfits of ministries, local businesses, the donor community, etc. and to win acceptance and support. A well prepared and well communicated 5YP can be helpful when the Union intends to make better use of its tax potential or to mobilise external financial resources.

It is crucial that the 5YP can be communicated easily in simple and convincing words and that it tells a good and gripping story about the intended future development of the Union. A good story may even touch the heart of the audience and draw their attention. Fitting pictures and catchy diagrams should be used to support the communication of the 5YP.

The UP will display the printed copy of the Five-Year plan on their notice board for at least one month. In addition, at the next UDCC meeting, the UP will provide information on the five-year plan and explain it. The UP may also distribute copies of the Five-Year Plan among the participants in the next open budget meeting.

### **3.2.3 Record Keeping**

The UP will maintain a Development Plan Register in accordance with the schedule mentioned in the Union Parishad (Development Planning, Controlling and implementation) Rules, 2013 to keep a record of the five-year plan. The chapters are categorized by programme or subject-wise.

### **3.2.4 Five-Year Plan Monitoring and Evaluation**

The 5YP is prepared on a medium-term time horizon because everything cannot be achieved in one year. Therefore, every year, when the annual budget for the next year is prepared, the UP should examine the progress made. We compare planned projects from the 5YP with projects completed, on-going or not yet started. Depending on the progress made, projects that must be continued and remaining projects from

the 5YP can be selected for implementation via the Annual Development Plan and Annual Budget for next year.

For transparency reasons, it is highly recom-

mended to present the monitoring findings as attachment to the annual budget preparation process. This can be done in the form of a table as presented in Box 9.

**Box 9: An example of 5YP monitoring table**

Prog. #	Project/scheme	Planned Duration					Responsible	Progress as of (date)			Other comments, if any
		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5		Completed	On-going	Yet to begin	
<b>1</b>	<b>100% sanitation programme</b>										
	100 community latrine installation						PIC				
	200 sanitary latrine materials distribution						WC				
	9 batches hand wash training						PIC				
<b>2</b>	<b>100% access to safe-water programme</b>										
	80 hand-tube wells installation						WC				
	Arsenic contamination screening for all tube wells in all wards						PIC				
	Repairing hand-tube wells in all wards						WC				
	18 batches training on surface water use technology						PIC				
3	Etc.										

Towards the end of the period covered by the 5YP, the 5YP should be evaluated. When we do this, we will ask to which extent the strategic objectives have been met and whether they are still relevant or must be modified. Furthermore, we should examine whether the strategic problems are still the same or whether new problems are more important now. Finally, we should question the adequacy of the problem-solving approaches if the problems persist. The evaluation of the 5YP implementation serves as an input for the preparation of the next 5YP.

### 3.3 The Main Points of this Chapter

In chapter 3, we saw that SDPs have many advantages in managing UP development in an effective, transparent and accountable manner. UPs are obliged by law to plan their strategic development by preparing a 5YP which is annually translated into the Annual Development Plan and Annual Budget. Good UP development planning follows a transparent process where all important

stakeholders are involved; over several well-structured and documented steps, it leads from SDP preparation to its implementation and finally to SDP monitoring and evaluation. It considers the needs and opportunities of the UP, and ideally, it is aligned with overarching national and international development goals. Moreover, to be realistic, it considers the means and limitations of

the UP. Tables and templates are available to facilitate the preparation, presentation and implementation of the SDP as well as its monitoring.

In the next chapter, we will see how to put the SDP in practice through the annual budget formulation process, while subsequent chapters will show its implementation, monitoring and evaluation.

## CHAPTER

# 4

## Budget Formulation

The fourth chapter covers budget formulation. Besides describing the budget preparation process from a strategic top-down and operational bottom-up perspective, special issues like budget comprehensiveness, revenue estimation techniques, project costing, and gender-responsive budgeting will be discussed.

### 4.1 The Objectives and Functions of the UP Budget

A budget is a compilation of planned revenue and expenditure used to achieve specific objectives. If we talk about the budget of a UP, it includes revenue and expenditure for all its activities over a fixed period of time. Traditionally, it covers a time horizon of one year, however, it should have rigorous linkage with the Strategic Development Plan (SDP) i.e., 5YP in order to show UP's commitment to its policies and objectives. At the national level in Bangladesh, the budget is prepared with a medium-term time horizon covering three years.

The budget defines the amount of resources available for the fulfilment of certain objectives and the financing of tasks to be accomplished. With the budget, the UP determines spending limits for distinct purposes as specified in the lines of the budget, and it grants the right to generate revenue. The

budget is, therefore, essentially a core control tool to steer the use of the scarce resources effectively and efficiently in a responsive manner while maintaining fiscal discipline. In other words, as Allen and Tommasi (2001) pointed it out, budget endeavours to achieve three core objectives: Aggregate Fiscal Discipline; Allocative Efficiency; and Operational Efficiency: This is further explained in Box 10.

#### Box 10: OBJECTIVES OF BUDGETING

##### Aggregate fiscal discipline

In dealing with public finances, government sets the target to live within available means to circumvent unsustainable debt burden and maintain higher economic growth, in order to keep macroeconomic stability, as one of its main objectives. It is called **fiscal discipline**. In the PFM context, fiscal discipline refers to the effective controls of budget totals, by setting ceilings on expenditure that are binding both at aggregate level and on individual spending entities. An effective budget system is one that has disciplined totals based on realistic revenue forecasts. Since, there is no deficit budgeting in UPs in practice, overall expenditure controls require that expenditure estimate must be based on realistic revenue forecasts on available resources, e.g., different types of grants, local taxes, fines and fees, incomes from assets etc.



**Allocative Efficiency**

Government is also expected to channel and use the resources available towards activities/projects that produce the desired outcomes (e.g., education, health, infrastructure etc.). With very few exceptions, government does not have enough resources to do what it needs and wants, decisions in the allocation of resources require hard choices and trade-offs between alternatives with different consequences: should more money be spent on education and health, or on defence, or on infrastructure, or industry; what combination of choices are optimal, from both economic, social and political perspectives.

The capacity to establish priorities within the budget, to distribute the resources on the basis of the organisation's priorities and programme's effectiveness and to shift resources from old priorities to new ones, or from less to more productive activities, in pursuance with organisation's objectives is called **allocative efficiency**. It is also known as policy objective of the PFM.

UPs need to perform through strategic projects and activities identified with the 5YP. Effectiveness, the extent to which the objectives of the policy, programs, and activities are met, largely depends on the resource allocation decisions.

**Operational Efficiency**

Government must also ensure that the resources so allocated to achieve the impacts intended (e.g., reducing the incidences of infant deaths, of deaths from HIV, heart diseases; or improving the skills of its labour force in ICT, telecommunications, and science) must be used with **operational efficiency or technical efficiency**,

i.e., the capacity to implement programmes and activities at the lowest cost (e.g., minimising the costs per unit of output).

In the context of UPs, when services and projects are implemented with appropriate controls of legal and institutional framework in place to avoid wastage of resources, we can say resources are used efficiently and operational efficiency is achieved. If resources are used efficiently, more goods and services are available for the community for the same amount of money.

**Interdependence of the Objectives**

These above three overarching objectives are complementary and inter-reliant. To improve the performance of a budget, fiscal discipline, allocative and operational efficiency must work in close collaboration. The ideal nature of this collaboration has forcefully been argued by Allen and Tommasi (2001, pp-20-21): "Without fiscal discipline, it is impossible to achieve effective prioritisation and implementation of policy priorities and programmes. Improving the internal management systems to achieve efficiency without a hard constraint is not credible. But mere fiscal discipline in the presence of arbitrary resource allocation and insufficient operations is inherently unsustainable. If a top-down expenditure limit is imposed in isolation and without any attention to the internal workings of the public expenditure system, the outcome may well be to underfund many worthwhile activities and distort policy priorities. Different situations that require special measures to ensure fiscal discipline call for increased allocative and technical efficiency, not for arbitrary cuts across-the-board. None of these objectives should be pursued in isolation of others."

### Functions of the Budget

Four major functions of a budget can be delineated. These are the economic function, the planning function, the legal function and the steering and control function (Pfäffli, 2011, p. 26ff.) Basically, these four functions apply for all state levels, also for UPs in Bangladesh. However, for the purpose of this handbook we should focus on those aspects that relate to UPs.

- The economic function can be subdivided as follows:
  - (1) Estimation of the amount of resources available for the budget;
  - (2) Optimizing the allocation of resources in accordance with the requirement of effectiveness and responsiveness as discussed before;
  - (3) Balancing of revenue and expenditure to comply with fiscal discipline.
- The planning function refers to the elaboration of the details of the budget by the management. Issues that must be considered here are:
  - (1) Selection of the appropriate methodological approach to ensure operational efficiency;
  - (2) Costing of ongoing activities including personnel costs and purchases of goods and services;
  - (3) Project costing;
  - (4) Expected contributions from clients for payable public services delivered for their personal benefit.
- The overall purpose of the legal function is granting authorisation to
  - (1) Levy taxes and spend money as specified in the lines of the approved budget;
  - (2) Handle budget deviations when the UP faces difficulties to implement the budget as approved. In this case, spending reallocations may be needed based on a budget amendment approved by the UPs.
- The steering and control function can be sub-divided into three stages along the PFM cycle, before budget approval, during budget implementation, and after budget implementation.
  - (1) Before budget approval, the steering and control function refers to verifying that resources are allocated in an effective and responsive way.
  - (2) During budget implementation, the steering and control function means monitoring of spending and making sure that spending limits are respected, and overall spending is covered by actual revenue.
  - (3) After budget implementation, the steering and control function means external scrutiny of budget implementation. The budget is used as a yardstick when actual figures are compared with planned budget figures.

## 4.2 Important Budgeting Principles

The following principles reflect what is considered as basic requirements for a good budgeting practice (Nowotny, Scheer, & Walther, 2008, p. 175ff; Allen, 2001, p. 78 and 89; Schiavo-Campo & Tommasi, 1999, p. 36; Pfäffli, 2011, p. 22f.; Venkateswaran, 2014, p. 106):

- (1) **Annuality** meaning that all budgetary operations are attached to one financial year; this implies that in general, the implementation of expenditure is authorised for one year only;
- (2) **Unity** meaning that all revenue or expenditure transactions of a UP must be presented in one and the same budget document;

- (3) Comprehensiveness or completeness meaning that all expected revenue and expenditure are presented in the budget;
- (4) Accuracy meaning that all revenue and expenditure must be booked to a budget heading and no expenditure may be incurred in excess of the authorised appropriations;
- (5) Universality meaning that all revenue in the budget constitutes a common fund which is used to finance all expenditure without distinction; for efficiency reasons, specific arrangements like earmarking, separate funds or autonomous management may be allowed to enhance efficiency – however, this should not lead to budget fragmentation and control losses or losses of allocative efficiency.
- (6) Specification meaning that each appropriation must have a clearly defined use and be spent only for that specific purpose;
- (7) Legality meaning that all expenditure must have a solid legal basis. Constitutional or legal provisions as well as court decisions are accepted as legal basis.
- (8) Gross budget principle meaning that there cannot be any adjustment of revenue and expenditure against each other; revenue and expenditure must be entered in full in the budget;
- (9) Comparability meaning that budgets are comparable across time and with the in-year and annual report.
- (10) Transparency meaning that information on fiscal plans, positions, and performance is easily accessible to the public. In particular, the completed budget documentation, the amended budget and all financial reports including audit statements are publicly available.

### 4.3 Budget Comprehensiveness

The budget should be comprehensive and cover all functions. It should show the entire expenditure and include all revenues. Furthermore, it must include financial transactions as well as transactions in kind.

A lack of comprehensiveness limits the capacity of civil society organisations and that of NGOs to assess the effectiveness and efficiency of budget allocations and of budget implementation. Budget fragmentation is the contrary of budget comprehensiveness. Lacking comprehensiveness of the budget increases the risk of wasted resources and weakens the provision of services; it may even facilitate the development of patronage and of corrupt practices (Farvacque-Vitković & Sinet, 2014, p. 435).

### 4.4 Legal Requirements and Guidelines on UP Budget

In Bangladesh, the requirement for annual budgeting at UP level are laid down in section 57 and 58 of the Local Government (Union Parishad) Act, 2009. In the same sections, additional specific requirements for budget preparation have been laid down:

- Deadline for Open Budget Meeting for budget preparation: 60 days before the commencement of the fiscal (financial) year, i.e., end of April. Approval of the budget in a special UP meeting by the end of May
- Preparation of detailed estimated revenues and expenditure based on Ward Shava priorities.
- Preparation of a statement of income and expenditures of the previous year.
- Presentation of budget before public meeting.

<sup>3</sup> The fiscal year starts 1 July and ends 30 June.

The roles and responsibilities for budget preparation at different layers are presented in Box 11.

**Box 11: Roles and responsibilities during budget preparation**

Person/Body	Responsibilities
UP Secretary	<ul style="list-style-type: none"> <li>● Assessment of probable revenue sources on behalf of the UP chairman</li> <li>● Compilation of UP draft budget</li> <li>● Minutes of all decisions of the UP meetings on budget issues and preservation of files</li> </ul>
Ward Committees	<ul style="list-style-type: none"> <li>● Understanding the financial situation of the UP and its strategic priorities</li> <li>● Identification of local issues and discussion of priorities</li> <li>● Elaboration of budget details</li> </ul>
Ward Shava meeting	<ul style="list-style-type: none"> <li>● Discussion and selection of local and thematic priorities</li> </ul>
Open Budget Meeting	<ul style="list-style-type: none"> <li>● Citizens validation and approval UP Annual Budget</li> </ul>
Planning Committee	<ul style="list-style-type: none"> <li>● Updating 5YP in consultation with Ward Shava.</li> <li>● Consultation with UDCC members</li> <li>● Developing the Annual Plan.</li> </ul>
UP chairperson	<ul style="list-style-type: none"> <li>● Preparation of revenue and expenditure plan</li> </ul>
Standing committee on Audit and Accounts	<ul style="list-style-type: none"> <li>● Feedback on draft annual plan and budget</li> </ul>
UP chairperson	<ul style="list-style-type: none"> <li>● Final draft of Annual Plan and budget</li> </ul>
UP meeting	<ul style="list-style-type: none"> <li>● Approval of budget</li> </ul>
UNO	<ul style="list-style-type: none"> <li>● Modification of the adopted budget if found inaccurate, after that sending the modified budget to UP for information</li> <li>● Preparation of a UP budget if it is not prepared in time</li> </ul>

Adapted from UP Act, 2009 and Union Parishad Operational Manual.

Moreover, there are important legal provisions on the Parishad fund that are binding for the entire budgeting process including budget preparation, budget implementation, accounting and reporting. These provisions are laid down in the UP Act, 2009, sections 53 to 55; they address the constitution of the fund and its use and management (Box 12).

**Box 12: The UP Fund**

**Constitution of the UP fund:**

- (1) For every Union Parishad there shall be a fund in the name of concerned Parishad.
- (2) The money to be deposited in the fund can be received from the following sources:
  - (a) donations and grants made by the Government;
  - (b) all income from local sources as prescribed by the Government under the

- rules of the UP Act;
- (c) donations and grants made by any other Parishad or by any local body;
- (d) loans (if any) granted by the Government;
- (e) the proceeds of all taxes, rates, tolls and fees collected by the Parishad, as applicable;
- (f) all income or profit accruing from schools, hospitals, pharmacies, buildings, and other institutions, vested in the Parishad and constructed or regulated or operated by it;
- (g) all sums received as gifts or donations from any trusts;
- (h) all sums received from fines under the UP Act;
- (i) all proceeds as received by the Parishad from any other sources;
- (j) all surplus money being kept by the respective Union Parishad whilst the UP Act is in effect.

#### **Use and management of the UP fund:**

- (1) The Parishad fund shall be spent on the following budget line items on a priority basis:
  - (a) salary and allowances of the officers and employees of the Parishad;
  - (b) any expenditure charged on the fund under the UP Act 2009;
  - (c) any expenditure required for a UP to discharge its mandated duties and responsibilities (as defined in the UP Act or in any applicable rules or Ordinances);
  - (d) any expenditure, charged to the fund, and declared by the Parishad with prior approval from the specified authority;
  - (e) any expenditure declared by the Government to be an appropriate charge item for a Parishad.
- (2) A Union Parishad has the power to spend money from its Parishad fund as the Parishad thinks to be appropriate for meeting the objectives of the UP Act 2009.
- (3) The surplus money under the head of funds

- credited shall be spent, as may be the Government directed time to time.
- (4) The fund of the Parishad shall be deposited in the accounts of any Government scheduled Bank and operated under the joint signature of the Chairman and the UP secretary.
- (5) The money credited to a Parishad fund shall be kept in a Government treasury, or in a bank transacting the business of a Government treasury.
- (6) With prior approval of the Government, a UP may establish a separate fund for a special purpose.

Additional provisions refer to charged expenditure, i.e., resources reserved for specific purposes as laid down in section 56 of the UP Act, 2009 (see Box 13). This means, that no voting takes place for the amount involved in these expenditures or for their withdrawal from the fund. However, this affects budget preparation, implementation of the budget, reporting and control.

#### **Box 13: Charged expenditure**

- (1) The following expenditures shall be charged to the Union Parishad fund:
  - (a) all amounts to be paid to any officers and employees (deputed or own) who are in the service of a Union Parishad;
  - (b) any amounts the Parishad spends for the conduct of elections, the auditing of accounts and other such matters, as may, from time to time, be specified by the Government;
  - (c) any amount required to settle any judgment, decree or award against the Parishad by any court or tribunal; and
  - (d) any expenditure declared by the Government as the charged expenditure of the UP.
- (2) If any expenditure charged to a Parishad fund is not paid, the government may, by order, direct the person or persons responsible for the Parishad fund to pay such an amount, or that amount should be repaid from the balance of the Parishad fund.



## 4.5 Budget Classification

Budget information must be presented in a well-structured way. Budget classification refers to the manner how this is done. In chapter 5 and 6 of the IMF handbook (International Monetary Fund, 2014), the detailed guidance on how this should be done has been laid down, based on good international practice. In this handbook, the IMF specifies the revenue classification, and for expenditure, the economic and the functional classification. The economic classification and the functional classification are complementary to each other.

Making use of these types of classifications has many advantages:

- High level of transparency;
- Facilitating integration of local fiscal data into the national treasury system for financial oversight and statistics;
- Comparability of fiscal data internationally;
- Stable data structure enabling data analysis over time;
- Compliance with good international standards.

In addition to the economic and the functional classification of expenditure, it is common practice to use an administrative classification for expenditure as well; more and more, governments apply also a programme classification.

These classifications are discussed below:

### 4.5.1 Revenue Classification

Box 14 shows how to structure the revenue side of a budget in an ideal way. This classification is based on the IMF handbook; however, it is shortened and slightly simplified. Not all items presented by IMF apply to the local level.

#### Box 14: Ideal structure for presenting the revenue side

<b>Taxes</b>	
-	Taxes on income, profits, and capital gain
o	Payable by individuals
o	Payable by corporations and other enterprises
-	Taxes on payroll and workforce
-	Property taxes
-	Taxes on goods and services
o	VAT
o	Profits of fiscal monopolies
o	Taxes on the use of goods and on permission to use goods or perform activities
o	Motor vehicle tax
o	Other
-	Excise
-	Taxes on international trade and transactions
o	Customs and other import duties
o	Exchange taxes
o	Other
<b>Social contributions</b>	
-	Social security contributions
-	Other social contributions
<b>Grants</b>	
-	From foreign government
o	Current
o	Capital
-	From international organisations
o	Current
o	Capital
-	From other general government units
o	Current
o	Capital
<b>Other revenue</b>	
-	Property income
o	Interest
o	Dividends
o	Withdrawals of income from quasi-corporations

- o Rent
- o Other
- Sales of goods and services
  - o Sales by market establishments
  - o Administrative fees
  - o Incidental sales by non-market establishments
- Fines, penalties, and forfeits
- Transfers not elsewhere classified
  - o Current transfers
  - o Capital transfers

For further details: International Monetary Fund, 2014, p. 91ff.

### 4.5.2 The Economic Classification of Expenditure

According to the handbook of the International Monetary Fund (2014, p. 87), the economic classification presents expenditure “according to the economic process involved”. This idea is further explained in the IMF handbook as follows. A government has three options to fulfil its functions. Firstly, it can produce goods and services itself. Then it needs staff, materials and production capital. This involves expenditure such as wage costs, material costs (under goods and services, and capital investment cost (under accrual accounting creating interest payments and consumption of fixed capital). Secondly, it can buy goods and services directly from the market to fulfil its functions; this involves costs under goods and services. Thirdly, it can make payments to the private sector, i.e., to individuals or certain businesses and bring these in a position to buy themselves the goods and services they need from the market. This involves transfer payments or subsidies aimed at redistributing income and wealth.

Box 15 shows the economic classification of expenditure. For local governments, such as UPs, we would certainly have to make further distinctions under the section for grants, showing grants from higher state levels, earmarked and non-earmarked.

#### Box 15: The economic classification of expenditure

##### Compensation of employees

- Wages and salaries
  - o In cash
  - o In kind
- Employer’s social contributions

##### Use of goods and services

##### Consumption of fixed capital (in case of accrual accounting)

##### Interest

- To non-residents
- To residents other than general government
- To other general government units

##### Subsidies

- To public corporations
- To private corporations
- To other sectors

##### Grants

- To foreign government
  - o Current
  - o Capital
- To international organisations
  - o Current
  - o Capital
- To other general government units
  - o Current
  - o Capital

##### Social benefits

- Social security benefits
  - o In cash
  - o In kind
- Social assistance benefits
  - o In cash



o	In kind
-	Employment related social benefits
o	In cash
o	In kind
<b>Other expenditure</b>	
-	Property expenditure other than interest
o	Dividends
o	Withdrawals of income from quasi-corporations
o	Rent
-	Transfers not elsewhere classified
o	Current
o	Capital
-	Other

For further details: International Monetary Fund, 2014, p. 116ff.

### 4.5.3 The Functional Classification of Expenditure

The functional classification of expenditure provides a break-down of expenditure reflecting the functions for which resources are used. In our context, with function we mean a policy sector, such as education, health, transportation, etc. At international level, a standard functional classification has been well established for many years, namely the Classification of Functions of Government (COFOG). COFOG comes with 10 main functions; these are the first level functions. Then, the 10 main functions are further broken down to a more detailed second level and even to a third level. In Box 16, just the first and the second level of COFOG are presented.

**Box 16: The COFOG classification of expenditure - 1st and 2nd level**

1st level		2nd level	
Co de	Item	Co de	Item
<b>01</b>	<b>General public services</b>	01.1	Executive and legislative organs, financial and fiscal affairs, external affairs
		01.2	Foreign economic aid
		01.3	General services
		01.4	Basic research (CS)
		01.5	R&D General Public Services
		01.6	R&D General Public Services n.e.c. (CS)
		01.7	Public debt transactions
		01.8	Transfers of a general character between different levels of government
<b>02</b>	<b>Defence</b>	02.1	Military defence
		02.2	Civil defence
		02.3	Foreign military aid
		02.4	R&D defence
		02.5	Defence n.e.c.
<b>03</b>	<b>Public order and safety</b>	03.1	Police services
		03.2	Fire-protection services
		03.3	Law courts
		03.4	Prisons

		03.5	R&D Public order and safety
		03.6	Public order and safety n.e.c.
<b>04</b>	<b>Economic affairs</b>	04.1	General economic, commercial and labour affairs
		04.2	Agriculture, forestry, fishing and hunting
		04.3	Fuel and energy
		04.4	Mining, manufacturing and construction
		04.5	Transport
		04.6	Communication
		04.7	Other industries
		04.8	R&D Economic affairs
		04.9	Economic affairs n.e.c.
<b>05</b>	<b>Environmental protection</b>	05.1	Waste management
		05.2	Waste water management
		05.3	Pollution abatement
		05.4	Protection of biodiversity
		05.5	R&D Environmental protection
		05.6	Environmental protection n.e.c.
<b>06</b>	<b>Housing and community amenities</b>	06.1	Housing development
		06.2	Community development
		06.3	Water supply
		06.4	Street lighting
		06.5	R&D Housing and community amenities
		06.6	Housing and community amenities n.e.c.
<b>07</b>	<b>Health</b>	07.1	Medical products, appliances and equipment
		7.2	Outpatient services
		07.3	Hospital services
		07.4	Public health services
		07.5	R&D Health
		07.6	Health n.e.c.
<b>08</b>	<b>Recreation, culture and religion</b>	08.1	Recreational and sporting services
		08.2	Cultural services
		08.3	Broadcasting and publishing services
		08.4	Religion and community services
		08.5	R&D Recreation, culture and religion
		08.6	Recreation, culture and religion n.e.c.
<b>09</b>	<b>Education</b>	09.1	Pre-primary and primary education
		09.2	Secondary education
		09.3	Post-secondary non-tertiary education
		09.4	Tertiary education
		09.5	Education not defined by level

		09.6	Subsidiary services to education
		09.7	R&D Education
		09.8	Education n.e.c.
<b>10</b>	<b>Social protection</b>	10.1	Sickness and disability
		10.2	Old age
		10.3	Survivors
		10.4	Family and children
		10.5	Unemployment
		10.6	Housing
		10.7	Social exclusion n.e.c.
		10.8	R&D Social protection
		10.9	Social protection

We see from Box 16 that the functional classification shows how much money is allocated to which policy sector, for example, how much is spent for education, how much for defence etc. This enables an informed discussion on policy priorities.

#### 4.5.4 The Administrative Classification of Expenditure

The administrative classification shows which entity within a government is responsible for a particular expenditure part of the budget, e.g., which ministry, which department etc. The budget is shown in accordance with the organisational structure of the government. The focus is laid on the responsibility for resource use, i.e., expenditure. As the organisational structure of governments is tailor-made and may change over time, comparison with other governments is difficult if the administrative classification is used.

#### 4.5.5 Budget Classification Reforms in Bangladesh at the National Level

As part of the overall agenda of PFM reforms, the Government of Bangladesh has started reforming its budget classification

system at the national level to make it consistent with the following fundamental principles:

- Homogeneity: Each of the classification segments should have a unique set of defining characters to which every transaction must comply
- Independence: Each segment has defining characteristics that are different from and independent of the others
- Comprehensiveness: the definitions of each segment dimensions are complete and comprehensive

In order to satisfy the constitutional, legal and managerial PFM requirements in Bangladesh, a nine-segment classification framework was developed which conforms to the following design criteria:

- Legal compliance
- Assignment of responsibility/accountability
- Mutual exclusivity
- Use of hierarchy
- Least complexity
- Comprehensiveness

The overall structure of the reformed classification system is all-numeric and comprises of four core posted segments<sup>4</sup> of 35 digits. These are organization, program, fund and economic segments. There are two other posted segments with additional information which consist of: the mode of payment and the location. In addition, there are three derived segments: authorization, function and budget sector.<sup>5</sup>

The segments of the new classification structure and the digits allocated for each segment are shown below:

- Organization: 11 digits
- Operation: 9 digits
- Fund: 8 digits
- Economic: 7 digits
- Mode of payment: 1 digit
- Location: 8 digits
- Authorization: 1 digit
- COFOG: 4 digits
- Budget sector: 4 digits

#### 4.5.6 Budget Classification System at UP

Currently, the budget classification at UP level does not follow any standard classification system. It has evolved over time and consequently improvements are required to make it a fundamental building block of a sound budget management system, which

ideally should determine the manner in which the budget is presented, recorded, and reported to ensure transparency and coherence of the budget.

From a PFM point of view, it is also important to align the budget classification system of UPs with the national budget classification system. It is good practice to present financial data generated by local governments in a comparable and consolidated way together with national finances to ensure enhanced transparency on the size and use of public finances.

## 4.6 The Budget Format

The budget format is a template for presenting budget information in a well-structured way. First, the standards for budget presentation and then an example of current budget presentation at UP level will be considered.

### 4.6.1 Budget Format Standards

For the revenue side, it is recommended to adhere to the IMF structure as shown in Box 13. For the expenditure side, we can make a distinction between two main types of approaches: line-item budgets and performance-oriented budgets. These two budget formats for expenditure lay emphasis on very different aspects of the budget. This is illustrated in Box 17.

<sup>4</sup>Posted segments are those that involve a user describing the transaction using these segments at the time it is entered into the system (iBAS).

<sup>5</sup>Users do not need to enter coding for these three segments as they are derived (produced automatically) by the system.

**Box 17: Line item versus performance-oriented budget format**

<b>Management approach</b>	<b>Presentation of expenditures</b>	<b>Presentation of Costs</b>	<b>Resource Linkage with performance</b>
<b>Lineitem budgeting</b>	Expenditures for the coming year are listed to objects of expenditure or line item such as personnel, fringe benefits, travel, equipment etc.	Incremental, e.g., 10% increase from the last year budget.	Allocation of resources has no linkage with the performance.
<b>Performance Budgeting</b>	Expenditure is divided into activities such as building class rooms, providing training to teachers, etc. maintaining a strong linkage with the strategic objectives.	Performance budgeting allows the budget to be built on the basis of anticipated workload, i.e., multiplying the cost of a unit of output by the number of units needed in the next year.	Allocation of resources has direct linkage with performance.

Source: Adapted from Holmes (1998).

As Shah & Shen, (2007, p. 152) point out, a traditional line item budget presents expenditures by inputs, i.e., resources used in a detailed manner. The expenditure information is structured along the economic classification as shown in Box 15. It shows how much is spent per input item, such as wages, goods and services bought for the purposes of the public entity (UP), transfer payments to private households, etc. However, this information on planned spending is not linked with outputs, such as public services or development projects. Therefore, the information on the purpose of spending is not available with this budget format. Attention is directed primarily to spending control. In Box 18, the line-item budgeting for the Ministry of Primary and Mass Education is shown as an example.

**Box 18: Traditional or line-item budgeting under the ministry of primary and mass education**

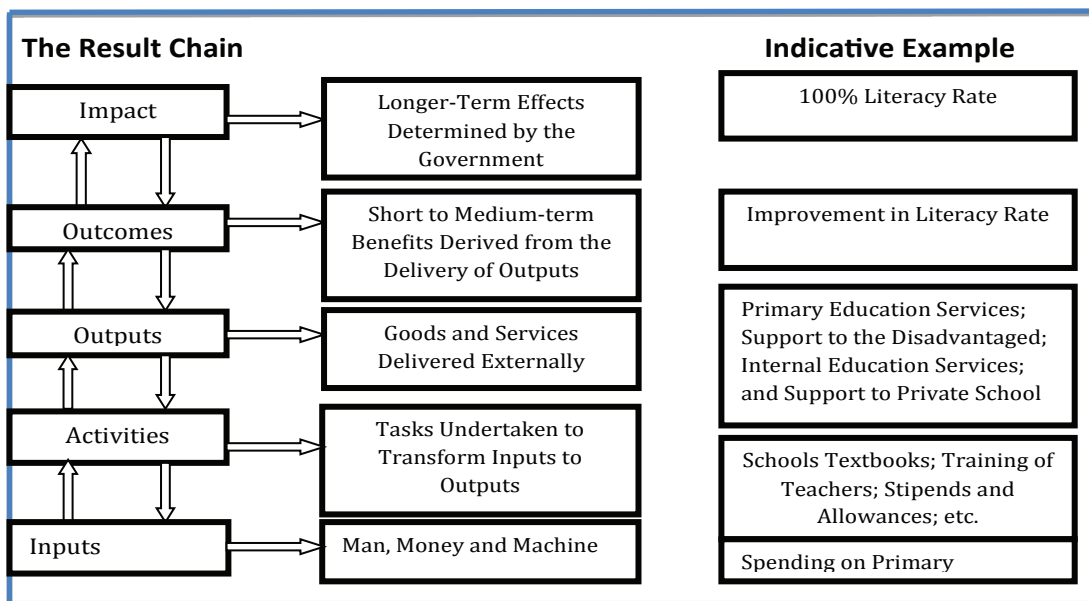
The budget has reserve funds for building classrooms and facilities, developing, printing and distributing text books, recruitment and training of teachers, providing allowances and stipends to disadvantaged school children, providing salary support payments to teachers in private schools under the Ministry of Primary and Mass Education. Budgets for these line-items are reserved without any linkage to the strategic objectives of the ministry.

In contrast, performance budgets put the emphasis on specific programme objectives in terms of outputs or outcomes with clear targets on what should be achieved, and they indicate the cost for achieving those quantified output and outcome objectives. Performance budgets leave a lot of discretion to programme management on how to spend the money. What matters first is the what to produce; this means that the performance objectives are met.

In this system, the Result Chain Framework tool is used to ensure that the resources allocated to agencies will be used to bring good results. This framework shows the inter-connectedness or causal links between all elements in the framework. Under this framework, activities and tasks are carried out using resources available from the budget such as money, men and materials which in other words are called inputs.

When these activities are turned into goods and services worthy of being delivered to external clients these are called final outputs, and these Outputs will bring some short and medium-term benefits to the community known as outcomes which over time, will deliver a longer-term impact or benefit. Below we put the result chain framework concept under performance budgeting as shown in Figure 2 below.

**Figure 2: Results chain framework concept under performance budgeting**



Source: Adapted from Morra Imas & Rist (2009).

The above framework for the budget of the Ministry of Primary and Mass Education is explained in Box 19.

**Box 19: Results chain framework used by the ministry of primary and mass education**

The Ministry of Primary and Mass Education has firmed up its decision to carry out a range of activities such as building classrooms and facilities, developing, printing and distributing text books, recruitment and training of teachers,

providing allowances and stipends to disadvantaged school children, providing salary support payments to teachers in private schools, etc. to produce outputs in the form of goods and services such as primary school education services, support service to disadvantaged children in public schools, support to private school service and informal education service (for those falling through the education net in their early childhood or adolescent). The results will be some improvements in literacy rate (short-term



outcomes), leading up to longer term objective of the target close to 100% literacy rate-achievement of strategic objective of the ministry.

There is a two-ways causal relationship in this framework. Another way of looking at this is starting from the strategic objective of the Government of 100 per cent of literacy rate, the Ministry will ask what benefits could reasonably be achieved in the short to medium term towards this goal.

From data on the most recent literacy rate, and from the strategic planning and annual operational plans developed by the Ministry under the Five-Year Plan, an annual improvement, say of 4 percent, can reasonably be expected.

The Ministry has also, from the Strategic Planning process, developed strategies to achieve the 4% per annum improvement in literacy rate, which may include:

- More classrooms and facilities in critical locations, recruitment of qualified teachers and training support, training of principals and senior administrative staff in school management; bringing children in disadvantaged circumstances into school through financial support; grants to private school to ensure equality of education for all children and in order to meet growing demands for education services; etc.; and
- For those that had in their childhood and adolescents fallen through the education nets, provide adult learning opportunities to improve literacy and trade and life skills.

These strategies are translated into annual activities, programs and projects over the planning period, based on expected fiscal resources to be made available.

In Bangladesh, the Results Chain Budget Framework - underpinned by the Annual Operation Plan of the Five-Year Plan (5YP) - is used in the Ministry Budget Frameworks

(MBFs) as an accountability mechanism. Indeed, this framework provides a strong accountability mechanism for implementation as well as performance of the agencies-ministries/divisions. It is a development evaluation system which requires strong inter-ministerial cooperation and coordination, as well as well-built political will to be implemented.

In Bangladesh, UPs implement line-item budgeting. However, since UP budget formulation, budget approval and execution all happen in a single unit, enforcement of this framework can be conveniently managed, although resource scarcity and implementation capacity of UPs can could provide challenges.

#### 4.6.2 The Current Budget Format for UPs

The UP budget structure as shown in Template 7 follows a logical structure. Just the way it should be, we see a distinction between the revenue and expenditure side. Moreover, we see the impact of the budget on the financial situation of the UP. The logics of the template are as follows: At the bottom line of the template, the closing balance is the result of the opening balance plus the total income minus the total expenditure.

At the income or revenue side, the main categories are taxes, fees, leasing income and income from assets as well as the different types of grants, etc. The expenditure side is subdivided into recurrent expenditure and development and investment expenditure. Recurrent expenditure includes honorarium, salaries, tax collection costs, office costs,



electricity, other costs, etc; other expenditure may include audit costs if paid by UP. Development expenditure is dedicated to programs and projects broken down by policy sectors. As said above, what results from the difference between revenue and expenditure is the overall balance. In case of

a budget deficit, i.e., when expenditure exceeds revenue, the closing balance is reduced compared to the opening balance. In the opposite case of a budget surplus, the closing balance increases compared to the opening balance. However, UPs must avoid a budget deficit (see Box 20).

**Template 7: Format for Union Parishad’s Annual Budget**

Fiscal Year: ..... Union Parishad (LGD ID # ...) Upazilla: ....., District: ..... (Ref: Customized from UPOM)					
Name of Items	Next FY’s Budget (Tk.)			Present FY’s Revised Budget (Tk.)	Previous FY’s Actual Income- Expenditure (Tk.)
	Own Fund	Other Funds	Total		
1	2	3	4	5	6
<b>Opening Balance</b>					
Cash in Hand					
Bank Deposit					
Total Opening Balance					
<b>Income:</b>					
Tax Collection					
Fees of License & Permits issued by UP					
Income from Leasing					
License Fees of non-motorized Vehicles					
Income from Assets					
Government Grant for Establishment Cost					
1% Property Transfer Fee					

ADP Allocation from Government					
Government Block Grants					
Grant from other Local governments					
Other Receipts					
<b>Total Income:</b>					
<b>Expenditure</b>					
Establishment Expenses					
Honorarium of UP Chair/Members					
Salary, Allowances of UP Officials/Staff					
Expenses for Tax Collection					
Printing & Stationeries					
Postage and Telephone					
Electricity Bill					
Office Maintenance					
Other Expenses					
<b>Development Expenses:</b>					
Agricultural Projects					
Health & Sanitation Programs					
Road Construction/ Maintenance					
House Building / Maintenance					
Educational Programs					
Irrigation & Dams					
Loan received/ paid					

<b>Total Expenditure:</b>					
<b>Closing balance:</b>					
<b>Cash in hand:</b>					
<b>Cash in Bank:</b>					
Date of Approval:					
Secretary's Signature			Chairman's Signature		

The following special requirements, displayed in Box 20, also apply for UP budget presentation:

**Box 20: Special requirements for UP budget presentation**

- The budget should be prepared in format prescribed by the government.
- The proposed budget should be prepared on the basis of previous income and expenditure trends.
- The budget should be prepared so that at the end of the FY there should be some excess funds.
- Allocations of funds for women's empowerment, welfare for children and youth, people with disabilities and elderly citizens should be included in the budget.
- The budget should be prepared item-wise.
- Expenditure should not exceed projected revenues. If, for any reason, projected expenditures would be more, then the projected revenues should be increased.

### 4.7 Budget Elaboration

The features of the budgeting processes matter. The outcome of the budgeting processes depends to a great extent not only

on the availability of resources but also on the way how budgeting processes are designed and executed.

Meyers (1996, p. 176) suggests ten standards for a good budgetary process. These standards are shown in Box 21.

**Box 21: Standards for a good budgetary process**

- A budget process should be:**
1. Comprehensive - includes all uses of the government's financial resources;
  2. Honest - based on unbiased projections;
  3. Perceptive - considers the long-term as well as the short-term;
  4. Constrained - limits the amount of money that needs to be acquired by the government;
  5. Judgmental - seeks ways of obtaining the most effects for the least costs;
  6. Cooperative - does not dominate other important decision processes;
  7. Timely - is completed in time;
  8. Transparent - is understandable without intensive effort;
  9. Legitimate - reserves important decisions to legally appropriate authorities;
  10. Responsive - adopts policies that match public preferences.

A good budgetary process must ensure that the three core objectives of allocative

efficiency, operational efficiency and fiscal discipline are met. We remember that allocative efficiency means that the capacity to establish priorities within the budget in regard to the projects identified through the strategic development plan, i.e. the 5YP; operational efficiency means the capacity to implement programmes and activities at the lowest cost; and fiscal discipline means that fiscal discipline refers to the effective controls of budget totals to circumvent unsustainable debt burden. Furthermore, the budget must be planned in a comprehensive manner, prepared in time and presented in a transparent way; finally, it needs democratic legitimacy involving stakeholders to make decisions about the way in which the public money is spent, and fulfils the requirement of sustainability (Pfäffli, 2016, p. 365).

Below, twelve specific UP standards are suggested to support a good budget elabora-

tion process in UPs. These standards are based on what is considered as good practice internationally; at the same time, they reflect the specific legal requirements for budget preparation in Bangladesh.

### UP Standard 1: UP Budget Calendar

The budget calendar, in the case of UP, should ensure that the budget is prepared in time, at the end of April, i.e. 60 days before the beginning of the new fiscal year. The calendar should allow enough time for serious planning and discussion for each budget preparation process. It is important that the budget calendar is carefully established and communicated to all stakeholders at the beginning of the budget preparation process. Then, it is important that the budget calendar is enforced by the UP chairperson without exception. A tentative UP budget calendar is shown in Box 22.

#### Box 22: UP budget calendar - an illustration

SL. No	Activities	By When
1	Issuance of Budget Circular/Notice including the budget calendar	1 September
2	Review of tax, fees, service charge etc.	15 November
3	Estimation of revenue (tax, rates, fees, grants etc.)	15 December
4	Estimation of administrative expenditure	30 December
5	Formation of Planning Committee	10 January
6	Formulation of draft annual Development Plan by the Planning Committee in line with 5YP and sending it to the Ward Shava for scrutiny	5 February
7	Finalization of a draft plan based on the feedback from Ward Shava and sending it to the Standing Committees	15 February
8	Adoption of recommendations of the Standing Committees and formulation of draft budget	5 March
9	Presentation of draft budget before the UDCC for their feedback	15 March
10	Discussion of the draft budget in UP meeting based on the feedback from UDCC	25 March

11	Sharing draft budget with the local citizens in Open Budget Meeting	15 April
12	Approval of Budget (with/without revision) in UP meeting	15 May
13	Sending a copy of the approved budget to the UNO	30 May

Based on the UP Act, 2009, and the UPOM, the following special requirements, shown in Box 23, also apply to the UP budget elaboration process:

**Box 23: Special requirements for UP budget elaboration**

At least sixty days before the start of each financial year, the UP shall, in the prescribed manner, prepare a statement of its estimated receipts and expenditures for that year, drawn up on the basis of the priority lists received from the Ward Shava. This is hereinafter referred to as the budget. Note that UPs must consider the negative list of the UPOM when they prepare the annual development plan; the UPOM prohibits projects which entail the cutting of more trees, water congestion, obstacle to irrigation, etc.

The UP shall organize an open budget session ensuring the presence of concerned standing committees and local people and present the budget. Upon approval of the budget in the following meeting of the Parishad, a copy should be sent to the UNO. The approved budget should be submitted to the UNO by 1st June.

If a UP fails to prepare its annual budget before the commencement of any financial year, the concerned may prepare and certify a statement of the UP's estimated receipts and expenditure, which will then be deemed to be the sanctioned budget of the UP

Within 30 days of the receipt of the copy of UP budget, the UNO may modify it in the event of any inaccuracies/discrepancies. The UP will be informed of any such modification to its budget, which shall be deemed to be the sanctioned budget of the Union Parishad.

At any time before the expiry of the financial

year to which a budget relates, a revised budget for the year may, if necessary, be prepared and sent to the UNO.

**UP Standard 2: Linking the 5YP with the Budget**

The 5YP is implemented step-by-step through the Annual Development Plan and Annual Budget of the UP. In addition, monitoring of the 5YP implementation is part of the budget formulation process (see chapter 3.2.4).

This standard is an existing obligation for UPs.

**UP Standard 3: Linking of policy planning with financial planning**

Decisions on financial allocations in the annual budget must closely relate to policy planning, i.e., to the UP Annual Development Plan. At the same time, it is impossible to set up a realistic Annual Development Plan without having clear cost and revenue estimations. We must know what is needed and what is affordable at the same time.

This standard is partly an obligation for UPs.

#### **UP Standard 4: Early Assessment of the Fiscal Space**

By fiscal space, we understand the availability of resources for the annual budget which are not yet reserved for inevitable on-going activities but can be used for new activities or development projects. To identify the fiscal space, a reliable estimation of revenues for the budget year is needed first. Then we must deduct expenditure for ongoing activities including for projects which have already started. Careful identification of the fiscal space enables informed and realistic discussions on new development projects that could be selected for implementation over the next year. At the same time, quantitatively specified budgeting directions can be given per policy area by the UP for ongoing and new activities.

#### **UP Standard 5: Early and Binding Policy Directions for Budget Planning**

These policy directions can be given by the UP in a strategic way per policy area or per Ward considering the 5YP and the existing fiscal space at the same time. This should go hand in hand with the formulation of a draft Annual Development Plan to be prepared by the planning committee. This is the top-down budget planning input which comes first, before projects are elaborated in detail.

#### **UP Standard 6: Preparation of Detailed Budgets in Accordance with the Budget Directions**

This is the bottom-up part of budget preparation carried out by Ward Committees in collaboration with technical experts. Based on the existing needs and the top-down policy directions, it is identified what is

realistic to include in the next budget. Costing is needed for ongoing activities and for suggested new activities or development projects. The suggested activities and projects are submitted in due time to the UP chairperson.

This standard is partly an obligation for UPs.

#### **UP Standard 7: Compilation and Consolidation of Budget Requests and Elaboration of a Draft Budget**

On behalf of the UP Chairperson, the UP Secretary reviews the budget requests and verifies whether they comply with the policy directions. If not, negotiations between the different stakeholders (Ward Shavas and UP chairperson) are needed. Mullins (2007, p. 228) strongly recommends that budget requests should be reviewed “along programmatic, technical, and managerial dimensions”. The programmatic review checks the consistency of budget requests with policy guidance and strategic priorities. The technical review checks the plausibility of cost estimations comparing the cost figures of the budget request with historic spending or similar activities carried out elsewhere. Finally, the managerial review checks whether the budget request documentation is complete and whether process guidelines are observed. When this is done, the UP secretary can prepare the first comprehensive budget draft.

This standard is partly an obligation for UPs.

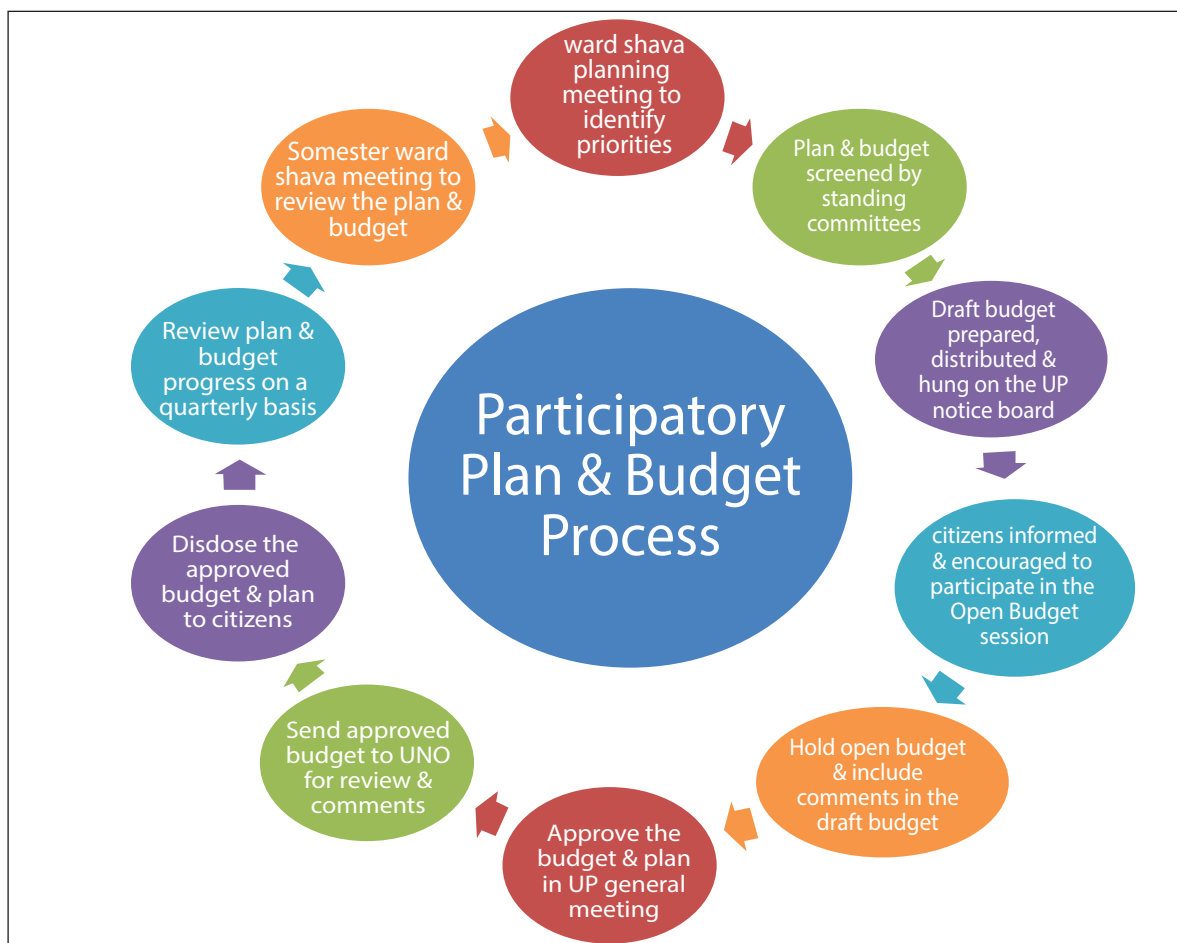
#### **UP Standard 8: Consultations**

Orientation of the standing committees on the first budget draft by the UP chairperson is mandatory as well as presentation before the Union Development Coordination Com-

mittee (UDCC) and collecting feedbacks. This standard is an obligation for UPs. The budget preparation process of UPs should

follow a very participative procedure where many stakeholders are involved. This is illustrated by figure 3.

**Figure 3: The participatory planning and budgeting process of UPs**



Source: Adapted from UPOM.

**UP Standard 9: Discussion of the Draft Budget in UP meeting**

Based on the feedbacks from consultations, modifications of the budget draft are made if needed. Mullins, (2007, p. 231) points out that council deliberations should consider aggregate revenue and expenditure as well as spending per policy sector or organisational level (e.g., Wards). The council should have

the right to amend the budget proposal, however, budget balance must be ensured.

**UP Standard 10: Open Budget Meeting**

Explaining the draft budget to local citizens is of core importance. The following provisions, shown in Box 24, apply for the Open Budget Meeting.



**Box 24: Special provisions for the open budget meeting**

An open budget meeting should be organized by each UP before the end of May. Participatory planning at ward level should be completed during April and the plan developed through the Ward Shavas will be included in the budget. Prior to the UP's open budget meeting the following steps should be followed:

- The draft budget should be prepared taking into consideration the plans received from Wards.
- The draft budget should be circulated to the community along with the notice for the open budget session.
- Different media (miking, drum beating, invitation letters, leaflets, notices) should be used to ensure mass participation in the open budget meeting.
- The open budget meeting should be organized in a public space in front of the UP Office, in school premises or playgrounds).
- Adequate seating arrangements should be made for participants.
- The costs of the budget session should be included in the previous year's budget.
- UPs need to arrange food for the participants so that full and comprehensive discussion of the budget is possible.
- It is recommended to invite local media to cover the budget session.

For the execution of the open budget meeting there are guidelines which should guarantee a fair, transparent, participative consultation process within a dignified setting. These guidelines are presented in Box 25.

**Box 25: Guidelines on how to conduct the Open Budget Meeting**

- The budget meeting will be presided by the UP Chairman.
- Chief guests and other special guests should take their seats.
- Recitation from Holy Quran, Gita, Bible.
- Welcome speech by UP Chairman.
- Distribute copies of the draft budget among the participants.
- UP Secretary will present last FY's actual income-expenditure, current FY's budget and progress and proposed budget for next FY, along with context and highlights of the proposed budget.
- Participants should be invited to discuss and comment on the proposed budget, as well as raising questions about the last budget.
- Based on comments, discussions, and overall consensus, any necessary inclusions, exclusions, additions, deletions, expansions and revisions should be made to the proposed budget.
- A question and answer session should be facilitated by the UP Chairman.
- Participants should be invited to express their views in the budget session.
- Speeches by the guests.
- Gifts/crests/cash incentives may be provided to brilliant students, innovative farmers, maximum tree planters, highest/regular taxpayers and collectors etc.
- Any cultural events.
- Thanks by the Chair.

**UP Standard 11: Approval of the Budget in an UP Meeting**

If needed after the open budget meeting and as a preparation to the UP meeting, final modifications are prepared by the UP

chairperson, supported by the UP secretary. The UP meeting approves the budget with/without revision.

This standard is an existing obligation for UPs. It is required that the UP budget approval meeting is a special meeting. The meeting will be convened as the general meeting called by the UP Chairman. The draft budget (adjusted in the open budget meeting) should be sent to UP members along with the meeting notice. In the meeting, the budget will be discussed in detail

and approved with a majority vote of UP representatives. Upon approval, the budget will be sent to the UNO for review and comments.

#### **UP Standard 12: Control by UNO**

A copy of the approved budget is sent to the UNO. This office is also authorised to work out a budget on behalf of a UP, if it fails to finalize its budget within the deadline.

This standard is an existing obligation for UPs.

## **4.8 Revenue Estimation**

Revenue estimation starts with a survey of what was available per revenue source in the past years. Trends per revenue source should be identified and the underlying reasons for the trends analysed. How likely is it that these trends will continue to have an influence also next year? Furthermore, it should be assessed whether it is possible to increase taxes or fees or whether collection of taxes or fees could be improved.

Below in Box 26, a simple methodology for the estimation of taxes and fees is presented that is used by Albanian municipalities (Pfäffli & Lötscher, 2014, p. 20ff.) This methodology works as follows. In the blue section, there is room for the different taxes or fees that are applicable at local level. In the brown section, the actual of the last two years and the current year are entered. In the yellow section, there are different factors identified that could have an influence on an individual tax or fee. Tax assessors must now make an estimation to what extent it can be expected that these factors have an

influence (in%) for next year. These impacts can be positive or negative. Under other changes, the impact of more or of less tax or fee exemptions may be included. All the estimated impacts in % are aggregated (grey section). The result is the estimation for the taxes and fees for the budget year. This approach is not just a trend extrapolation. It assesses the impact of individual factors from the business cycle, demography, legal changes, better management, etc. The approach from Albania is easy to handle. Furthermore, it is easy to explain the tax estimation to interested stakeholders such as UP members or standing committees, etc.

**Box 26: Revenue estimation approach per revenue source****Revenue estimation of taxes**

	Actuals two years ago	Actuals one years ago	Estlmation for current year	Impact of inflation in %	Impact of real economic growth in %	Impact of population growth in %	Estimated impact of tax law changes	Estimated impact of other changes in %	Improved use of fee potential in %	Tax rate change in %	Overall estimated Change in % for budget year	Estlmation for budget year
Tax 1	10000	11150	12150	6%	2%	2%	-5%	0%	5%	0%	10%	13972.5
Tax 2												
Tax 3												
Tax 4												
Tax 5												

**Revenue estimation of fees**

	Actuals two years ago	Actuals one years ago	Estlmation for current year	Expected volume increase of activity in %	Improved use of fee potential in %	Estimated impact of legal adjustments in %	Estimated impact of other changes in %	Increase of fee per unit in %	Overall estimated Change in % for budget year	Estlmation for budget year
Tax 1	5000	5500	5850	10%	5%	0%	0%	0%	15%	6727.5
Tax 2										
Tax 3										
Tax 4										
Tax 5										

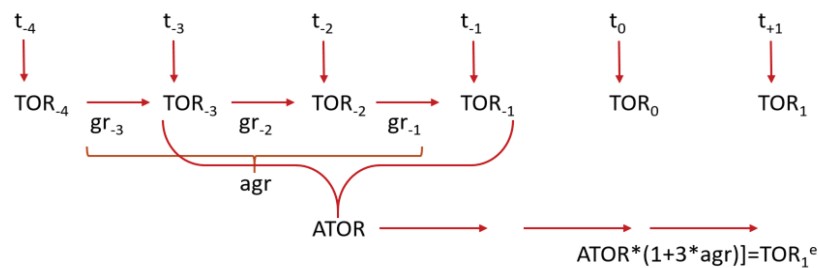
The methodology presented above disaggregates total own revenue into revenue from individual taxes and fees, etc., and prepares an estimation for each individual revenue source.

In contrast, a more global, less detailed and rather conservative estimation approach is

presented below in Box 27. This approach is self-explanatory. It is much faster and simpler than the disaggregated methodology used in Albania; however, it doesn't react explicitly on changes resulting from the economic, demographic or legal environment, or from improved revenue management.

**Box 27: Conservative methodology for the estimation of own revenues in 5 steps**

- (1) Find numbers for total of own UP revenues for the last four years.
- (2) Calculate growth rate for each of the last three years: *gr*
- (3) Calculate average growth rate for the last three years (for simplification: use arithmetic mean): *agr*
- (4) Calculate annual average of total own revenues for last three years: *ATOR*
- (5) Project estimated total of own revenue for next year by letting grow the *ATOR* with the triple *agr*.



The approach shown in Box 27 is illustrated with an example below in Box 28.

**Box 28: Illustration of 5-step revenue estimation technique**

Item	Acronym	Actuals				Current budget	Budget next year
		2016	2017	2018	2019	2020	2021
Year	Y						
Total own revenue	TOR	118	125	120	126	130	
Growth rate	gr		5.9%	-4.0%	5.0%		
Average growth rate, last 3 years	agr		2.3%				
Average total own revenues, last 3 years	ATOR		123.7				
Estimated total own revenue for next year	TOR <sub>1</sub> <sup>e</sup>						132.2

While concluding this chapter on revenue estimation, the grants received from the government by local governments should also be considered. Grant money is in many countries still the most yielding source of local revenue. It needs to be assessed first how much revenue from grants fluctuates over time in an individual local government and whether there is a trend behind. For local governments, it is much easier to predict grants if these are formula based.

Excel 2016 offers an easy to handle forecasting

feature with trend extrapolation based on the methodology of exponential smoothing. This feature is called forecasting sheet. In addition to trend extrapolation, this functionality provides confidence intervals. These intervals can be used as a plausibility check for revenue forecasts. The methodology is explained in the Annex 3 and illustrated there with the same data as used for the example in Box 27. This approach provides a similar forecast for 2018 as the 5-step revenue estimation technique explained above.

## 4.9 Project Costing

Once the financial space for new projects is clearly defined, it is time to identify those projects which are of high priority and then cost them.

Project costing needs experience in two different areas, the technical area and the financial area. First, it must be known which the best way is to carry out the project and what is needed in terms of financial resources.

For practical reasons, the project should be subdivided in a step by step methodical way.

**Step 1:** Figure out the different components of a project and describe what to achieve per component.

**Step 2:** Identify the activities needed per component.

**Step 3:** Determine the volume of work needed per activity and the rate per unit of work including non-wage labour costs. Then, calculate the labour costs per activity.

**Step 4:** Identify the goods that need to be bought from third parties for each activity and calculate the costs based on market prices per unit.

**Step 5:** Identify the capital investment goods needed and determine the costs.

**Step 6:** Determine the grand total of costs by summing up different costs for each component.

**Step 7:** Compare the cost estimation for the project with similar projects implemented elsewhere.

**Step 8:** Compile the total project costs in a table according to the economic classification as follows:

Compilation of project costs:

- Salaries
- Non-wage labour costs
- Goods and services
- Other current expenditure
- Capital investments
- Interests
- Other

**Step 9:** In the case of a multi-year project, determine, which fraction of the total project costs will be incurred in the budget year and which in the subsequent years.

The current practice of project costing followed by UPs in Bangladesh is shown in Annex 4.

## 4.10 Gender-Responsive Budgeting and Climate Issues

This chapter emphasises the importance of strategic budgeting. Equality between women and men as well as the climate change with its negative effects are important examples of such strategic issues.

Reducing inequality is at the core of socially inclusive budgeting. Through the budget, policies should be implemented to promote social, economic and political inclusion of all members of society, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status (Lauridsen &

Nazneen, 2019, p. 4). Gender-responsive budgeting is one important case of socially inclusive budgeting; in the following paragraphs, it is illustrated how the strategic issues of social inclusiveness can be addressed through the budget, considering the example of gender-responsive budgeting.

In many countries, attempts are made to influence the budgeting process towards more gender equality. Budlender & Hewitt (2003, p. 7) show a list of over 60 countries in all parts of the world where gender-responsive budgeting are in use already.

Gender-responsive budgeting helps ensure government accountability to the commitments made to women in the Cairo Programme of Action on Population and Development, the Beijing Platform for Action for Gender Equality and Women's Empowerment, and the Sustainable Development Goals.

Gender-responsive budgeting is an approach to guide the budgeting process towards more inclusiveness especially with respect to women. It is not the idea to establish a separate budget for gender equality; on the contrary, it is about shaping the general budget in a more gender-friendly way. Gender-responsive budgeting involves awareness building, needs identification, participation, resource allocation, budget reporting and accountability.

For UPs, in order to make the budget more gender-responsive, it might be practical to put emphasis on the approach developed by Klatzer and Ivanina (2016) which follows the steps as enumerated below:

1. Identifying gender issues in the sector: Situation Analysis
2. Baseline: collecting information

3. Conducting gender analysis of activities: Impact Analysis
4. Conducting gender analysis of related budget allocations
5. Developing objectives and recommendations to improve equality
6. Making changes to programmes and budgets based on the results of GRB analysis, to make them more gender-responsive
7. Monitoring and evaluation of progress

These steps are shown in more detail in Annex 2.

Gender-responsive budgeting requires that stakeholders are able to read a budget. Therefore, it is important to strengthen the understanding for budgeting amongst the stakeholders and to foster awareness for the importance of gender equality at the same time. Gender-responsive budgeting can be supported by women's networks, civil society organisations and non-governmental organisations, academia, the media, but certainly also by the members of the UP.

#### 4.10.1 Gender Responsive Budgeting: Bangladesh Perspective

Articles 19, 27, 28 and 29 of the Constitution of Bangladesh guarantees equality between men and women; incorporating this principle, the National Women Development Policy, 2011 (NWDP) and National Action Plan for Implementing NWDP 2011 have been formulated. The Government of Bangladesh first introduced a gender responsive budget in 2010 with a limited coverage of Ministries and Divisions and over time extended its coverage; it now covers forty-three Ministries and Divisions. Box 29 below gives an insight into the gender budgeting practice in Bangladesh.

#### Box 29: Illustration of Gender Budgeting in Bangladesh

Inclusion of gender budgeting in the Medium-Term Budget Framework process in Bangladesh Gender-responsive budgeting is embedded in the Medium-Term Budgetary Framework (MTBF) process of the national budget in Bangladesh, where the linkages between a ministry's stated objectives and activities and the advancement of women's rights have been prioritised. Ministries are required to show how their strategic objectives will influence women development. Fourteen criteria have been set to appraise the impact of activities of a Ministry on women's advancement: access to health care and improved nutrition; access to public properties and services; access to education and training; reduce daily working hours of women; women's participation in the labour market and income generating activities; ensure social safety for women; employment; women's participation in various forums; ensure safety and movement of women; monitoring and evaluation; increase social status of women; information technology for women; and reduced violence and oppression.

In addition, each year, the government places a gender budget report to the national parliament that explains the policies and strategies for the advancement of women, the activities of various Ministries/Divisions that have implications on women development, the KPIs connected with female welfare attained, the major achievements for uplifting women's rights, the allocation for women development etc. In this report, issues related to women advancement of forty-three Ministries and Divisions have been reviewed. All the Ministries and Divisions are divided into three sections which include:

- **Section 1:** Empowering women and enhancing their social dignity (nine gender-focused Ministries),
- **Section 2:** Improving women's productivity and participation in the labour market (nine comparatively less focused Ministries),



- **Section 3:** Widening women's effective access to general public sector services and income generating activities (twenty-five ministries working towards women's advancement).

Source: Finance Division, Government of Bangladesh.

### 4.10.2 Climate Change Oriented Planning and Budgeting

At the national level, the government is currently implementing an agenda of mainstreaming climate finance in the PFM system of Bangladesh in response to the serious situation arising from the adverse effects of climate change. In order to implement this agenda at the local level,

the government, of late, has taken up an initiative to embed the climate dimension as a strategic issue for planning and budgeting in UPs. A framework on this new concept will be released once the pilot initiatives are implemented in selected UPs.

## 4.11 The Main Points of this Chapter

In Chapter 4, we saw that the budget plays a key role in ensuring allocative and operational efficiency as well as fiscal discipline; moreover, the budget is needed to enable overall transparency on the use of public resources. However, important budgeting principles must be respected, such as budget comprehensiveness and comparability for that purpose. The roles and responsibilities during budget formulation in UPs are clearly defined and must be executed according to a detailed and well-communicated budget calendar. The budget must be presented in accordance with a meaningful and pre-determined, stable and well-structured budget classification system.

The budget formulation process starts with revenue estimation. It is important to determine the fiscal space and then to provide binding policy

directions for budget planning. Revenue estimation and costing require technical skills; various methodological approaches can be used for these purposes. It is needed that this is done well so that a realistic number of strategic projects can be implemented over the budget year as stipulated by the 5YP. Consultations with stakeholders at various levels are needed to make sure that the budget is responsive.

Socially inclusive, gender responsive and climate-change oriented budgeting are important examples for strategic budgeting, particularly relevant also in the current context of Bangladesh.

While chapter 4 was dedicated to budget formulation, chapter 5 will address budget implementation.



## CHAPTER

# 5

## Budget Implementation

The fifth chapter deals with budget implementation. It includes revenue mobilisation and expenditure management, asset management, internal control and audit, and bank reconciliation.

### 5.1 Basic Budget Implementation Issues from the Revenue and Expenditure Side

Budget execution includes both, revenue mobilisation and use of resources in conformity with the budget and the policies behind the budget. As Allen & Tommasi (2001, p. 209) point out, “it is possible to implement poorly a well-formulated budget; it is not possible to implement well a badly formulated budget. Good budget formulation comes first, logically and chronologically.” The general issues of revenue mobilisation will be considered first and then expenditure management issues will be dealt with.

#### 5.1.1 Revenue Mobilisation

The size of the UP budget and what is affordable for UPs depends on the amount of resources that can be mobilised by and for the UP. Revenue estimation is, therefore, at the heart of the budget preparation process. In a similar way, this also applies to budget implementation. What is affordable for implementation depends on how much resources are mobilised.

Local revenues consist of two main sources, own revenues and grants together with donations. In this chapter, emphasis will be placed on own revenues where local governments have a greater influence on the amount mobilised. Local revenues consist of taxes, fees and rates, fines and property income (see: Box 13, Box 14 and Template 7).

According to the Local Government (Union Parishad) Act, 2009, local revenues of UPs in Bangladesh consists of the following taxes, fees and rates, fees (see Box 30):

#### Box 30: Revenue sources of UPs

Source	Sub-components
Property and holding tax and rate	Property tax on annual value of buildings and lands
	Waterbody rate
	Conservancy rate
Other taxes	Tax on professions, trade and callings
	Tax on cinema, dramatic and entertainment
	Tolls and minor taxes (on advertisement, marriage etc.)

Fees and fines	Building design/architecture approval fee
	Hat Bazar and ferry ghat fee (Lease money)
	License and permit fee
Other Sources and Incomes	Apportioned income (share) of Land Development Taxes
	Apportioned income (share) from Land Transfer fees
	Other miscellaneous income

Source: UPOM.

The success factors for effective mobilisation of own resources are at the core of this chapter.

### **(1) Effective tax and fee collection**

In the context of UPs, tax and fee collection is certainly a major concern. Processes must be organised as effectively and efficiently as possible to facilitate collection of taxes and fees for payers as well as for collectors. Cumbersome processes are costly for both. Improving the collection processes for instance by collecting different taxes, fees and rates from one and the same taxpayer at the same time could be rewarding. There is room for outsourcing tax and fee collection; however, this requires strict oversight by UP authorities and modalities for billing, payment and for the transfer of collected money to the UP system.

### **(2) Updated and complete registers and cadastral survey**

Taxes and fees are collected from individuals/households and from businesses. Without having a complete and updated register of the population and of businesses, it is not possible to make use of the entire tax potential. In particular, the quality of a cadastral survey is of crucial importance for taxes on buildings and land.

### **(3) Professional tax assessment based on simple rules**

In Bangladesh, the assessment of the household tax needs to be made after every five years. The tax is levied based on the market rate of the homestead land. Tax assessors are appointed by the UP. The Deputy Commissioner supervises the tax assessments. It is highly important that tax assessors are skilled enough and persons of high integrity. Discretion for tax assessments should be small. The more discretion exists, and the more tax exemptions are possible, the higher the risk of corruption. Therefore, it is better to have simple and objective rules which do not allow that exceptions are made for the estimation of the tax base value.

### **(4) Effective measures to enforce tax payment**

Compliance with the obligation to pay taxes must be enforced, if necessary. This will require raising public awareness about the consequences of non-compliance.

### **(5) User charges with full cost coverage**

When goods and services are delivered directly to customers, this good or service should have a price covering the full costs per unit whenever possible. Average cost pricing is the adequate approach to do so.

This means that total cost for providing goods or services should be divided by the number of customers or by the volume sold. By doing so, not only direct costs for operation and management in the total costs should be included but also the cost for wear and tear of the infrastructure used.

### 5.1.2 Expenditure Management

In this section, the basic challenges of expenditure management will be identified first together with the need for compliance at different PFM stages. Then the need for flexibility in budget execution and in-year budget revision will be discussed.

#### Challenges of managing expenditure and budget compliance

Allen & Tommasi (2001, p. 209) identify four main concerns of budget implementation. All these concerns apply also for

budget implementation at the local level.

- (1) Ensuring that the budget is implemented in conformity with the approved limit;
- (2) Adapting the budget to changes of the environment;
- (3) Solving implementation problems;
- (4) Making sure that resources are used efficiently and effectively.

The first concern is certainly the most important one; the budget must be implemented as planned financially with respect to the policy objectives. The other three concerns, especially the third and fourth ones, serve the purpose of the first one. Therefore, Allen & Tommasi, (2001, pp. 211–215) underline the importance of compliance controls during budget implementation. This is summarised in Box 31. We added accounting and reporting as an additional stage in the expenditure cycle.

#### Box 31: Compliance control along the expenditure cycle

Stages of the expenditure cycle	Required compliance control
<p><b>Appropriations</b></p> <p>Appropriation is the authorization of funds for spending units.</p>	<ul style="list-style-type: none"> <li>• Appropriation according to the approved budget must be well communicated to spending units.</li> </ul>
<p><b>Commitment</b></p> <p>A commitment takes place when an obligation to pay arises. This may happen when a contract is signed or when an order is placed, or when a monthly wage bill or an invoice for electricity exists.</p>	<ul style="list-style-type: none"> <li>• Verification that a spending proposal is approved by the authorised person;</li> <li>• Appropriation of money for the purpose conforms with what was planned by the budget;</li> <li>• Sufficient funds exist;</li> <li>• Expenditure is correctly classified.</li> </ul>
<p><b>Acquisition and verification</b></p>	<ul style="list-style-type: none"> <li>• Verification that goods and services have been delivered as per specification.</li> </ul>
<p><b>Payment</b></p>	<ul style="list-style-type: none"> <li>• Verification that expenditure has been properly committed;</li> </ul>

<p><b>Accounting</b></p> <p>The task of accounting is to record all transactions in a timely and accurate manner in the appropriate accounts and to report on it in a way that actual figures can be compared easily with budgeted figures.</p>	<ul style="list-style-type: none"> <li>• Competent person has attested that goods and services were delivered;</li> <li>• Invoice and payment documents are complete;</li> <li>• Creditor is correctly identified.</li> <li>• Verification of timeliness and accuracy of recorded transactions in the correct account;</li> <li>• Verification that documents from transaction are well maintained and safely filed.</li> </ul>
<p><b>Reporting</b></p>	<ul style="list-style-type: none"> <li>• Reports on budget execution are available in time and presented in a manner that actuals can be compared with the budget;</li> <li>• Variance analysis is carried out; Irregularities are identified.</li> </ul>
<p><b>Audit</b></p>	<ul style="list-style-type: none"> <li>• Check compliance with the applicable rules and required procedures and report irregularities;</li> <li>• Assess performance, where relevant.</li> </ul>

Morrell & Kopanyi (2014, p. 234) strongly emphasise that the payment process must be linked with the commitment and the verification process: “Payment systems must be related to budgets to ensure that no payment is processed unless a prior commitment was approved and tied to a specific budget line item. Before payments are made, they should be reviewed to ensure that no errors were made and that all necessary approvals and supporting documentation have been obtained. Payments for goods need to be compared to contractual prices and conditions, and payments for salaries and wages should be verified by the physical presence of the labour force.”

### 5.1.3 Budget Flexibility

One of the challenges of budget implementation is to cope with problems during implementation that were not anticipated when the budget was prepared. Such problems could occur because of inaccurate budget estimates, unexpected increases of prices or interest rates, technical problems with investment projects causing additional costs or delays, unexpected resource shortages due to a rapid economic downturn or to disasters. What can be done in such cases? Is it possible that resources are transferred from one budget line where there is underspending to another budget line where overspending is expected to take place? According to the principle of budget specification, this should not be allowed.

However, if the budget is too narrowly defined and management has absolutely no flexibility to reallocate resources from one budget line to another, this could result in a loss of efficiency and effectiveness. Under-spending in one budget area could be the case if the implementation of a project is delayed for reasons beyond control; in such a case, it's better to go faster with another project, spend more resources there and continue with the project facing problems when a solution to the problems is found. However, rules for the transfer of resources between budget lines are needed which must be stated in the financial rules and regulations. These rules should ensure that such transfers are only allowed as long as the policy intentions of the budget are not altered (Allen & Tommasi, 2001, p. 218).

### 5.14 In-year Budget Revision

If there is a need to deviate substantially from the approved budget, the budget must be revised. The deviation is to be considered as substantial when in-year changes alter the composition of the budget or when an overall increase of the budget is required. A budget revision must be approved by the same body that approved the original budget. The number of budget revisions should be strictly limited so that piecemeal tactics are avoided; it is important that the issues requiring a revision of the budget are considered together (Allen & Tommasi, 2001, p. 221).

In the case of a UP, it is allowed, if required, to revise the budget at any time in the year in accordance with the provision made in Section 57(5) of Local Government (Union Parishad) Act, 2009; the revised budget has to be sent to the UNO.

The successful implementation of the budget depends on a regular monitoring of the budget. Box 32 shows important provisions for monitoring budget execution in UPs as required by the UP Act, 2009 and the UPOM.

#### Box 32: Important provisions for monitoring budget implementation in UPs

UP budget implementation should be reviewed at least every six months and can be done effectively through Ward Shavas. In the Ward Shavas, the progress of budget implementation will be discussed and, if necessary, required adjustments to the budget should be recommended. In addition, the Standing Committee for Finance and Audit should discuss budget implementation in the UP meeting on a quarterly basis.

## 5.2 Asset Management

The creation or renovation of physical assets is a very important field of activity and part of budget implementation in UPs. Hence, asset management also belongs to the budget implementation process. UPs are authorised by Section 51 and 52 of the UP Act, 2009, to acquire, use or sell assets, i.e. property. However, the UP Act contains important provisions related to these rights (see Box 33).

#### Box 33: Powers of acquisition, possession, disposal and transfer of property of a parishad

- (1) Every Union Parishad shall have the right to acquire, possess, and dispose property and enter into an agreement; but in the case of acquiring and disposing immovable property, the Parishad must obtain prior approval of the Government.
- (2) The Government may:
  - (a) frame rules for the management, maintenance and development of property belonging to or vested in a Parishad.

- (b) for acquisition of immovable property, as may be required by a Parishad.
- (3) A Parishad, following prescribed procedures, may make regulations to:
- manage, maintain, inspect and develop any property owned by the UP;
  - utilize such property for the purpose of the people.
  - acquire or transfer by grant, gift, sale mortgage, lease, exchange or otherwise any property.
- (4) The Parishad shall carry out an annual assessment of all property under its management and forward a copy of the updated statement to the specified authority, after preparing property statements and maps, as applicable.
- (5) If any property is acquired, possessed, or disposed of avoiding or violating the procedures specified under the UP Act 2009 and corresponding rules, this shall be deemed to be illegal; the person or persons concerned, shall be punished under the rules of the UP Act.
- (6) The Government may transfer any government property to a Parishad, located along with or within the local jurisdiction of such a Parishad, in accordance with the concerned rules and regulations. Such property shall remain with and under the control of the Parishad.

It is very important that UP assets/properties are managed well. But what does this mean?

Asset management is described by Kaganova & Kopanyi (2014, p. 276) in a very comprehensive way as “a process of making decisions and implementing them regarding operating, maintaining, refurbishing, acquiring, or developing physical assets cost-effectively, with the ultimate objective of providing the best possible service to local citizens.” This comprehensive asset management concept

includes operation, maintenance, refurbishment, acquisition and development of physical assets. While putting the emphasis on physical assets (e.g., land, buildings, infrastructure, equipment, vehicles, etc.), it excludes non-physical assets, such as cash, shares, bills, bonds.

Physical assets that are expected to be used for more than one year will be considered as immovable assets. General stores items and office stationery will be considered as movable assets.

Box 34 presents an overview of physical, immovable assets that a UP might own.

**Box 34: Typical portfolio of physical assets owned by a UP in Bangladesh**

- Furniture
- Land
- Buildings
- Roads (dirt/brick roads), bridges and culverts
- School buildings
- Medical clinics
- Cultural facilities (libraries, museums, theatres)
- Sport facilities (stadiums, football ground,)
- Sanitary latrines
- Tube wells and other water sources,
- Street lighting
- Parks
- Ponds
- Agricultural land and forests
- Vacant land
- Cemeteries and burial grounds
- Farmers markets
- Landfills

Assets must be acquired in a strategic way to serve the purpose of the entity in the medium and long run, depending on the nature of the asset; assets need regular maintenance or refurbishment as they are



exposed to wear and tear. Regular and professional maintenance extends the useful life of physical assets and preserves or even increases the value of assets. Land may need development measures to make a location safer and more accessible and attractive for citizens, businesses and investors. Such measures should be in line with the directions of the strategic development plan (5YP) of the UP. For sure, all these activities - operation, maintenance, refurbishment, acquisition, and land development - have implications on the UP budget. They must be planned during budget preparation and implemented after budget approval.

### 5.2.1 Inventory of UP Assets

Inventory of assets is a basic requirement for asset management. It is highly risky if assets are not registered properly. Maintenance of assets might be neglected, assets could get stolen, encroachments could take place or

the development potential of assets in the possession of a UP might be ignored. The Union Parishad (Assets) Rules, 2012 lay down the detailed procedures for acquisition and transfer of assets together with how these assets must be managed, maintained and developed.

UPs should prepare a draft inventory of all fixed and movable assets using the prescribed formats. This asset registry will be verified by the auditors, who will also assist in finalizing asset inventories.

A unique identification code must be affixed to each asset with permanent ink (where applicable and possible). To assign the identification number, a specific ID code system should be followed. For example: for dirt road the number will be ER 01-2011-001 (1st no. will be the location of the road, 2nd is the year of procurement and 3<sup>rd</sup> is the serial #), see Box 35.

**Box 35: Asset identification codes illustrated**

Types of Asset	Location (Ward #)	Year of Procurement/Received	Asset #	ID #
Dirt Road	07	2010	001	ER072010001
Computer	00	2019	003	COMP002012003

UPs should have an asset register. All the movable and immovable assets of a UP should be recorded in its asset register, such as roads, bridges, culverts, markets, ponds, furniture, equipment, buildings as long as these are owned by a UP. The name of the item, procurement date, cost, source of funds, maintenance date, amount required for maintenance, and source of funds for maintenance should be mentioned for all the asset items. The register should be updated

regularly. The amount and the number of assets for each year should be the same as the amount of procurement (Goods and Works) done in the specific year. The asset register will be audited by the audit team and will be treated as a financial management document of the UP. Template 8 provides a sample format for an asset register. Asset Register for movable and immovable assets should be kept separately:



**Template 8: Asset register**

Serial #	Name and location of the asset	Date of Procurement /Construction	Cost	Source of Fund	Latest maintenance Date	Amount spent	Source of funds for maintenance	Previous maintenance dates	Comments

The following procedures should be followed with regard to the documentation of UP assets:

- (a) All the assets should be entered in the asset register;
- (b) All documents should be kept chronologically in respective files;
- (c) All document files and the asset register must be kept in safe custody and only authorized persons (Chairman and his/her assigned persons) will have access to those documents; and
- (d) All documents related to the asset will be preserved for a period of up to at least five years after completion of the implementation of the concerned scheme.

All the immovable assets under the control of the Union Parishad must be physically verified by a committee to be constituted by the UP. One UP member will chair the committee while the UP secretary will be the member secretary. Upazilla level officials or officials working at the UP level on a regular basis should be members of this committee.

### 5.2.2 Disposal of UP Assets

An important operation as part of asset management is the disposal of assets. Rule 4 of the Union Parishad (Assets) Rules, 2012

describes the procedures for the disposal of assets. It stipulates that a technical committee, constituted by the Parishad and supported by the UP secretary as the Convenor, shall work out the estimated sale value of assets to be disposed of; this value shall be approved by the votes of a three-fourth majority. Finally, approval from the government must be obtained.

Moreover, the guidelines presented in Box 36 should be considered by UPs.

**Box 36: Disposal of fixed assets**

Any disposal of fixed assets should depend upon the condition of the asset. It should occur only after proper authorization by the UP. The asset may be disposed of in two ways:

- By sale, when it is no longer required by the UP and the people;
- By discard – when it loses its utility.

In either case, the asset should be physically verified by the appropriate authority before disposal. The following steps should be followed for the disposal of immovable assets:

- The request for disposal should be made in writing to the approving authority by the user or by the custodian of the asset;
- The request should be reviewed and approved by the approving authority (UP).

It is highly important that the asset inventory is updated immediately when sales or acquisitions take place and that the inventory is presented with full information to the UP annually and disclosed to the public at the same time. The information should also include temporary rights such as lease to third parties and proceedings from lease. Kaganova & Kopanyi (2014, p. 294) emphasise the fact that “transparency is a simple, inexpensive, and effective way to support good asset management and curb corruption and conflict of interest. In asset management, many violations of public interests take place at specific moments in the property life cycle. The areas prone to violations include (a) property acquisition or reconstruction; (b) property disposal (sales); and (c) allocation of rights in property to third parties, including rights of use or lease to the private sector or transfer to municipal enterprises.”

Allen & Tommasi, (2001, p. 255) underscore that asset registers must be subjected to regular audit.

### **5.3 Internal Control and Audit:**

Internal control and audit system can be considered as one of the key components of ensuring transparency and accountability of local government system. In fact, all the agencies which spend public money have the processes in place to ensure that all budget-related operations are in compliance with established rules and regulations so that resource management systems work more efficiently and ensure effective service delivery; internal control and audit are those processes.

#### **5.3.1 Definition of Internal Control and Audit**

Generally, the processes that are designed to ensure compliance with existing rules and procedures during implementation of budgets are called internal control. Internal control has been described in a very elaborated way by Baltaci and Yilmaz (2006, p.7) as “ a set of organizational policies and procedures to ensure reliable record keeping, to safeguard assets, to promote operational efficiency, and to monitor adherence to policies and directives.” This broad and functional definition of internal control incorporates the various actions such as, supervising authority’s responsibility to ensure that money is collected and spent to deliver adequate services; compliance is ensured with rules and regulations while making any transaction; consistency exists between practices and agreed-on policies and objectives of the organisation. Internal audit processes supply information to agencies on risky areas where controls are weak or regular failure to comply with rules endanger an organization’s ability to fulfil its objectives (Andrews et al., 2014, p.4).

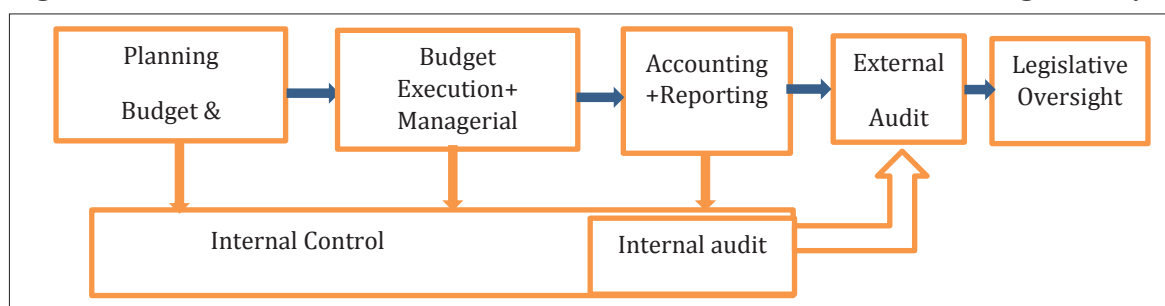
#### **5.3.2 Distinguishing Features of Internal Control and Audit**

Many PFM experts tend to use internal control and audit interchangeably. However, there are functional and operational distinctions between these two terms. This distinction has excellently been depicted by Baltaci and Yilmaz (2006, p.9): “Internal controls are the systems put in place to ensure sound financial management and service delivery whereas internal audit is the check of those systems. Internal control processes are intended to provide generic assurances to

mitigate the probable risks via ex ante expenditure checks whereas internal auditors are engaged in ex post compliance, performance, and financial audits. The feature that most distinguishes internal audit from internal control is that internal audit operates independently from the administration and internal control structure.” Moreover, persons engaged with the internal audit process are kept away from decision-making activities meaning that their activities

are shifting from ex-ante to ex-post reviews leading to the checking of the conformity and effectiveness of the complete transactions and expenditures. There should exist a system of smooth information sharing between management, internal auditors, and external auditors. Below, figure 4 illustrates the responsibilities of internal control and audit and of external audit in the context of the PFM cycle.

**Figure 4: Internal control and audit in the context of the Public Financial Management cycle**



Source: Adapted from Baltaci and Yilmaz (2006)

### 5.3.3 Tools to Practice Internal Control

Although modern internal control is more of a permeated duty in all layers of government, Baltaci and Yilmaz (2006, pp.20 -21) underscored the importance of tangible tools to ensure the practice of internal control. They argued organizational mechanisms should be established for carrying out these processes. Therefore, monitoring agencies / inspection authorities / internal audit bodies should be assigned to perform these responsibilities using effective and robust tools such as physical checks of the goods and removable items owned by the entity. This is usually done by checking the asset register.

Moreover, accounting checks, hierarchical controls by management, and horizontal checks (in case of cooperation among different operational departments) are needed to be put in place. Internal audit emerges as a sound safeguard to make sure that the internal controls are effective, and that accurate guidance is given to the management.

### 5.3.4 Internal Audit and Control in the Context of UPs

In case of UPs, there are set rules and regulations for ensuring internal control, i.e. public procurements rules for public purchase, specified rules for tax collection under the Local Government (Union Parish-

ad) Act, 2009, and UNO, DDLG and DC can exercise some authority to exercise internal control through hierarchical controls, while there is no established legal framework for an internal audit body. However, a third-party auditing system is put in place with the Local Governance Support Project.

## 5.4 Bank Reconciliation by UP

Bank reconciliation is the “process of matching the balances in an entity’s accounting records for a cash account to the corresponding information of a bank account” (Bragg, 2017, p. 1). With respect to UP accounting, this means that we want to be sure about the information on cash availability shown in the books; therefore, we compare this information with the information from the banks. UPs are required to carry out bank reconciliation at least monthly (UP Accounts and Audit Rules, 2012, Rule 27).

An organization, such as a UP, must know how much cash they have at any given time to ensure they are on target for bills, payments, and credits. In addition, bank reconciliation is important for the following reasons:

- Identification and rectification of bank or accounting errors;
  - Verification that good stewardship over the use of public funds was exercised and no leakages occurred;
  - Ensuring the integrity of financial data and preventing from accounting errors or omissions;
  - Warranting the quality of accounting information, i.e., accuracy, timeliness and completeness;
- Exercising internal control on financial transactions, detecting and preventing fraud.

However, the cash balance at the bank may be different from the balance shown by accountants at the organization. This can happen for two main reasons as shown below:

(1): Transactions that appear in the UP records but not in bank statement to the UP:

- Deposits in transit (These are amounts already received and recorded by the organisation, but not yet recorded by the bank. The money is possibly in an overnight deposit at the bank. Recording of these amounts at the bank may take place on the following day only.)
- Outstanding checks issued by UP but not yet cleared by the bank.

(2): Transactions that appear in the bank statement to the UP, but not in the UP records:

- Charges for bank services for UP
- Interest income earned on UP’s bank accounts
- NSF checks (NSF - not sufficient fund, e.g. payments to UP by check that is not covered with sufficient cash at payer’s bank)

Consequently, the process of bank reconciliation must include two main steps with the corresponding sub-steps; in addition, entries to adjust the books may be required eventually. This is demonstrated by Averkamp (2017) as shown in the next page:

First step: Adjusting the Balance per Bank

- (i) Add Deposits in Transit
- (ii) Deduct Outstanding checks
- (iii) Add or deduct Errors and omissions at bank side

- (ii) Deduct NSF checks and related fees
- (iii) Deduct Check printing charges
- (iv) Add Interest earned on bank accounts
- (v) Add or deduct Errors and omissions at UP side

Second step: Adjusting the Balance per Books

- (i) Deduct Bank service charges

The practice of bank reconciliation is illustrated in Box 37.

**Box 37: Bank reconciliation in two step**

<b>First step: Adjusting Bank Balance</b>	<b>Balance as per Bank, July 31, 2020</b>	<b>2,459,472.00</b>
	Add: Deposit in Transit	40,000.00
	Less: outstanding Checks:	
	Check No: 542	320.00
	Check No: 554	36,601.00
	Check No:565	27,500.00
	Check No:570	18,650.00
		83,071.00
	Adjusted bank Balance	83,071.00
	Adjusted bank Balance	2,416,401.00
<b>Second step: Adjusting Bank Balance</b>	<b>Balance as per Books (July 31, 2020)</b>	<b>2,319,679.00</b>
	Add:	
	Interest income from Bank	128,722.00
	Deposit understated	59,000.00
		187,722.00
	Less:	
	NSF Check	85,000.00
	Bank Service Fee	5,000.00
	Bank Collection Fee	1,000.00
	Adjusted Book Balance	91,000.00 2,416,401.00

The two adjustment processes for the bank and the book having done, the amounts per bank and per book should be the same. If they are not equal, the reasons or errors must be found. Finally, journal entries are needed for the adjustments of the balance per books.

If the cash balance needs to increase, this requires a journal entry that debits cash and credits another account. If the cash balance in the book needs to decrease, it requires a credit to cash and a debit to another account.

## 5.5 The Main Points of this Chapter

In chapter 5, we saw firstly that revenue mobilisation is crucial for budget implementation. This requires effective tax and fee collection, updated and complete registers, simple rules for tax assessment with little discretion, user charges with full cost coverage, and effective measures to enforce payment of taxes and fees.

Secondly, careful expenditure management is needed to make sure that resources are used efficiently and effectively and in conformity with the approved budget. Implementation problems must be solved, and this may need a certain degree of budget flexibility. However, such flexibility needs clear rules and it should not undermine the principle of budget specification. If further changes are needed, the budget must be revised, and this revision must be approved by the same body that approved the original budget. Therefore, UP budget revisions need to be approved by a UP meeting and crosschecked by the UNO. To ensure that budget execution is in line with the budget, monitoring is needed, in UPs at least every six months.

Thirdly, asset management is an important obligation under budget implementation. Physical assets (fixed and movable) must be listed in a detailed asset register which is updated continuously and subject to audit.

For the disposal of physical assets, clear rules apply, also for UPs.

Fourthly, internal control and audit are used to ensure that all budget-related operations follow set rules and regulations. Therefore, physical checks of the goods and removable items owned by the entity, asset register checks, procurement routine checks, accounting checks, etc. are carried out. In the case of UPs, the UNO, DDLG and DC may exercise hierarchical control for this purpose.

Fifthly, bank reconciliation is needed on a regular basis to make sure that cash as shown in the books is available. UPs are obliged to carry out bank reconciliation at least monthly. We should bear in mind that well formulated budgets need adequate implementation to make the best use of public money for the people. Otherwise, resources are wasted, and public support of social and economic development is poor.

The next chapter addresses public procurement. Technically, procurement is to be considered as part of budget implementation. However, it is treated separately here because of its particularities and its importance.



## Public Procurement

From a technical point of view, public procurement is a sub-process of budget implementation. However, in view of the particularities and the importance of the procurement process, a special chapter is dedicated to it. The sixth chapter on public procurement starts with explaining the specific procurement terminology and the procurement objectives; moreover, it addresses the risk of corruption, describes the different procurement methods and when to apply them; finally, it describes the procurement process.

### 6.1 Public Procurement Terms in the Context of Bangladesh

Public procurement means the acquisition process for goods and services including works by a public entity using public funds. In Bangladesh, section 2 of the Public Procurement Rules, 2008 (amended up to 2018), specify in detail the scope of public procurement. This is shown in Box 38.

#### Box 38: Scope of public procurement

- **Goods:** raw materials, equipment; objects in solid, liquid or gaseous form; electricity, and related services if the value of such services does not exceed that of the goods themselves; [Rule 30 of PPR-2008].  
Examples: Furniture, electric fans, education materials, medicines for health centres, etc.

- **Works:** activity associated with the construction, reconstruction, site preparation, demolition, repair, maintenance or renovation of railways, roads, highways or a building, an infrastructure or an installation, etc. or any construction activity relating to excavation, installation of equipment and materials, decoration as well as physical services ancillary to works, if the value of those services does not exceed that of the works themselves; [Rule 12 of PPR-2008].  
Examples: Construction of roads and sewerage drains, repair of existing roads, etc.
- **Services:** goods related services, physical services, or intellectual and professional services; [Rule 43 of PPR-2008].  
Examples: engineering, activities of part-time health workers

In public procurement, specific terms are used which have a precisely defined meaning. Important terms are explained in Box 39 with respect to the context of UPs.

#### Box 39: Procurement terms

- **Procuring entity:** organisation having administrative and financial powers to undertake procurement of goods, works or services using public funds. [Rule 2,14 of PPR-2008]  
The UP is regarded as the procuring entity.
- **Contractor:** individual or legal person under contract with a procuring entity for



the execution of any works under this Act. [Rule 2(18) of PPR-2008]

In the case of a UP, any individual or business entity engaged for construction or repair of any work is considered as contractor.

- **Supplier:** individual or legal person under contract with a procuring entity for the supply of goods and related services. [Rule 2(52) of PPR-2008]
- **Consultant:** individual or legal person under contract with a procuring entity for providing intellectual and professional services. [Rule 2(31) of PPR-2008]
- **Quotation:** priced offer in writing received from tenderers for procurement of readily available standardized goods, works or physical services subject to the financial limitation as prescribed by rules [Rule 2(11) of PPR-2008].
- **Tender or proposal:** a proposal submitted by a tenderer or a consultant for the delivery of the goods, works or services to the procuring entity in response to an invitation for tender or a request for proposal; also called bid. [Rule 2(24) of PPR-2008].  
In the case of a UP, all documents submitted by a supplier / contractor shall be regarded as a tender.
- **Tenderer:** individual or business that submits a tender; also called bidder. [Rule-2(26) of PPR-2008]

## 6.2 Public Procurement Principles

Schiavo-Campo & Tommasi (1999, p. 231) explain that the “main objective of the government as a purchaser is to obtain goods and services of the required quality at a competitive price. Procurement procedures should provide fair opportunities to all

bidders and be designed to achieve good value for money and minimise risks of corruption and patronage”. In this narrative, different important principles have been derived that should apply for good procurement: the economy principle (lowest price for intended quality or value for money), fair opportunities for all bidders, and minimisation of corruption and patronage risks (transparency and accountability). In Box 40, these objectives are further specified in the context of a UP in Bangladesh. Efficiency (timeliness) has been added as an additional principle

### Box 40: Public procurement principles

1. **Economy:** procurement at the lowest possible cost without compromising the intended quality.
2. **Efficiency:** timely procurement bearing in mind the requirement of users or of a project.
3. **Transparency:** procurement process should be open to public scrutiny; contract awards and the overall procurement process itself is subject to the scrutiny of the UP chairman and secretary, ward committees and scheme supervision committees, project supervision committee, external audit bodies, CSO, the media; award criteria, winning bids (justified against the criteria) and contracts (including any contract amendments) must be publicly disclosed and displayed for a certain period of time .
4. **Accountability:** all concerned persons are answerable for their action.
5. **Equal opportunity:** all bidders in the procurement process get non-discriminatory treatment; they have the same information at the same time and criteria are not biased towards a particular company; independent complaints mechanisms are in place.

## 6.3 The Risk of Corruption and More

The OECD Secretariat (2016, p. 5f.) points out that public procurement is one of the government activities most vulnerable to corruption; referring to another study of OECD (2014), it was shown that 57% of foreign bribery cases took place to secure public procurement contract. Various types of corrupt acts are listed, such as undue influence to distort needs assessments, bribery of public officials, fraud in bid evaluations, false invoices or fraudulent contract obligations, bid rigging and clientelism. The financial volume of goods and services procured and works carried out under public procurement is huge; this can explain to a certain extent why the corruption risk is so high. For the OECD countries, the volume of public procurement is estimated on average at 12% of GDP and 29% of public expenditure.

In PPR 2008, these and other risks are well identified (see Box 41).

### Box 41: Risks of professional misconduct in procurement

**1. Corrupt practice:** offering, giving or promising to give, receiving, or soliciting, either directly or indirectly, to any officer or employee of a procuring entity or other public or private authority or individual, a gratuity in any form; employment or any other thing or service of value as an inducement with respect to an act or decision or method followed by a procuring entity in connection with a procurement proceeding or contract execution [Rule 127, 2(a) of PPR-2008].

Example: A person involved in the procurement process is offered a valuable gift or a financial or non-financial benefit.

**2. Fraudulent practice:** misrepresentation or omission of facts in order to influence a decision to be taken in a procurement proceeding or contract execution [Rule 127,2(b) of PPR-2008].

Example: contractor makes a false statement or deliberately suppresses information with the dishonest purpose to influence the procurement decision.

**3. Collusive practice:** a scheme or arrangement between two or more persons, with or without the knowledge of the procuring entity, that is designed to arbitrarily reduce the number of tenders submitted or fix tender prices at artificial, non-competitive levels, thereby denying a procuring entity the benefits of competitive price arising from genuine and open competition [Rule 127,2(c) of PPR-2008].

**4. Coercive practice:** harming or threatening to harm, directly or indirectly, persons or their property to influence a decision to be taken in a procurement proceeding or the execution of a contract [Rule 127,2(d) of PPR-2008].

In the case of professional misconduct, the PPR requires that actions are taken by the procuring entity. Firstly, an investigation of the case is required, and then, if the suspicion of misconduct has been confirmed, the party found guilty for wrongdoing is excluded from the bidding process or from the execution of the contract (Box 42).

### Box 42: Actions to be taken in case of professional misconduct

1. If any person or entity is involved with corruption, fraud, collusion or coercion, the procurement entity will ask them to explain their act.

2. If the explanation is not acceptable, the head of procuring entity will debar the concerned

individual or entity from participating in the bidding process or cancel if any work order is issued in favour of the said individual or entity.

3. In addition, he may declare the said individual or entity incompetent to take part in the bidding process for a specific or indefinite period in future.  
[Rule 127,3 and 4 of PPR-2008].

The OECD Secretariat (2016, p. 7) makes a distinction between direct and indirect corruption costs. Both, direct and indirect costs may occur in all cases of professional misconduct as identified in Box 38. The direct costs include allocative efficiency losses if needs assessments were distorted (misallocation); furthermore, they may include higher costs or lower quality, billing for work not performed or the use of inferior materials or standards not met. These costs affect the procurement entity, its taxpayers and the intended beneficiaries. Furthermore, if too much was paid for what was procured or if too much was spent for the wrong goods or services resulting from a distorted needs assessment, money for possibly more important policies will be lacking. Indirect costs affect potential competitors, which were tricked by a distorted competition and by limited market access. Their sales will be smaller having a negative impact on wages paid and profits they could have made.

Unfortunately, corruption risks are not limited to central governments. The OECD Secretariat (2016, p. 7) points out that “corruption in public procurement can both occur at the national and sub national levels. On the one hand, decentralisation may narrow the scope for corruption, in line with the assumption that politicians and public

officials at sub national levels are more accountable to the citizens they serve. Voters may be better able to discern the quality of their leadership and the results they deliver. Likewise, local politicians and civil servants can be more in touch with specific needs and contexts of their constituencies. On the other hand, however, greater opportunities and fewer obstacles to corruption may play at the sub national level, due to, in some instances, weaker governance capacity (through for example less developed auditing functions, limited legal expertise or low IT capacity) or closer community contacts between public officials and business representatives.”

We have seen above (Box 41) what procurement entities are required to do if a procurement risk materialised and something went wrong with procurement. These measures are retroactive only. However, first and foremost, it is important that the procurement process is conducted in a way which prevents as much as possible procurement risks. That’s why procurement processes are well regulated by legislation. The legal framework prescribes the procurement methods, when to choose which method and how to conduct the procurement processes.

## 6.4 UP Procurement Methods

In Bangladesh, four methods of procurement are allowed for UPs. The first method, community procurement, is only allowed for simple works of a total value not higher than Tk.500,000. The remaining three methods, direct procurement, request for quotation (RFQ) or the open tendering method (OTM) can be used for the procurement of goods, services and works: the underlying principle states that the higher the acquisition value or

estimated cost, the more competitive the procurement method must be. If the estimated cost is smaller than Tk.25,000, direct procurement is allowed. The use of RFQ is allowed if the estimated cost is smaller than Tk. 500,000. If the estimated cost is higher than Tk. 500,000, OTM must be applied.

The thresholds for direct procurement, RFQ or OTM are the same for the acquisition of goods as those for services. The rules are laid down in PPR 2008 (Rules 61-82 and annex) and in the Union Parishad Operational Manual (2012, section 4). More details on the four procurement methods are shown in Box 43.

**Box 43: Procurement methods for UPs**

Type	Degree of competition	Threshold	Additional issues
<b>Community procurement</b>	No competition	Cost up to 500,000 TK	<ul style="list-style-type: none"> <li>• Direct implementation</li> <li>• Only for simple works (earth works, embankments, construction of earthen roads, etc.)</li> <li>• Not for goods or services</li> </ul>
<b>Direct procurement</b>	No competition	Cost up to 25,000 TK	<ul style="list-style-type: none"> <li>• Procuring entity is not required to go for any competitive procedure, and procurement can be made directly from one particular vendor/supplier/contractor/individual without soliciting any competitive price.</li> </ul>
<b>Request for quotation (RFQ)</b>	Limited competition	Cost up to 500,000 TK (for Goods)	<ul style="list-style-type: none"> <li>• The procuring entity shall obtain at least three quotations.</li> <li>• Comparison of two quotations is only justified when there is satisfactory evidence that there are only two sources of supply.</li> <li>• Award of the contract/work order/purchase order shall be based on the lowest evaluated price, subject to the fulfilment of technical and other applicable requirements and terms and conditions, of the RFQ document.</li> </ul>
<b>Open tendering method OTM</b>	Full competition	Cost up to 1,000,000 (for Works)	<ul style="list-style-type: none"> <li>• Tenders shall be invited from all eligible tenderers through public advertisement.</li> <li>• The open tendering shall be the preferred method of procurement for goods and related services, works and physical services, unless the threshold or special circumstances relating to a specific requirement make it more appropriate to use one of the other procurement methods.</li> </ul>
		Cost up to 2,000,000 TK (for Works)	

## 6.5 UP Procurement Processes

According to Schiavo-Campo & Tommasi (1999, p. 232), the procurement process starts with the identification of user needs and the specification of the goods or services to be procured. In the case of construction projects, different options should be considered, and the most cost-effective solution prepared. The next important step is dedicated to the determination of the procurement method, i.e. the scope of competition required depending on the estimated costs of the items to procure. Possibly a pre-qualification procedure may be used before the formal tender announcement is published. The formal tender announcement must specify the characteristics of the item to procure, the selection criteria and the

award arrangement. Finally, the results of the bidding must be publicly disclosed including the list of suppliers submitting tenders, the bid prices, and the name of the successful bidder.

In Box 44, the steps of the UP-procurement process are further specified. As we can see, the steps are prescribed by the PPR 2008 very much in detail. It is the purpose of such prescriptive procurement rules to enable economy and efficiency, transparency and accountability, citizen participation as well as equal opportunity in the procurement process to achieve the best possible value for money and to reduce the risk of corruption and clientelism.

### Box 44: Steps of UP procurement

Procurement Step	Description
Procurement plan	<ul style="list-style-type: none"> <li>Identifies and describes the purchases for goods, services or works. It specifies the requirements for what is to be procured, the estimated costs and the time schedule. Furthermore, it provides information on the procurement method.</li> <li>Each procuring entity is obliged to prepare a procurement plan in the prescribed formats [Rule 16,1 of PPR-2008].</li> <li>The procurement plan should be prepared at the beginning of the financial year based on the demands of the local citizens.</li> </ul>
Formation of committees	<ul style="list-style-type: none"> <li>For the execution of procurement: Ward Committee, Project Implementation Committee, Tender Opening Committee and Tender Evaluation Committee.</li> <li>For the supervision of procurement: Scheme Supervision Committee.</li> </ul>
Preparation of tender documents	<ul style="list-style-type: none"> <li>Tender documents shall be prepared by the procuring entity following the standard documents issued by the CPTU listed in Schedule I of PPR-2008 [Rule 4,1 of PPR-2008]. Forms for UPs are included in the appendix of the UP Operational Manual.</li> <li>Tender documents must be prepared in the case of procurement using quotation method or open tender method. There are prescribed formats for tender documents.</li> </ul>

	<ul style="list-style-type: none"> <li>- In the case of procurement using the quotation method, the ward committee will fill in the relevant parts of the prescribed forms.</li> <li>- In the case of procurement using open tender method, UPs shall form a committee for the preparation of tender documents.</li> </ul>
Publication of notice	<ul style="list-style-type: none"> <li>• To ensure transparency in the procurement process, the notice for procurement must be published. <ul style="list-style-type: none"> <li>- Requests for quotation do not necessarily have to be advertised in the newspaper; but as a minimum, it shall be published on the website of the procuring entity, if there is any, including its notice board [Rule 71,2 of PPR-2008].</li> <li>- UPs should publish the procurement notice at the conspicuous places of the concerned ward.</li> <li>- In the case of procurement using the open tender method, the notice should be published in the local newspaper or, at least one national newspaper (UP operational Manual, Sept 2018).</li> </ul> </li> <li>• The tender notice, among others, should include date, time and venue of receiving tender [Rule 90 of PPR-2008].</li> </ul>
Receiving tender	<ul style="list-style-type: none"> <li>• The tenders should be received according to the date, time and venue mentioned in the tender documents.</li> </ul>
Tender opening and evaluation	<ul style="list-style-type: none"> <li>• In case of the Open Tendering Method, tenders should be opened in presence of the tenderers at the date, time and venue mentioned in the tender documents. Except for RFQ, the ward committees/tender evaluation committee, will complete the evaluation after the opening of tenders.</li> <li>• In the case of RFQ method, the evaluation committee will open and evaluate the quotation on the very submission date [Rule 73,1 of PPR-2008].</li> </ul>
Tender approval, issuance and acceptance of notification of award	<ul style="list-style-type: none"> <li>• In the case of procurement under OTM, the tender evaluation committee will recommend issuance of Notification of Award (NOA) in favour of the lowest evaluated tender in their report.</li> <li>• This report shall be presented before the meeting convened by the UP.</li> <li>• UP issues NOA within seven working days of approval of the recommendation of the tender evaluation committee by the Parishad [Rule 36, 4, 101 and 102 of PPR-2008].</li> <li>• The successful tenderer must accept the NOA in writing within seven working days of its issuance [Rule 102, 3&amp;4 of PPR-2008; clause 4.3.7.11 of UP Operational Manual 2018].</li> </ul>



Signing of contract	<ul style="list-style-type: none"> <li>After issuance of the NOA under OTM, a contract must be concluded with the lowest evaluated tenderer within 28 days of issuance of NOA [Rule 102, 11 of PPR-2008 clause 4.3.7.12 of UP Operational Manual 2018;].</li> </ul>
Supervising delivery according to contract	<ul style="list-style-type: none"> <li>The delivery of goods / works must be supervised; it must be verified that delivery is on time, in the right quantity and quality and at the right place in accordance with the contract clause 4.3.7.14 of UP Operational Manual 2018.</li> </ul>
Payment as per contract	<ul style="list-style-type: none"> <li>After receiving delivery of goods / works according to the agreed quality and quantity, payment has to be made to the suppliers / contractors within 28 days of issuance of completion certificate by UP [Rule 39(22), Schedule 2 of PPR-2008].</li> </ul>
Preservation of procurement records	<ul style="list-style-type: none"> <li>All relevant records should be preserved systematically in a file once procurement is completed at least for five years [Rule 43,1 of PPR-2008 clause 4.3.7.11 of UP Operational Manual 2018].</li> </ul>
Overall preservation of procurement	<ul style="list-style-type: none"> <li>To perform procurement efficiently in future, activities at all stages of procurement must be evaluated while being carried out. All lapses must be identified to avoid their recurrence in the future [Rule 46 of PPR-2008].</li> </ul>
Presentation of records before audit	<ul style="list-style-type: none"> <li>All relevant procurement related records must be presented before audit for scrutiny.</li> </ul>

## 6.6 The Main Points of this Chapter

In chapter 6, we saw that public procurement deals with the acquisition of goods, works and services. It is the objective of public procurement to obtain goods and services of the required quality at a competitive price. Moreover, procurement procedures should provide fair opportunities to all bidders and be designed to achieve good value for money and minimise the risks of corruption.

There is evidence from many countries that corruptive as well as fraudulent, collusive and coercive practices are frequent in procurement in the public sector. In the case of professional misconduct in connection with such deceptive procurement practices, the public procurement rules of Bangladesh

require that actions are taken by the procuring entity; these required actions are specified in the Public Procurement Rules (2008) which also apply to UPs. To reduce the risk of procurement shortcomings, procurement methods are specified by these rules; for UPs, they are further specified in the UPOM.

Depending on the type of the procurement object (services, goods, works) and the cost for what is procured, the Public Procurement Rules (2008) also determine which procurement method to choose. The set of procurement methods for UPs is as follows: community procurement, direct procurement, request for quotation, and open tendering. In addition, for the procurement process, the rules set strict guidelines, and these are further specified for UPs.

The next chapter is dedicated to accounting, reporting, and audit.

## Accounting, Reporting, Audit

Accounting and reporting, both verified through independent, professional audit, are indispensable for an objective assessment of performance of a public-sector entity. This chapter will look at accounting, reporting, audit and public scrutiny from a conceptual point of view and then consider their importance in the context of UPs.

### 7.1 Accounting

In this section, we will discuss first the role of accounting; then, the different accounting approaches are addressed, and finally, the importance of commitment control is explained.

#### 7.1.1 The Role of Accounting

The Chartered Institute of Public Finance & Accountancy (CIPFA) (2009, p. 35) describes the role of accounting in a very comprehensive way: Accounting “records expenditure and income by type of expenditure and by activity, comparing actual records against budgeted allocations. It also includes measuring and recording the value of assets and liabilities. Accurate, timely and reliable financial information is required to understand and calculate costs, analyse trends and support decision-making and financial control. Accounting information is also necessary to plan realistically how resources are allocated

to policies, programmes and services, to assess relative value for money and to give an account of expenditure and income to stakeholders.”

The above description tells about the specific tasks of accounting and why it is needed. Here, three main tasks of accounting are highlighted:

- Documentation of transactions: complete and timely recording of all revenue and expenditure transactions of a public entity and systematic preservation of the related documents. Expenditures are recorded by type (economic classification) and by activity (functional classification).
- Presentation of actual compared with plan (approved budget).
- Presentation of assets and liabilities in a complete and systematic way.

CIPFA also points out various important purposes of accounting. We will take up some of these applications like trend analysis or value for money considerations in chapter 8 dedicated to budget analysis. At this point, three core purposes of accounting will be discussed:

- Lawful use of funds: Accounting information must show the use of funds during budget implementation in a complete and traceable way. Accounting must enable verification that funds were used in

accordance with the budget. Therefore, accounting must use the same system of classification as it is used for the budget to make such comparison possible.

- **Assessment of the current financial situation:** Clear information about the current financial situation is highly important for taxpayers and other stakeholders,
- **Cost analysis for services:** Cost analysis serves the purposes of assessing the efficiency of service provision, supporting informed budget preparation in the future, and of determining fees for public services.

### 7.1.2 Cash-Based Accounting or Accrual Accounting

As Allen and Tommasi (2001, p. 291f.) point out, cash-based accounting measures the flow of cash resources. It recognises transactions when cash is received or paid. In contrast, accrual accounting recognises transactions and events when they occur irrespective of when cash is received or paid. Expenses reflect the amount of goods and services consumed during the accounting period, it doesn't matter whether payment or receipt of payment took place in the same period. The difference is illustrated again with examples:

**Case 1:** Somebody pays taxes in 2020 which were due in 2019. Under cash-based accounting this revenue belongs to 2020. Under accrual accounting, this revenue belongs to 2019.

**Case 2:** At the end of 2019, a local government outfit bought office stationery to use in 2020. Under cash-based accounting, this

expenditure belongs to 2019; under accrual accounting the expense belongs to 2020.

**Case 3:** A UP buys a truck at a cost of Tk. 25,000,000 in 2019. It is assumed that this truck has an expected lifetime of 10 years. Under cash-based accounting, the expenditure of Tk. 25,000,000 belongs to the year 2019. Under accrual accounting, the truck purchase enters the balance sheet; in the operational statement, only the annual depreciation cost of 1/10, i.e. Tk 2,500,000 in each of the ten years will be shown.

Cash-based accounting is much simpler and easier to understand. It facilitates the control of budget compliance. Accrual accounting reflects the real operational result; moreover, it provides a true and fair view of the assets and liabilities of an entity. In Bangladesh, the UPs are practicing cash-based accounting.

### 7.1.3 Recording of Commitments in Addition to Payments

Traditionally, in a cash-based system, expenditure transactions are recorded when payment takes place. Accounting at the payment stage of budget implementation is certainly needed for compliance control purposes and for managing liquidity. However, this is not enough. If there is a need to know how much money is still available per budget position, commitments must be considered as well in addition to what has already been paid. Commitments can be new orders for goods or services for which payment is due later; even compensation of employees is a commitment (International Monetary Fund, 2014, p. 49). De facto, this money is

already spent. In the case of a budget revision, when we discuss whether it is needed to increase appropriations or whether it is possible to decrease them, commitments must be considered as well. Therefore, it is needed to keep registers of commitments in addition to registers where payments are recorded (Venkateswaran, 2014, p. 111). Ignoring commitments at the end of the year, when the annual financial report is prepared, can result in hidden debts. In the case of multi-year commitments, such as for capital investment projects of a longer duration, such commitments must also be taken into account when the new annual budget is prepared.

### 7.1.4 Provisions for UP Accounting Procedures

Section 3.1.8 of UPOM sets out the procedures of UP accounting as presented in Box 45.

Box 45: UP accounting procedures

Union Parishads should maintain accounts of all income/expenditure properly and in a timely manner. The following procedures should be followed to maintain the accounts appropriately:

- Accounts should be maintained for all development funds separately and, in this regard, subsidiary cash books may be maintained;
- Accounts for all funds of works programs should be maintained separately;
- Bills/vouchers for all expenditures should be maintained and a scroll number for vouchers should be provided. In the cash book/subsidiary cash books, this scroll number should also be mentioned
- An Advance Register should be maintained, and the settlement of advances should be

done on a timely basis;

- All expenditure should be approved by the UP and such approvals should be recorded carefully;
- Transactions should be paid by cheques (for expenditure amounting to more than Tk. 500) and a Cheque Book Register will be maintained properly;
- Cash book entries should be made immediately after the transaction has taken place;
- Bank account reconciliations should be done for every month before the 7th day of the following month.

## 7.2 Reporting

This section will first present the basic idea of reporting. Then, the clients of reporting and important principles for good reporting will be considered in more detail. Finally, we will look at the reporting requirements for UPs, i.e., the reporting standards for UPs, and the types of reports used.

### The basic idea of reporting

Reporting refers to providing information on budget implementation in a clear, objective, timely and understandable manner. Furthermore, reports on budget implementation must be presented in a way that comparison with the budget is facilitated. Reporting is used to show and explain to the different stakeholders what was achieved during the reporting period. Reporting will put stakeholders in a position to assess whether resources were used in accordance with the budget and with their needs. That's why reporting contributes to improving the effectiveness and efficiency of resource utilisation. However, not each group of stakeholders has the same information needs. Reporting

for members of the UP or for special committees needs more detailed information than reporting for the general public. Therefore, it's a good practice to use different reporting formats for the different groups of stakeholders. In the case of UPs, different reporting formats have been developed by the government to suit various reporting requirements.

### Reporting principles

Reports on budget execution should be well-prepared. To describe what this means in practice, reporting principles were defined which serve as a guidance. In Box 46, a selection of these principles is presented, based on what suggested Allen & Tommasi (2001, p. 318) and Venkateswaran (2014, p. 136f.).

#### Box 46: Selection of important reporting principles

Reporting principles	Description
Completeness	Reporting on the entire (local) government activities
Legitimacy	Form and content of reports comply with legal requirements
Timeliness	In-year and end of year reports are presented in time so that it is still possible to take corrective measures if necessary or to learn from errors made. "Making information available to decision makers before it loses its capacity to influence decisions" (Venkateswaran, 2014, p. 136).
Relevance	The report serves the information needs of the different stakeholders. Information overload is avoided.
Materiality	The report includes all information that could influence the decisions on resource allocation. Such information is material. Information that is not material should be excluded from the report.
Comparability	The report facilitates comparison of actual outturns with the budget and with the outturns of previous years.
User-friendliness	Reports should be well-structured and presented in a way that is easy to understand for interested users. It should include explanations, comments and interpretations and use charts and pictures where appropriate.

### Reporting standards in Bangladesh

The Government of Bangladesh adheres to the cash-basis of accounting standard. This standard implies that financial reporting puts the emphasis on cash receipts (revenues), cash

payments (expenditure), and cash balances. First, the financial statement shows the different sources of revenue and their contribution to the total of revenue. Secondly, it shows the total amount of spending and the purposes for which cash was spent during the reporting

period including the share of each expenditure category. Thirdly, the financial statement shows the cash balances at the reporting date.

Under cash-based accounting, the financial statement consists of

- A statement of cash receipts and payments;

- An explanation of accounting policies, and
- A comparison of the original budget, revised budget, and the actual outturn.

These reporting standards are also applicable for UPs.

### Overview of UP reporting instruments

The UP should prepare various reports. Key UP Financial Reports are listed in Box 47:

#### Box 47: UP reporting instruments

Name of Report	Content
Annual report	Financial and administrative information including assets, liabilities
Annual financial statement	All income and expenditure of the UP, including bank statements
Six-monthly monitoring report on finances and activities	All income and expenditure, the status of activities under LGSP at Ward & UP level, together with bank statement
Audit related broad sheet	Audit observations with written comment from UP
Final audit report	Final audit observation

Section 3.1.7, item 1 and its Annex 1-29 and the Template 9 in the UPOM provides the guidance on reporting.



**Template 9 : UP cash book register**

<u>Cash Book Register of Union Parishad</u>					
.....Union Parishad.....Thana/Upazila,.....					
Zila					
Financial Year.....					
<b>Received Amount</b>					
Date	Voucher #	Description of Receipt	Amount in Taka		Chart of Accounts
			Cash	Bank Balance	
1	2	3	4	5	6
		Opening Balance:			
		Total :			
		Grand Total :			
<b>Disbursement Amount</b>					
Date	Voucher #	Description of Disbursement	Amount in Taka		Chart of Accounts
			Cash	Bank Balance	
7	8	9	10	11	12
		Opening Balance:			
		Total :			
		Closing Balance			
		Grand Total :			
:					
Secretary's Signature		Signature		Chairman's	

Moreover, Section 3.1.7, item 2 and 3 of the UPOM requires that a Union Parishad shall prepare an annual financial statement of all income and expenditure of the UP and present it in an open budget session in presence of the local community. Then, within 60 days of the end of the fiscal year, a Union Parishad will send the final statement of its annual income and expenditure to the

Upazilla Nirbahi Officer (UNO). The UNO will send a compiled financial statement in a prescribed form to the Deputy Commissioner (DC) and the DC will also send a compiled financial report to the Local Government Division in a prescribed format. This form is shown in the Annex 1-27 of the UPOM, see Template 10.

## Template 10: Presentation of annual financial statement

## Format for Annual Financial Statement

## Exhibit A-Specimen of Receipts and Disbursement Statement

for the year ended 30 June     

..... Union Parishad (LGD ID # ..)

Upazila..... District .....

	Latest Year			Previous year
	Own fund	Other funds	Total	
<b>RECEIPTS</b>				
Opening balance:				
- Cash in hand				
- Cash in bank				
Tax receipts				
Fees of license & permits issued by UP				
Leasing income				
Licence fees on non-motorized vehicles				
Income from property				
Govt. grant-establishment purpose				
1% share of property transfer tax				
ADP allocation from Govt.				
Block grant from Govt.				
Fund from Local Government				
Other receipts				
<b>Total Receipts</b>				
<b>DISBURSEMENTS</b>				
Establishment expenses				
- Chairman and Members Allowance				
- Staff salary and allowances				
- Tax collection expenses				
- Printing & stationery				
- Postage & telephone				
- Electricity				
- Office maintenance				
- Other expenses				
Development project expenses				
- Agricultural projects				
- Health & sanitation programs				
- Road construction/ maintenance				
- House building / maintenance				
- Educational programs				
- Irrigation & dams				
Loan recived/ paid				
<b>Total disbursements</b>				
Closing balance:				

## 7.3 External Audit

This section will look firstly into external auditing in general and then consider auditing at UP level.

### 7.3.1 External Auditing in General

External audit is a verification process, conducted by a fully independent, professional external audit unit. In Bangladesh,

UPs are audited by both the Office of the Comptroller and Auditor General (OCAG) and by independent external audit firms. The results of audit by the independent audit firms together with those of OCAG audit are used to decide on the amount of resources to be transferred to UPs. Three main types of external audit exist, namely, financial audit, compliance audit and performance audit. In Box 48, these three broad types are discussed.

#### Box 48: Types of audit

Type of audit	Purpose
Financial audit	Ensure that all transactions are recorded correctly and in a complete way, supported by appropriate and carefully filed vouchers, and make certain that the financial reports are well prepared, correspond with the accounts and represent the true financial situation when the report was prepared.
Compliance audit	According to Ramkumar (2008, p. 108), compliance audit should check three main questions: (1) Was expenditure authorised by the competent authority? (2) Is expenditure in line with budget appropriations? (3) Are laws, rules and regulations for managing expenditure well respected?
Performance audit	Examines whether performance reports are accurate and fact-based, and whether programmes were carried out in an economical, efficient and effective way.

As Ramkumar (2008, p. 109) explains, auditors examine four issues.

- (1) Has the auditor received all necessary information?
- (2) Are the financial statements presented in the prescribed form?
- (3) Has accounting been performed in line with all relevant laws and regulations?
- (4) Is the financial statement reliable?

When the financial report is discussed by the UP and the relevant supervisory committees, the audit report should be made available to them. It is the duty of a UP to respond to the audit observations raised by the auditors of OCAG and of independent audit firms on time and take immediate steps to settle them.

### 7.3.2 Auditing at UP Level

#### Audit obligations for UPs

As the Union Parishad is a public institution financed through public money and following Government regulations, its accounts/-funds are to be audited by third party auditors (public or private audit firms as directed by government). According to Section 59 of the UP Act 2009:

- The audit authority will carry out the audit of the UP immediately after the closing of a fiscal year or any specified convenient time.
- The UP Chairman will produce or will make available the documents requested by the auditors as required for the purpose of the audit.

#### Authority of the Auditors

As provided for in Section 60 of the Local Government (Union Parishad) Act, 2009, auditors are authorized to:

- (1) Ask/request the UP Chairman (either in writing or verbally) to present any documents as required for audit activities.
- (2) Provide a written request to the UP for the physical appearance of any person who is accountable for providing any information or the custodian of any document/information related to the UP or having direct or indirect interest with UP for any purpose.
- (3) Request a written declaration/answer on any question on any information from any person called for physical appearance.

Upon completion of the audit, the auditors will submit their draft audit report along with any findings with respect to:

- The incidence of fund embezzlement.

- The incidence of wastage of UP funds or misuse of UP funds.
- Irregularities of financial management.
- The names of the persons directly or indirectly responsible for any irregularities.

Auditors will finalize the audit report after discussion with the Union Parishad and submit a copy of the audit report to the UP and to the Deputy Secretary (Audit), LGD, Bangladesh Secretariat.

The Union Parishad will take necessary actions with respect to the irregularities identified by the auditors and send a “Broad-sheet” reply to Deputy Secretary (Audit), LGD, Bangladesh Secretariat as soon as possible.

#### Auditors will investigate:

- Whether UP funds and accounts are properly maintained and managed.
- According to UP Act 2009, whether all the funds received by a Union Parishad are deposited in the specified bank account and whether the accounting has been done properly.
- Whether the UP budget was prepared and approved, and expenditures made as per the UP Act and if the budget was revised.
- Whether cash books are maintained with regularly updated income/expenditure data and whether the cash book balance is the same as the bank balance.
- Whether receipts are maintained properly, and the money received from different sources is deposited in the UP bank account.
- Whether the Check Book Register is maintained properly.
- Whether the documents related to

donations, grants, funds, revenue income, assets and logistics register, stocks, stamp register maintenance are in order.

- Whether all advances and bill payments are made in accordance with legally prescribed procedures.
- Whether issues/formalities required to be complied with have been complied with or not.
- Whether Asset Registers have been maintained and whether physical markings on conspicuous place of the asset have been recorded.

### Settlement of Audit Observations

It is one of the key responsibilities of the

Union Parishad to disclose information related to financial management to the public as well as to auditors. The Union Parishad should be very transparent in its financial transactions and should cooperate fully with auditors by providing relevant documents/information required for the purposes of auditing.

The UP will go through all the audit observations and provide the government with an item-wise response to these observations. The form used for responding to audit observations is called the Broadsheet and the response is called the “Broadsheet Reply”. The Broadsheet reply of the Union Parishad should be sent to the Audit Section of the Local Government Division (see Template 11).

Template 11: Broadsheet reply form

Broadsheet reply to ----- Year’s Audit observation		
Audit Observation	Reply of Union Parishad	Comments of Upazilla Nirbahi Officer with Signature

## 7.4 Public Scrutiny

Public scrutiny holds the executive accountable for budget implementation and the results achieved. At local level, this oversight function is usually carried out by the local council and specialised committees. Morrell & Kopanyi (2014, p. 270) rightly point out that it is the local council which has a responsibility to oversee and ensure “that the agreed upon quantity and quality of services are provided”. However, there is also scope for CSOs and NGOs to support the audit and legislative oversight process.

Ramkumar (2008, p. 114ff.) shows ample evidence that such grass root involvement in the oversight process can be highly beneficial. If civil society was involved in budget preparation, people know what to expect from budget implementation; directly concerned citizens are close enough to see whether these expectations were fulfilled. To make such grass root oversight activities functional, it is needed that communication channels between citizens and the local government are established not only during budget preparation but also during and at the end of budget implementation.

Section 58 (2) of UP Act 2009, meets this requirement when it states that the annual statement shall be presented in an open budget session ensuring the presence of all standing committees and the local people.

## 7.5 The Main Points of this Chapter

In chapter 7, we saw that accounting must show the use of funds during budget implementation in a complete and traceable way. It enables verification that funds are used in accordance with the budget, provides insight into the financial situation and allows cost analysis of services provided. Cash-based accounting measures the flow of cash resources and recognises transactions when cash is received or paid. In contrast, accrual accounting recognises transactions and events when they occur irrespective of when cash is received or paid. UPs adhere to the cash-based standard of accounting. However, under this standard, if we want to know how much money is still available per budget position, commitments must be considered as well in addition to what has already been paid. Additionally, the UPOM requires that bills or vouchers for all expenditures should be maintained and a scroll number for vouchers should be provided. In the cash book/subsidiary cash books, this scroll number should also be mentioned.

Reporting refers to providing information on budget implementation in a clear, objective, timely and understandable manner. Important reporting principles, such as completeness, timeliness, materiality, comparability and user-friendliness are to be respected. UPs use the following reporting instruments: Annual Report, Annual Financial Statement, Six-monthly Monitoring Report on Finances and Activities, Audit related Broad Sheet, Final Audit Report.

External audit is a verification process, conducted by a fully independent, professional external audit unit. In Bangladesh, UPs are audited by both the Office of the Comptroller and Auditor General (OCAG) and independent external audit firms. A distinction should be made between the different types of external audit: financial audit, compliance audit, and performance audit. Auditors are authorised to look into the books of the UP and into related documentation; they can request to the UP for the physical appearance of any person who is accountable for providing any information related to the UP or having direct or indirect interest with the UP for any purpose. The UP is obliged to go through each audit observation and provide an item-wise response to these observations which needs to be sent to the Audit Section of the Local Government Division. The final audit report should be publicly disclosed together with the annual reports.

Public scrutiny holds the executive accountable for budget implementation and results achieved. At local level, this oversight function is usually carried out by the local council and specialised committees. For this purpose, the UP act requires that the annual reports shall be presented in an open budget session ensuring the presence of all standing committees and the local people.

In a nutshell, accounting and reporting is needed to answer what was achieved, how resources were used and what is the financial situation of the UP at the end of a period. External audit is used to verify whether the reporting information is reliable while with public scrutiny, the UP is held accountable. These processes belong to the final stage of the PFM cycle.

The subsequent chapter 8 is the last one of this handbook; it is dedicated to budget analysis.



## Budget Analysis

The chapter on budget analysis completes the reflections on public financial management. It is divided in three sections. It starts with explaining the idea and the purpose of budget analysis. In the next section, budgetary issues appropriate for budget analysis are discussed, and finally, in the last section, methodological aspects of budget analysis are covered.

### 8.1 Idea and Purpose of a Budget Analysis

Budget analysis can be understood as a detailed and systematic examination of the features of an existing budget or of a budget execution report. It is the aim of budget analysis to identify, interpret or explain budget issues of special interest with the purpose to support a conclusion on the prepared or implemented budget or to make recommendations for improving preparation or implementation of the budget.

Olander (2007, p. 20) puts the idea of budget analysis in the right context by addressing the economic question of how to use scarce resources adequately: “Resources are scarce, and needs are great. Hence, a policy area or sector plan is not always backed up by budget resources to implement it as in the competition for resources in the budget process, or later when the budget is intended

to be implemented, another policy area supported by more powerful actors may get the upper hand. Poor planning and budgeting may also result in overambitious plans that cannot be funded by available resources. And lack of information results in poor targeting with the effect that resources are not allocated effectively. Looking into this is what the budget analysis is about – aiming at whether the budget is geared towards poverty reduction and is feasible given resource constraints.” In addition to resource allocation, Oleander stresses in this paragraph the question of budget realism and the requirement of a pro-poor budget perspective. The latter issue is understandable as Oleander’s publication is written from a donor’s perspective (SIDA). At the same time, it illustrates that the questions to address with budget analysis depend very much from the interest of the analyst and of whom the analyst is working for.

Budget analysis is not an end in itself. It’s done to strengthen particular social interests in the budgeting process when resources are allocated to specific spending purposes. Therefore, the interest of the client determines what exactly is examined with budget analysis. For this reason, it is important that broader sections of society understand how budget analysis could be used. At the level of the central state, typical clients of budget analysis are the executive body of govern-

ment, ministries (ministry of finance and line ministries), the legislature including concerned commissions, political parties, citizens, specific interest groups, and the mass media. At local level, clients could be the UP, the UNO, the Ward Shava, local CSOs and NGOs.

In case of UPs, their Secretary, Accounts assistance-cum-computer operator will do this analysis. In addition, the standing committees related to finance and establishment, accounts and audit and tax estimation and

collection of the UP, and the UP chair himself/herself also can also make use of this exercise. They can analyse their planned budget during its preparation and implementation stage or the implemented budget after the end of respective fiscal year.

## 8.2 Content of Budget Analysis

Budget analysis can deal with the planned budget (*ex ante*) or with the implemented budget (*ex post*). Box 49 shows possible issues for *ex ante* or *ex post* budget analysis.

**Box 49: Possible issues for budget analysis: *ex ante* – in-year - *ex post***

Analysis of planned budget ( <i>ex ante</i> )	Analysis of budget under implementation ( <i>in-year</i> ) and of implemented budget ( <i>ex post</i> )
<ul style="list-style-type: none"> <li>• Considering trends for realistic budget formulation:                             <ul style="list-style-type: none"> <li>• Which trends exist?</li> <li>• Implications for the budget?</li> </ul> </li> <li>• Review of budget proposals for:                             <ul style="list-style-type: none"> <li>• Completeness and clarity of proposal</li> <li>• Accuracy of financial and non-financial information</li> <li>• Identification/verification of beneficiaries</li> <li>• Compliance with budget law and other financial rules and regulations</li> <li>• Effectiveness and efficiency of proposal/adequacy of methodology</li> <li>• Strategic importance of proposal</li> <li>• Affordability of proposal; financing of proposal</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Overseeing spending to ensure compliance with the approved budget and determining whether for certain programmes, changes of funding levels are needed or whether even budget amendments are required</li> <li>• Analysis of deviations on the revenue and expenditure side</li> <li>• Checking whether spending has exceeded the approved budget; in case of over-spending or under-spending, analysing the reasons and possible implications for future budgets</li> <li>• Analysing the revenue outturn and comparing actuals with the budget. Finding out the reasons of deviations and the possible implications for future budgets</li> <li>• Examining whether resources were used in line with policy objectives and priorities</li> <li>• Assessing whether the internal balance of the budget between sectors was maintained during budget execution</li> <li>• Determining whether the desired results have been achieved or not</li> </ul>

<ul style="list-style-type: none"> <li>• Budgetary consequences in the short and long run (recurrent costs)</li> <li>• Finding alternatives if proposals are too costly or the projected results are unsatisfactory</li> </ul>	<ul style="list-style-type: none"> <li>• Identifying capacity constraints of the implementing units</li> <li>• Estimating future financial needs</li> </ul>
<ul style="list-style-type: none"> <li>• Ensuring that the budget provides comprehensive and consistent information on the planned activities</li> <li>• Verifying that resources are allocated according to strategic policy objectives and priorities</li> <li>• Assessment of the internal balance of budgeted spending between sectors</li> <li>• Checking whether expected results from the allocations are clearly identified</li> <li>• Review of financial soundness of budget (fiscal discipline)</li> </ul>	

In a more technical way, we can make a distinction between different types of budget analysis as shown in Box 50.

**Box 50 : Specific types of budget analysis**

Type	Description and possible issues
Analysis of budget architecture	It considers general aspects of how the budget is presented. We analyse the comprehensiveness of the budget and identify activities that are excluded. We consider whether the budget and the end-of-year report are presented timely and in a well-structured and user-friendly way showing and explaining the right level of detail. Furthermore, we want to know whether budget allocations are linked with strategic development priorities and social needs, and how transparently this is done.
Revenue analysis	It puts the emphasis on the revenue side of the budget. We analyse whether the revenue estimation is plausible compared with what was planned and collected in previous years and whether at the end of the year actuals and planned figures match. We consider major changes of individual revenue sources and compare our revenue outturn with similar local governments in the neighbourhood.

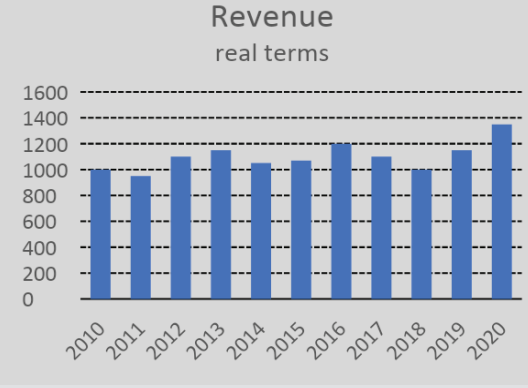
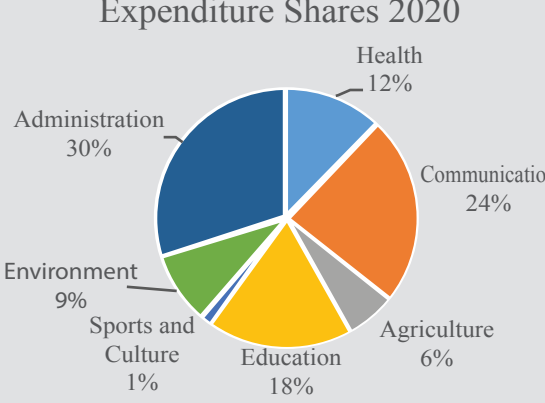
Economic analysis	<p>It is based on the economic classification which groups expenditure in economic categories (wages and employer's social contributions, goods and services, repair and maintenance, interest payments, acquisition of assets, works, etc.)</p> <p>We analyse and interpret the percentage share of the different items or their growth rates, trend growth.</p>
Functional analysis	<p>It is based on the functional classification which groups expenditure per policy sector, such as health, communication, education, agriculture, environmental protection, etc.</p> <p>We analyse and interpret the percentage share of the different sectors or their growth rates or trend growth and compare these results with budget priorities resulting from the strategic development plan.</p>
Efficiency analysis	<p>We consider the relationship between input and output. Input refers to the total cost for providing a service, output refers to the number of units provided. The lower the input per output, the more services can be provided. We can compare current efficiency with efficiency figures from the past, if available, or from similar local governments in the neighbourhood. However, we should also observe quality aspects at the same time.</p>
Performance evaluation	<p>Important questions to address are:</p> <ul style="list-style-type: none"> <li>• To which degree the performance goals have been achieved?</li> <li>• How successful were schemes implemented?</li> <li>• Did we reach the intended beneficiaries?</li> <li>• Should we continue with the schemes or is there a need for adjustment?</li> </ul>

### 8.3 Methodological Aspects

Before budget analysts start the exercise, the questions to consider with the analysis must be clearly specified. We should be aware of the law of scarcity. This law says that resources are always scarce. With respect to budget analysis, this means that it is not possible to answer all possible questions. A reasonable choice is needed. Once the questions for analysis are identified, we can determine which methodology to apply.

Budget analysis belongs to the family of observational studies, exploring budgetary features. Observational studies can be subdivided into longitudinal or cross-sectional studies. With longitudinal studies, we analyse how the situation developed over time. With cross-sectional studies, we compare specific issues at the same point in time. In Box 51, important features of longitudinal and cross-sectional budget analysis are compared and illustrated.

**Box 51: Longitudinal and cross-sectional budget analysis**

Longitudinal budget analysis	Cross-sectional budget analysis																																								
<p>Longitudinal budget analysis considers the evolution of the budget or of specific budget items over time. We analyse time series at the revenue or expenditure side. Budgetary trends and patterns or explanations behind fluctuations should be identified.</p> <p>For longitudinal analysis, we can use both, absolute values and growth rates. In both cases, we should be aware of inflation.</p> <p>The example below shows how revenue developed in real terms (when inflation is taken out) over a 10-year period.</p>	<p>Cross-sectional budget analysis considers the situation in different policy sectors or in comparable local governments at the same time. For example, we compare the relative shares of different sources of revenue or of expenditure items or we compare revenue per household or cost per unit of different local governments. As we compare the situation at the same time, inflation doesn't matter.</p> <p>The example below shows expenditure shares based on the functional classification.</p>																																								
 <table border="1"> <caption>Revenue real terms (Estimated values)</caption> <thead> <tr> <th>Year</th> <th>Revenue</th> </tr> </thead> <tbody> <tr><td>2010</td><td>1000</td></tr> <tr><td>2011</td><td>950</td></tr> <tr><td>2012</td><td>1100</td></tr> <tr><td>2013</td><td>1150</td></tr> <tr><td>2014</td><td>1050</td></tr> <tr><td>2015</td><td>1080</td></tr> <tr><td>2016</td><td>1200</td></tr> <tr><td>2017</td><td>1100</td></tr> <tr><td>2018</td><td>1000</td></tr> <tr><td>2019</td><td>1150</td></tr> <tr><td>2020</td><td>1350</td></tr> </tbody> </table>	Year	Revenue	2010	1000	2011	950	2012	1100	2013	1150	2014	1050	2015	1080	2016	1200	2017	1100	2018	1000	2019	1150	2020	1350	 <table border="1"> <caption>Expenditure Shares 2020</caption> <thead> <tr> <th>Sector</th> <th>Share (%)</th> </tr> </thead> <tbody> <tr><td>Administration</td><td>30%</td></tr> <tr><td>Communication</td><td>24%</td></tr> <tr><td>Education</td><td>18%</td></tr> <tr><td>Health</td><td>12%</td></tr> <tr><td>Environment</td><td>9%</td></tr> <tr><td>Agriculture</td><td>6%</td></tr> <tr><td>Sports and Culture</td><td>1%</td></tr> </tbody> </table>	Sector	Share (%)	Administration	30%	Communication	24%	Education	18%	Health	12%	Environment	9%	Agriculture	6%	Sports and Culture	1%
Year	Revenue																																								
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Agriculture	6%																																								
Sports and Culture	1%																																								

With the two examples shown in Box 51 we have already started to apply graphical analysis. With the pie chart at the right side, we see immediately where the money goes, which are the policy sectors that absorb most of the money. This illustrates the allocation of money, whether ex ante or ex post, and we can have an opinion on its adequacy. At the left side, we see how revenue developed over a 10-year period when the inflation is taken out.

From the picture on the left side of Box 51 on the development of revenues we see that

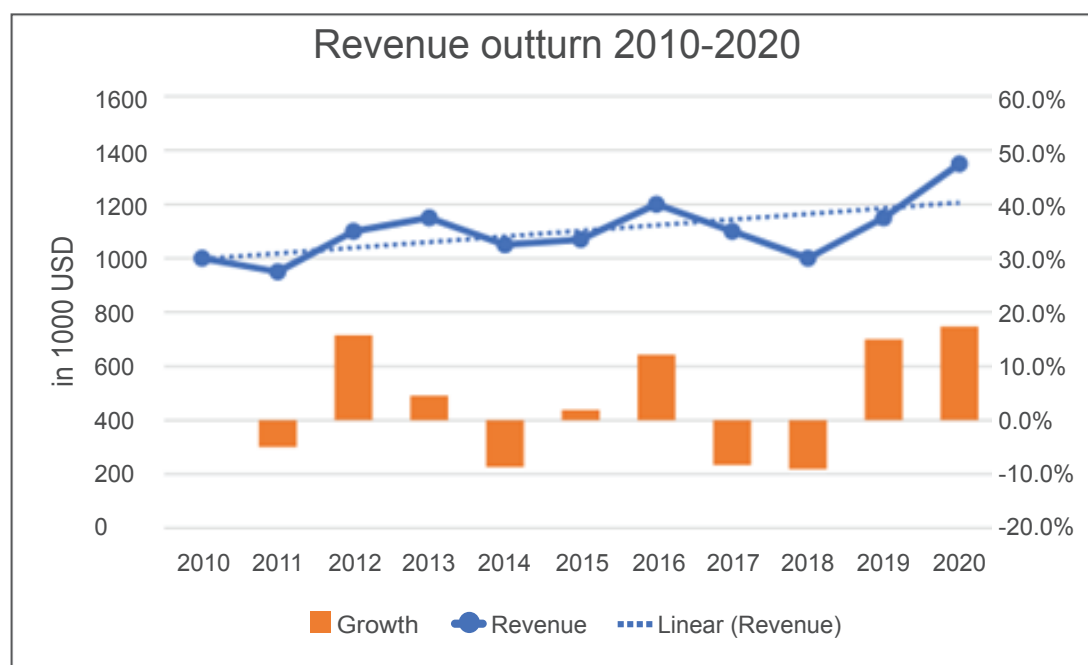
the situation was not stable; there were fluctuations. However, it's not easy to see a trend; it is difficult as well to see a pattern behind the fluctuations. We can try to dig a little bit deeper with graphical analysis as it is done in Figure 5. This figure uses the same information as it was used for the revenue figure in Box 50. However, it calculates and illustrates the revenue growth rates from year to year (red bars, scale at the right side), and it identifies a linear trend (dashed black line, scale at the left side). We see that there is a positive revenue trend showing

that on average in each year, revenue was increasing a little bit. However, revenue growth was not stable as the growth rates show. We see positive and negative annual growth rates and could discuss the reasons why in some years growth rates were positive and negative in others. Are these growth fluctuations correlated with the business cycle or are there other reasons? These are questions that budget analysis should address. If the right answers are found, this facilitates revenue estimation in future years.

Graphical technique allows for better visualisation of numeric data, pointing out the patterns behind the figures. Charts are also a powerful means of communication. They allow presentation of the underlying message

behind figures to others in an understandable way. Such messages can be deviations, trends, fluctuations, correlations (two or more things reacting in the same way or in the opposite way), distribution/shares, etc. For budget analysis, the most common types of charts are bar charts, line charts and pie charts. We should know when to use which kind of chart and which are the Do's and Don'ts related to such charts (Visage & HubSpot, 2017). It's important to show only information that matters in charts. The rest is noise that spoils the picture and distracts the reader. Two dimensional charts are more powerful than three dimensional. Always try to keep it simple. Don't forget to give catchy titles; use labels for the axes and categories presented.

**Figure 5: Fluctuating growth rates and trend**





**Box 52 : Variance analysis illustrated**

Item	Budget	Actual	Variance	Variance in%	Comment
Salaries	20000	20500	500	2.5%	
Goods and services	12000	8000	-4000	-33.3%	unpaid bills
Capital expenditure	150000	135000	-15000	-10.0%	small project delay at start

It would be seen from the example presented in Box 52 that in relative terms, the variance is particularly big for goods and services. Together with the explanation, we see that something seems to be wrong there with budget execution. We should find out why bills were not paid. Is it a problem with cash management or are there flaws with the processing of bills or were the goods or services delivered not of an acceptable quality? In each case, corrective measures are needed. In the case of capital expenditure, the variance in percentage is 10%. There is a rule of thumb that deviations smaller than 10% don't need management attention (Morrell & Kopanyi, 2014, p. 265f.). However, caution is needed with such rules of thumb. Progress of the project should be monitored closely.

The findings from budget analysis should be presented in a well-written report with a clear structure. This report should be a short, sharp and concise document. It should explain the purpose of the analysis and identify the particular issues addressed; it presents the findings and the evidence and makes recommendations for future action.

With their data, UPs can conduct any type of budget analysis and apply all these methodologies, such as spreadsheet analysis, graphical analysis and variance analysis. Examples from UPs are presented in Annex 5.

## 8.4 The Main Points of this Chapter

In chapter 8, we saw that budget analysis is a detailed and systematic examination of the features of a budget; the analysis can be made *ex ante* or *ex post* or during budget execution. The questions to address with budget analysis depend very much from the interest of the analyst and of whom the analyst is working for. In the local context, these can be the UP chairperson, the UP, the UNO, deconcentrated ministries, the Ward Shava, local CSOs and NGOs. It is the aim of budget analysis to identify, interpret or explain budget issues of special interest with the purpose to support a conclusion on the prepared or implemented budget or to make recommendations for improving preparation or implementation of the budget.

Before budget analysts start the exercise, the questions to consider with the analysis must be clearly specified. These questions determine, which methodology should be applied for the analysis. We can make a distinction between longitudinal or cross-sectional analysis.

Graphical technique allows for better visualisation of numeric data, pointing out the patterns behind the figures. Charts are a powerful means of communication. They

allow presentation of the underlying message behind figures to others in an understandable way. Such messages can be deviations, trends, fluctuations, correlations (two or more things reacting in the same way or in the opposite way), distribution/shares, etc. For budget analysis, the most common types of charts are bar charts, line charts and pie charts.

Variance analysis is another powerful tool for budget analysis; it considers major deviations between actual and planned figures. Variance analysis can be used for the analysis of in-year or end of year reports.

Tables and charts always need a short explanation and comment. It's important to show only information that matters. The rest is noise that spoils the picture and distracts the reader.

The findings from budget analysis should be presented in a well-written report with a clear structure. This report should be a short, sharp and concise document. It should explain the purpose of the analysis and identify the particular issues addressed; it presents the findings and the evidence and makes recommendations for future action.

## Annex

### Annex 1: UP Functions Grouped by COFOG

For improved practical purposes, the extensive list of UP functions, presented in Box 1, could be re-grouped and arranged in accordance with the internationally used COFOG classification (United Nations Statistics Division, 2013) as shown in Box 53 below.

#### Box 53: Systematic overview of legal functions of UPs

General public services	<ul style="list-style-type: none"> <li>- Strategic development planning</li> <li>- Revenue mobilization: collection of taxes, fees, tolls, etc.</li> <li>- Civil registry maintenance: birth and death</li> <li>- E-governance</li> <li>- Operation and maintenance of cemeteries and burn places</li> <li>- Cooperation with other relevant organizations</li> </ul>
Public order and safety	<ul style="list-style-type: none"> <li>- Maintenance of law and order</li> <li>- Settlement of family conflicts including women and child welfare</li> <li>- Disaster management, such as fire, floods, hailstorms, earthquakes, etc. ; supporting government risk prevention measures</li> </ul>
Economic affairs	<ul style="list-style-type: none"> <li>- Local economic development:               <ul style="list-style-type: none"> <li>o Supporting measures re. agriculture, fishery, livestock and other as well as cooperative movement and rural craft</li> <li>o Foster additional food production</li> <li>o Regulation and maintenance of cattle ponds</li> </ul> </li> <li>- Regulation of economic activities:               <ul style="list-style-type: none"> <li>o Prevention from unsafe trade</li> <li>o Regulation of slaughtering of animals and of proper removal of carcasses of dead animals</li> <li>o Enforcing conformity with zoning regulation: dying or tanning of skins, excavation of earth stones, establishment of brick lanes or potteries, steeping of hemp or jute, etc.</li> </ul> </li> <li>- Transportation:               <ul style="list-style-type: none"> <li>o Development, protection and maintenance of local streets</li> </ul> </li> </ul>
Environmental protection	<ul style="list-style-type: none"> <li>- Potable water protection</li> <li>- Ensure collection and management of garbage and dung</li> <li>- Tree plantation and protection</li> </ul>
Community amenities	<ul style="list-style-type: none"> <li>- Lighting of roads and public places</li> </ul>
Health	<ul style="list-style-type: none"> <li>- Epidemic control</li> <li>- First aid centres</li> <li>- Family planning activities</li> </ul>
Recreation, culture, sports	<ul style="list-style-type: none"> <li>- Measures supporting social life</li> <li>- Caretaking of public places, parks, playgrounds, etc.</li> </ul>
Education	<ul style="list-style-type: none"> <li>- Primary and mass education</li> </ul>
Social protection	<ul style="list-style-type: none"> <li>- Elaboration of list of widows, orphans, and poor in need of support from national government</li> </ul>

The above re-grouping could facilitate development of a more comprehensive budget classification system for UPs in future.

## Annex 2: Steps for Effective Gender-Responsive Budgeting

In Box 54, a stepwise approach towards gender-responsive budgeting is presented. It provides guidance on how to proceed with this analysis. It can be applied ex ante or ex post.

### Box 54: An approach towards gender-responsive budgeting

Steps	Main questions
1. Situation analysis Identifying gender issues in the sector	<ul style="list-style-type: none"> <li>● What is the situation for women and men (and subgroups of women and men) in the sector/program analysed?</li> <li>● What are their interests, needs, priorities? Is there any difference between women's and men's needs that should be considered?</li> <li>● What are existing inequalities between women and men (or subgroups of women and men) especially regarding employment?</li> <li>● Level and distribution of unpaid work (e.g. repercussions of program activities on care work and care responsibilities)</li> <li>● Income</li> <li>● Mobility (transport)</li> <li>● Participation in decision making (in political, social and economic life)</li> <li>● Gender roles, norms and stereotypes</li> </ul>
2. Baseline Collecting information about programmes you want to analyse	<ul style="list-style-type: none"> <li>● Title of the program</li> <li>● Program type (target / budget program)</li> <li>● Total budget of program</li> <li>● What share is coming from the public budget, shares from other sources (e.g. donors)?</li> <li>● On what activities is the budget spent?</li> <li>● Institution responsible for designing the program</li> <li>● Institution responsible for the implementation of the program</li> <li>● Institutions co-implementing the program</li> <li>● Objectives of the program</li> <li>● Are there specific objectives focused on improving the situation of women or men?</li> <li>● Main tasks of the program</li> <li>● Main activities of the program</li> <li>● Based on what needs is program prepared?</li> <li>● Which statistics are available on program implementation, especially on target groups and on beneficiaries?</li> <li>● Are there any analyses or studies available on program implementation?</li> </ul>
3. Conducting gender analysis of activities	
3.1 Addressing existing inequalities and challenges regarding gender equality	To which extent does the program, for example in its objectives and activities, address gender inequalities as well as possibly different needs and priorities of women and men identified in Step 2.

3.2 Analysis of beneficiaries and users of public services and activities	<p>How many women and men (and subgroups of women and men) benefit of the activities, e.g. of the services offered, the infrastructure built, cash transfers paid etc.?</p> <p>Do women and men make different use of different services? If so, what are possible causes? Are there potential obstacles to use the services?</p> <p>Are specific services offered for women and men?</p>
3.3 Analysis of satisfaction of female and male users of public services	<p>How satisfied are women with the quality of services offered? And how satisfied are men?</p> <p>Is the quantity of services offered enough to meet the demand?</p> <p>Do the services consider possibly different needs and interests of women?</p> <p>How do different roles and different obligations of women and men or traditional norms influence the possibilities of women and men to make use of the public services?</p>
3.4 Analysis of decision making about implementation of public services and other activities	<p>Who has an influence on decision making about the provision and conditions of the services?</p> <p>How many women and men are involved at which level?</p> <p>Do groups representing women's interest – from within local government administration and outside – have access to provide information to decision makers?</p>
3.5 Analysis of impacts of public activities on gender equality	<p>What is the impact of the public activities on employment of women and men?</p> <p>Are the public activities changing existing gender roles and norms and how are they changing?</p> <p>What is the impact of the public activities on the volume of unpaid work and the distribution of unpaid work between women and men?</p> <p>Do the activities have an impact on possibilities of women and men to participate in the political, economic and social sphere?</p>
4. Conducting gender analysis of related budget allocations	<p>What is the overall expenditure of providing specific services, transfers or investments?</p> <p>What is the unit cost of specific services (per capita cost) or other public activities?</p> <p>Is the available budget adequate to implement the program in view of the number of people among the target group?</p> <p>Is the available budget enough to provide services and activities responding to possibly different needs of women and men?</p> <p>If needed, are funds available for specific service activities provided for groups of women or men to respond to their specific needs?</p> <p>How have budget allocations for the program developed over the last year, have there been increases or decreases?</p> <p>Has the money allocated in the budget been fully spent in implementation?</p> <p>Are the services affordable for all women and men among the intended target groups?</p>

<p><b>5. Developing objectives and recommendations to improve gender equality</b></p>	<p>What are the main inequalities between women and men identified in the analysis to be addressed in the future?</p> <p>What main gender equality objectives should be included in relevant programmes?</p> <p>What changes in activities are necessary to better meet gender equality objectives and better meet the needs, interests and priorities of women and men?</p> <p>How to ensure equal access of women and men to different activities?</p> <p>How to target services better to reach some groups of women or men?</p> <p>What changes in activities are necessary to better meet gender equality objectives and better meet the needs, interests and priorities of women and men?</p> <p>Are there improvements in the process of providing services needed?</p> <p>Are specific additional activities recommended to specifically address women or men?</p> <p>How to make sure gender perspectives are integrated in the implementation of activities?</p> <p>What changes in budget allocations are necessary to better meet gender equality objectives?</p> <p>What possibilities are there to use participatory methods involving women and men to improve gender responsive planning and implementation?</p>
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Adapted from Klatzer and Ivanina (2016)



## Annex 3: Plausibility Check for Revenue Forecasting Using Excel

Excel 2016 offers a one click forecasting feature which is based on the statistical methodology of exponential smoothing. Exponential smoothing is used for trend analysis of time series. In contrast with the moving average approach, with the exponential smoothing methodology, recent observations are given more weight in trend calculation than older observations. That's an advantage of this forecasting approach when it deals with data from a constantly changing environment.

### Forecasting sheet in Excel 2016

The Forecasting Sheet is to be found under excel 2016 or higher in the menu "data" . As a standard, the excel functionality generates a trend extrapolation for three periods together with a 95% confidence interval. Under options, the forecasting period can be extended or shortened, and the confidence interval can be modified; furthermore, there is the possibility to reflect seasonality patterns of the data and their impact on the forecast. In addition, the tool can handle missing data through interpolation. For the purpose of annual revenue forecasting, not all of these features are used.

### How to use the tool?

Input your data in excel as shown in the example below and mark the shaded section

Year	2015	2016	2017	2018	2019
Revenue	118	125	120	126	130

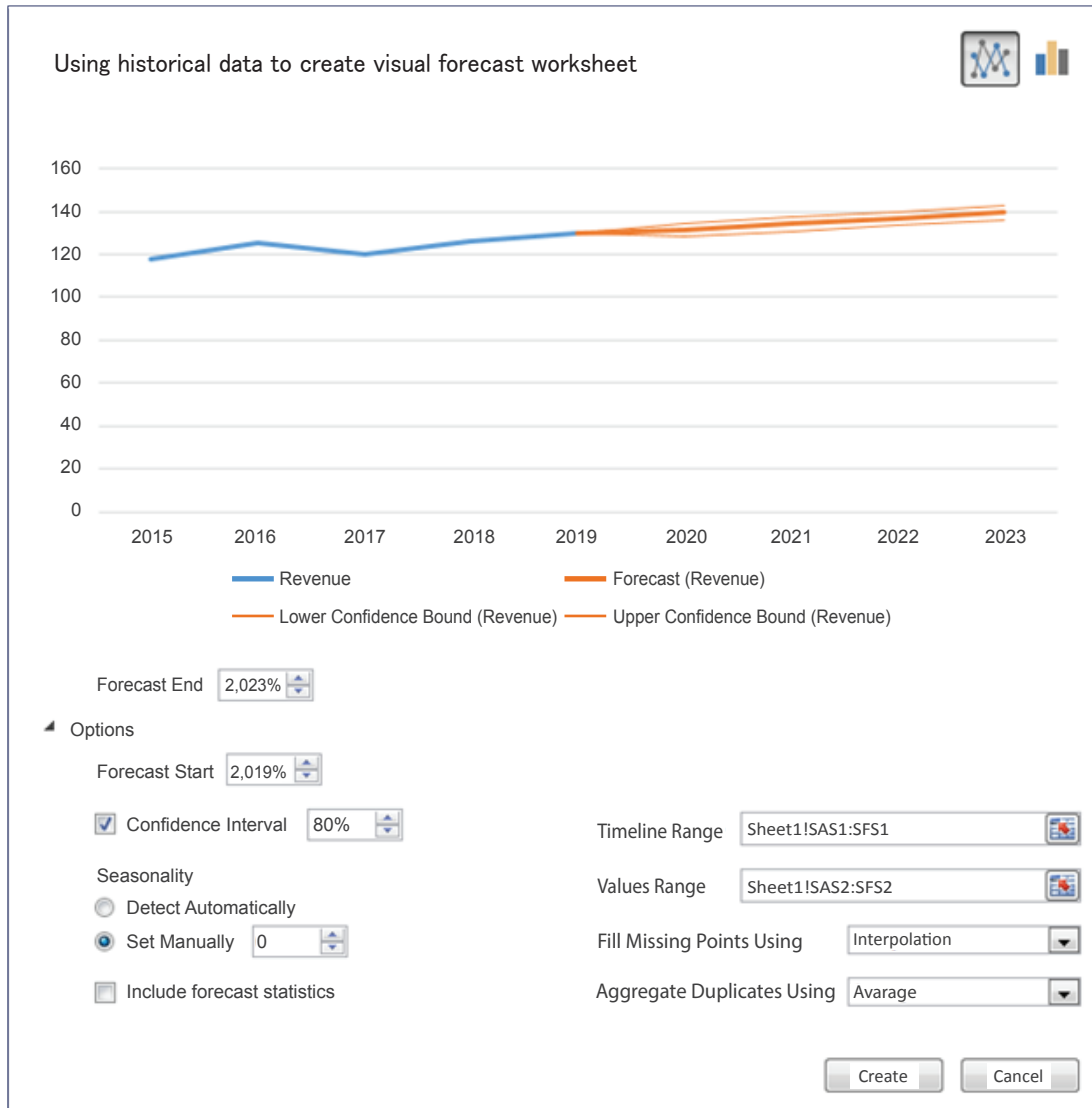
Go now to excel menu data => forecasting sheet => options, and adjust the confidence interval as desired (80% for our purpose), then, put the seasonality option to manual "0", meaning that we do not consider seasonality in case of annual data.

This is what appears now automatically, see Box 55:

---

<sup>6</sup> Possibly, it is needed to activate this functionality in excel first. To do so, go to the File Tab, click Options, and here, under Add-Ins select the Analysis ToolPack and make it available it by pressing the Go button. Then tick the Analysis ToolPack and click on OK. Now, the Forecast Sheet functionality is available under the Data Tab.

**Box 55: Settings for the forecast sheet**



The blue line shows the actual, the orange lines shows the estimation (forecast together with the confidence interval). In our case, the confidence interval was set to 80%. The confidence interval shows the range within which it can be expected that the true value is located, based on probability considerations. The range of the confidence interval depends on the confidence level. The higher the confidence level, the wider the confi-

dence interval. Certainly, it is possible that the true value is still outside of the confidence interval; however, the chances that this materialises are diminishing when the confidence interval is set to a higher level.

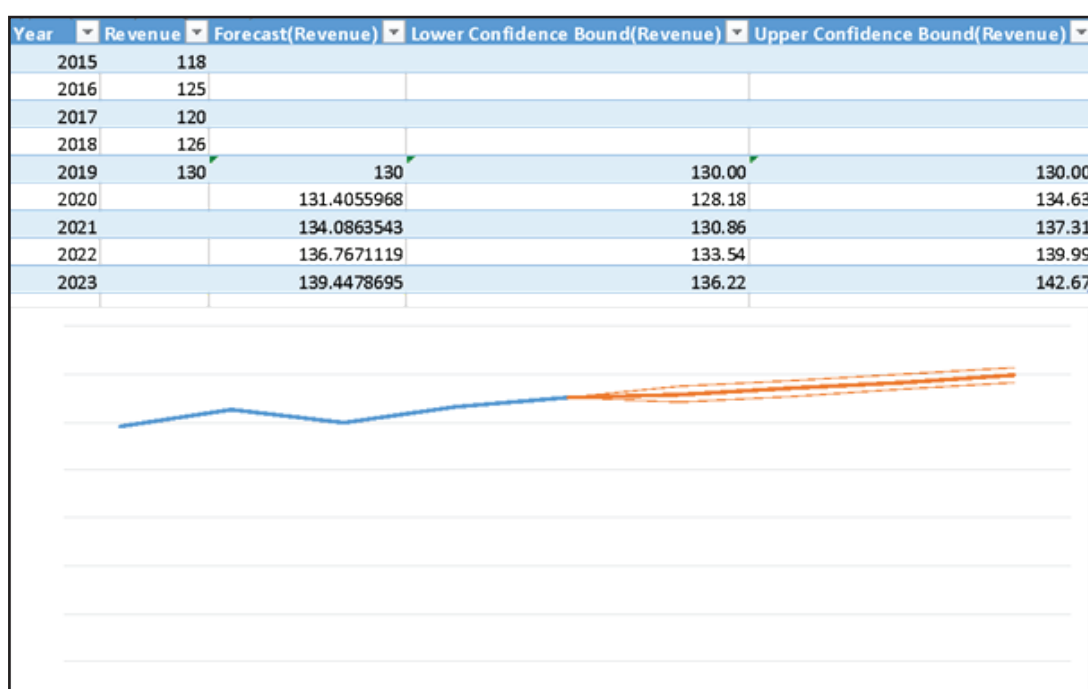
If you have a forecast with ups and downs, then you have probably not yet set the seasonality button to manual and imputed the value 0.

### The output of the excel forecasting chart

After activating the “do” button, Excel generates automatically a table containing the estimation for the forecasting period (next three years) and the corresponding confidence intervals. In addition, a chart is produced illustrating the actual and the estimation for the forecasting period includ-

ing the confidence intervals. See below, Box 56. We only consider the estimation for 2020 as we only budget for next year. The trend extrapolation for 2020 is 131.4. However, estimations within the range of 128.18 and 134.63 would still be plausible but the closer these estimations come to the upper or lower border, the less plausible the estimation would be.

Box 56: Output of forecast sheet



### Recommendations

- The forecasting chart could be used as a plausibility check for local revenue forecasts. In case the revenue forecast is located within the confidence interval, it should be considered whether the forecast is closer to the upper margin of the confidence interval (relatively optimistic forecast) or lower margin (relatively pessimistic forecast); then, it should be explained in general terms why the forecast is more optimistic or more pessimistic.
- In case of surprising forecasts, i.e. forecasts that exceed the confidence interval, it should be required that the influencing factors are estimated in detail and their influence on the revenue source is clearly explained in a written form. Possible influencing factors are shown in the subsequent Box 57.

**Box 57 : Issues to consider in cases of surprising predictions**

<b>Influencing factors for taxes</b>	<b>Influencing factors for fees</b>
- Real economic growth	- Volume increase of activity
- Inflation	- Improved use of fee potential
- Population growth	- Changes of fee regulation
- Changes of tax regulation	- Changes of fee per unit
- Improved use of tax potential	- Other factors
- Tax rate changes	
- Other factors	

- For the purpose of making estimations more plausible, it is preferable to have the confidence interval defined in a narrower way (confidence level of 80%). This implies that forecasts cannot deviate from the trend too much without detailed reflection and justification.
- When we see that in the past, tax and fee revenue was exposed to serious fluctuations, these fluctuations must be considered before making the trend analysis. This is especially important for fluctuations of the recent years as these have a greater impact on the forecast. In cases of clear outliers, clearing of these outliers may be needed. For such cases, the excel forecasting chart function offers the feature of missing data interpolation.

## Annex 4: Project Costing in Practice

A project costing case is displayed in Box 58.

**Box 58: A project costing case**

ESTIMATED PROJECT BUDGET								
Union		Polash UP			Upazilla		Bishwamvarpur Sunamganj	
Sl	Head of Expenses	Budget [BDT]			Contribution			
		Quantity	Unit cost	Total Amount	SHARIQUE	UP		
<b>A.</b>	<b>Administrative Expenses</b>							
A.1	Project Stationary [ Paper, Photocopy] [Rim]	1	500.00	<b>500.00</b>	450.00	50.00		
A.2	Travel Allowance for Implementation Committee	4	1,000.00	<b>4,000.00</b>	3,600.00	400.00		
A.3	Project Meeting [Venue, Food, others]	4	500.00	<b>2,000.00</b>	1,800.00	200.00		
A.4	Quotation Expenses [Advertisement, Master roll]	1	2,999.84	<b>2,999.84</b>	2,699.86	299.98		
A.5	Visit expenses of Standing Committee	2	1,000.00	<b>2,000.00</b>	1,800.00	200.00		
A.6	Visit expenses of Monitoring Committee	3	1,000.00	<b>3,000.00</b>	2,700.00	300.00		
A.7	Sign board for each tube - well	12	500.00	<b>6,000.00</b>	5,400.00	600.00		
<b>Sub Total: Administrative Expenses</b>				<b>20,499.84</b>	<b>18,449.86</b>	<b>2,049.98</b>		
<b>B.</b>	<b>Project Expenses [Construction, Materials and Labour]</b>							
<b>B.1</b>	<b>Establish 4 tube-well in ward 1,3,4,9</b>							
B.1.1	Boring GI Pipe [0.0 meter to 0.50 meter]	200	123.98	<b>24,796.00</b>	22,316.40	2,479.60		
B.1.2	Boring GI Pipe [50 meter to 100 meter]	200	136.38	<b>27,276.00</b>	24,548.40	2,727.60		
B.1.3	Boring GI Pipe [100 meter to 152 meter]	72	150.01	<b>10,800.72</b>	9,720.65	1,080.07		
B.1.1	GI Pipe [38 MM Día, 2.9 mm Thick]	448	117.11	<b>52,465.28</b>	47,218.75	5,246.53		
B.1.2	PVC Pipe [38 mm PVC Pipe, 2.50-3.00 mm thickness, D Class, Aziz Brand or Equivalent]	4	649.01	<b>2,596.04</b>	2,336.44	259.60		
B.1.3	PVC Steinar [38 mm PVC Pipe, 2.50-3.00 mm thickness, D Class, Aziz Brand or Equivalent]	12	116.14	<b>1,393.68</b>	1,254.31	139.37		
B.1.4	PVC Cap [38 mm Dia PVC cap]	4	60.01	<b>240.04</b>	216.04	24.00		
B.1.5	Hand Pump	4	3059.03	<b>12,236.12</b>	11,012.51	1,223.61		

<b>B.1.6</b>	Platform [ <b>Size:</b> 1.4M x 1.0M and 75 mm Thick, <b>Mixture:</b> 1:2:4 Cement and Stone, 125 mm x 75 mm and brick soiling, 12 mm cement plaster [1:4], 1M drain]	4	4825.09	<b>19,300.36</b>	17,370.32	1,930.04
	<b>Sub Total [B.1]</b>			<b>151,104.24</b>	<b>135,993.816</b>	<b>15,110.424</b>
<b>B.2</b>	<b>Establish 4 tube-well in ward 5,6</b>					
	Boring GI Pipe [0.0 meter to 0.50 meter]	200	123.98	<b>24,796.00</b>	22,316.40	2,479.60
	Boring GI Pipe [50 meter to 100 meter]	200	136.38	<b>27,276.00</b>	24,548.40	2,727.60
	Boring GI Pipe [100 meter to 152 meter]	32	150.01	<b>4,800.32</b>	4,320.29	480.03
	GI Pipe [38 MM Dia, 2.9 mm Thick]	412	117.11	<b>48,249.32</b>	43,424.39	4,824.93
	PVC Pipe [38 mm PVC Pipe, 2.50-3.00 mm thickness, D Class, Aziz Brand or Equivalent]	4	649.01	<b>2,596.04</b>	2,336.44	259.60
	PVC Steinar [38 mm PVC Pipe, 2.50-3.00 mm thickness, D Class, Aziz Brand or Equivalent]	12	116.14	<b>1,393.68</b>	1,254.31	139.37
	PVC Cap [38 mm Dia PVC cap]	4	60.01	<b>240.04</b>	216.04	24.00
	Hand Pump	4	3059.03	<b>12,236.12</b>	11,012.51	1,223.61
	Platform [ <b>Size:</b> 1.4M x 1.0M and 75 mm Thick, <b>Mixture:</b> 1:2:4 Cement and Stone, 125 mm x 75 mm and brick soiling, 12 mm cement plaster [1:4], 1M drain]	4	4825.09	<b>19,300.36</b>	17,370.32	1,930.04
	<b>Sub Total [B.2]</b>			<b>140,887.8812</b>	<b>126,799.092</b>	<b>14,088.788</b>
<b>B.3</b>	<b>Establish 4 tube-well in ward 7,8</b>					
	Boring GI Pipe [0.0 meter to 0.50 meter]	200	123.98	<b>24,796.00</b>	22,316.40	2,479.60
	Boring GI Pipe [50 meter to 100 meters ]	100	136.38	<b>13,638.00</b>	12,274.20	1,363.80
	GI Pipe [38MM Dia, 2.9 mm Thick]	280	117.11	<b>32,790.80</b>	29,511.72	3,279.08
	PVC Pipe [38 mm PVC Pipe, 2.50-3.00 mm thickness, D Class, Aziz Brand or Equivalent]	4	649.01	<b>2,596.04</b>	2,336.44	259.60
	PVC Steinar [38 mm PVC Pipe, 2.50-3.00 mm thickness, D Class, Azi Brand or Equivalent]	12	116.14	<b>1,393.68</b>	1,254.31	139.37
	PVC Cap [38 mm Dia PVC cap]	4	60.01	<b>240.04</b>	216.04	24.00
	Hand Pump	4	3059.03	<b>12,236.12</b>	11,012.51	1,223.61



	Platform [ <b>Size:</b> 1.4M x 1.0M and 75 mm Thick, <b>Mixture:</b> 1:2:4 Cement and Stone, 125 mm x 75 mm and brick soiling, 12 mm cement plaster [1:4], 1M drain]	4	4825.09	<b>19,300.36</b>	17,370.32	1,930.04
	<b>Sub Total [B.1]</b>			<b>106,991.04</b>	<b>96,291.94</b>	<b>10,699.10</b>
	<b>Sub Total: Project Expenses</b>			<b>398,983.16</b>	<b>359,084.84</b>	<b>39,898.32</b>
	<b>GRAND TOTAL</b>			<b>419,483.00</b>	<b>377,534.70</b>	<b>41,948.30</b>

### PROJECT BUDGET SUMMARY

Total Project Budget	<b>BDT 419,483.00</b>
Request from External Donor	<b>BDT 377,534.70</b>
Total Contribution	<b>BDT 41,948.30</b>
Beneficiary Contribution	<b>BDT 0.00</b>
UP Contribution	<b>BDT 41,948.30</b>

## Annex 5: Showcasing Elements of Budget Analysis in UPs

The following tables and figures illustrate the wide scope used by UPs for of budget analysis.

**Table 1: Planned revenue compared with past figures**

Planned revenue for budget year compared with actual revenues of the last five years						
Sources	Estimated 2014-2015	Actual 2013-2014	Actual 2012-2013	Actual 2011-2012	Actual 2010-2011	Actual 2009-2010
Holding tax	1225800	36100	5755	45943	13488	290500
Local revenue	1000500	885086	1460059	335520	95200	728000
Establishment	566620	103800	168675	172021	107100	554204
Development assistance	3100000	792058	1535438	1321384	825000	4025000
1% Land transfer tax	600000	453180	550290	302120	366860	
Donor	2200000	225000	325000	250000	237979	950000
Others	525000	679144			300000	
<b>Total</b>	<b>9217920</b>	<b>3174368</b>	<b>4045217</b>	<b>2426988</b>	<b>1945627</b>	<b>6547704</b>

**Figure 6 : The sources of UP revenue over time**

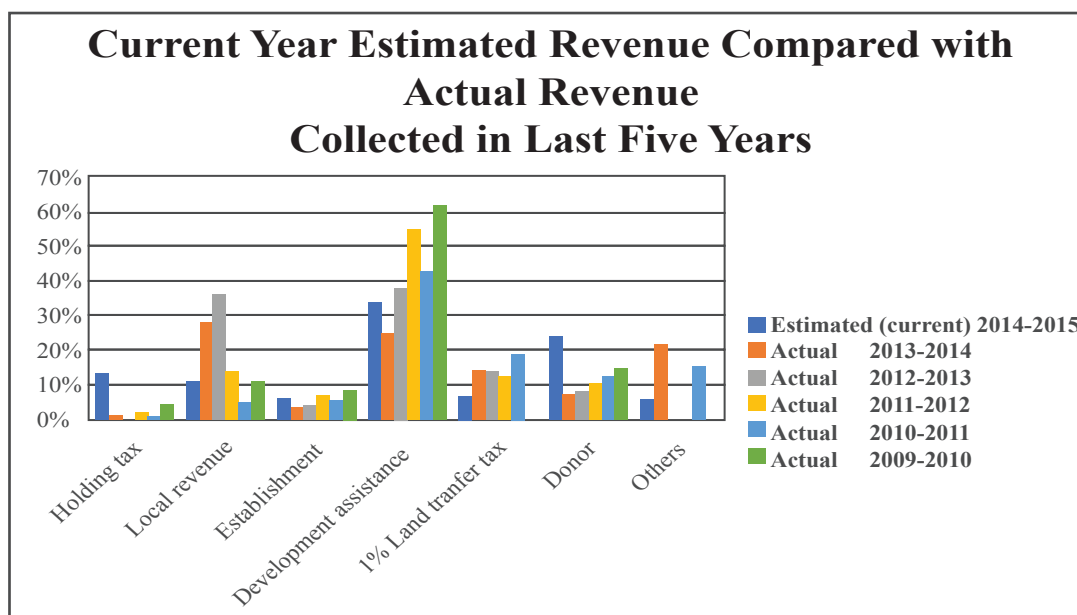


Table 2: UP revenue shares per source over time

<b>Current Year Estimated Revenues Compared with actual Revenues for last five years</b>						
<b>(Share of different sources)</b>						
<b>Sources</b>	<b>Estimated (current) 2014-2015</b>	<b>Actual 2013-2014</b>	<b>Actual 2012-2013</b>	<b>Actual 2011-2012</b>	<b>Actual 2010-2011</b>	<b>Actual 2009-2010</b>
Holding tax	13%	1%	0%	2%	1%	4%
Local revenue	11%	28%	36%	14%	5%	11%
Establishment	6%	3%	4%	7%	6%	8%
Development assistance	34%	25%	38%	54%	42%	61%
1% Land transfer tax	7%	14%	14%	12%	19%	0%
Donor	24%	7%	8%	10%	12%	15%
Others	6%	21%	0%	0%	15%	1%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Table 3: Planned vs. actual revenue – 5 years compared

<b>Estimated and actual revenue collection in last five years by sources</b>										
<b>Sources</b>	<b>2014-2015</b>		<b>2013-2014</b>		<b>2012-2013</b>		<b>2011-2012</b>		<b>2010-2011</b>	
	<b>Estimated</b>	<b>Actual</b>	<b>Estimated</b>	<b>Actual</b>	<b>Estimated</b>	<b>Actual</b>	<b>Estimated</b>	<b>Actual</b>	<b>Estimated</b>	<b>Actual</b>
Holding tax	936,300	936,300	936,300	36,100	786,800	936,300	660,500	45,9430	560,500	13,488
Local revenue	855,500	866,660	855,500	885,086	794,000	1,460,059	599,500	335,5200	573,000	95,200
Establishment (Government Grant)	566,620	566,620	566,620	103,800	560,412	168,675	554,204	172,021	408,422	107,120
Development assistance	2,840,000	1,670,000	2,840,000	792,058	3,825,000	1,535,438	4,025,000	1,321,384	3,100,000	825,000
1% Land transferring tax	425,000	425,000	425,000	453,180	255,000	550,290	205,000	302,120	205,000	366,860
Donor (NGO/TA-7720 pilot project)	2425,000	2,125,000	2425,000	225,000	1,845,000	325,000	950,000	250,000	1,900,000	237,979
Others	300,000	300,000		679,144	300,000					300,000
<b>Total</b>	<b>8,348,420</b>	<b>6,889,580</b>	<b>8,348,420</b>	<b>3,174,368</b>	<b>8,046,212</b>	<b>4,045,217</b>	<b>6,993,704</b>	<b>2,426,988</b>	<b>6,746,922</b>	<b>1,945,627</b>

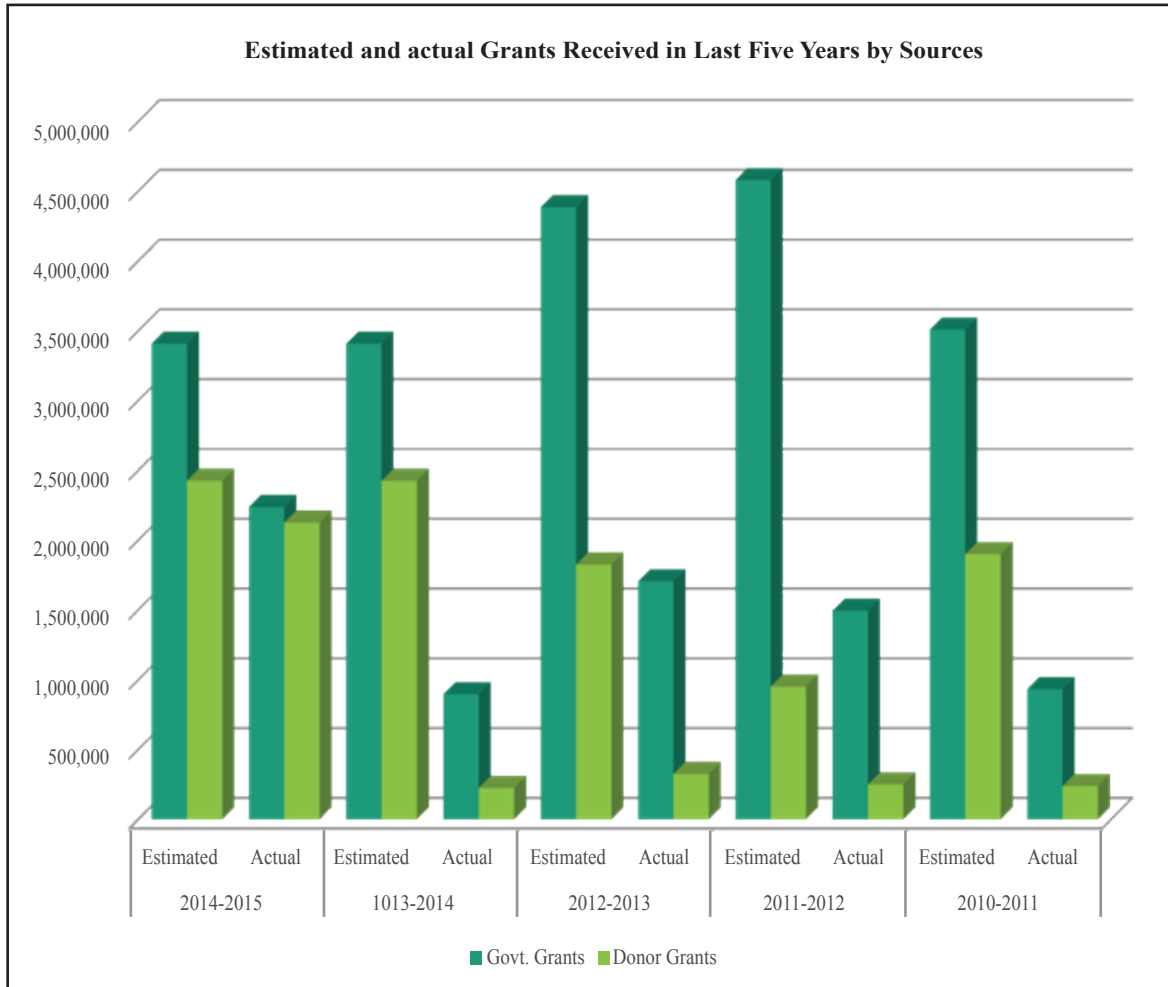
**Table 4: Revenue collected per household – actual vs. plan over 5 years**

<b>Estimated and Actual Revenue Collected in Last Five Years by Per Household</b>											
<b>2014-2015</b>		<b>2013-2014</b>		<b>2012-2013</b>		<b>2011-2012</b>		<b>2010-2011</b>		<b>2010-2011</b>	
<b>Estimated</b>	<b>Actual</b>	<b>Estimated</b>	<b>Actual</b>	<b>Estimated</b>	<b>Actual</b>	<b>Estimated</b>	<b>Actual</b>	<b>Estimated</b>	<b>Actual</b>	<b>Estimated</b>	<b>Actual</b>
113	113.49	113.49	4.38	95.37	0.70	80.06	5.57	80.06	1.63	67.94	35.21

**Table 5: Revenue from grants and donations over the last five years**

<b>Estimated and Actual Grants Received in Last Five Years by Sources</b>										
<b>Sources</b>	<b>2014-2015</b>		<b>2013-2014</b>		<b>2012-2013</b>		<b>2011-2012</b>		<b>2010-2011</b>	
	<b>Estimated</b>	<b>Actual</b>	<b>Estimated</b>	<b>Actual</b>	<b>Estimated</b>	<b>Actual</b>	<b>Estimated</b>	<b>Actual</b>	<b>Estimated</b>	<b>Actual</b>
<b>Govt. Grants</b>	3,406,620	2,236,620	3,406,620	895,858	4,385,412	1,704,113	4,579,204	1,493,405	3,508,422	932,100
<b>Donor Grants</b>	2,425,000	2,125,000	2,425,000	225,000	1,825,000	325,000	950,000	250,000	1,900,000	237,979
<b>Total</b>	<b>5,831,620</b>	<b>4,361,620</b>	<b>5,831,620</b>	<b>1,120,585</b>	<b>6,210,412</b>	<b>2,029,113</b>	<b>5,529,204</b>	<b>1,743,405</b>	<b>5,408,422</b>	<b>1,170,079</b>

**Figure 7: Revenue from grants and donations over the last five years illustrated**



**Table 6: Grants and donations per capita over 5 years deviation between plan and actuals**

<b>Estimated and Actual Grants Received Per Citizen in Last Five Years by Sources</b>										
<b>Sources</b>	<b>2014-2015</b>		<b>2013-2014</b>		<b>2012-2013</b>		<b>2011-2012</b>		<b>2010-2011</b>	
	Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual
<b>Govt.Grants Per Citizen</b>	102	67	102	27	131	51	137	45	105	28
<b>Donor Grants Per Citizen</b>	72	63	72	7	54	10	258	7	57	7
<b>Total Grants Per Citizen</b>	174	130	174	33	185	61	165	52	161	35

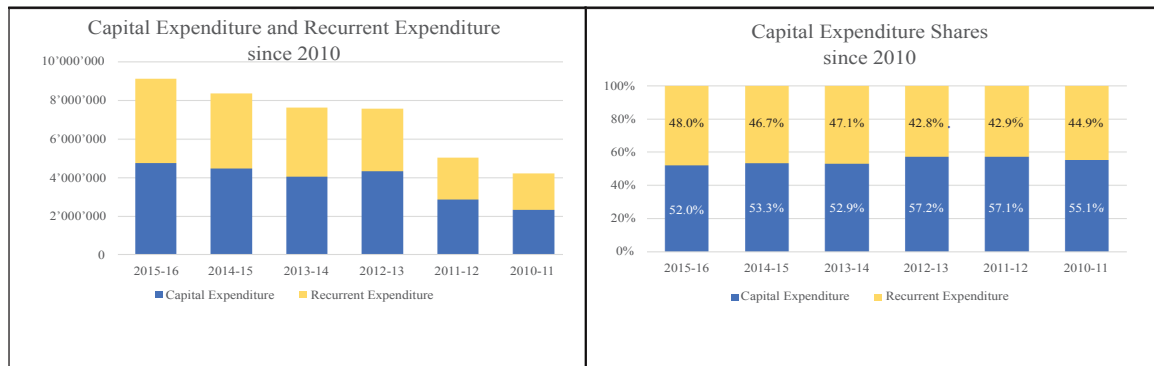
**Table 7: Expenditure per spending purpose over time**

<b>Planned and Actual Expenditure in Last Five Years by Sectors</b>										
<b>Sector</b>	<b>2014-2015</b>		<b>2013-2014</b>		<b>2012-2013</b>		<b>2011-2012</b>		<b>2010-2011</b>	
	Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual
Establishment	1'282'480	1'200'580	1'224'580	1'224'480	925'204	925'204	860'604	860'604	674'600	674'600
Health	1'725'000	1'695'000	1'325'000	1'287'000	2'400'000	2'376'000	1'205'000	1'166'330	750'000	666'100
Communication	1'825'000	1'756'000	1'825'000	1'795'000	2'200'000	2'145'375	2'200'000	2'173'221	1'550'000	1'487'760
Agriculture	250'000	246'000	250'000	243'500	400'000	389'000	450'000	397'600	400'000	387'000
Education	275'000	269'000	275'000	274'000	425'000	385'527	450'000	395'200	410'000	393'500
Building and socialinfrastructure	545'000	539'000	745'000	697'000	512'000	509'780	510'000	489'000	1'400'000	1'367'000
Sports and culture	275'000	267'000	275'000	271'500	150'000	147'400	160'000	154'000	150'000	52'500
Environment protection	200'000	189'000	300'000	297'560	75'000	74'500	100'000	97'680	200'000	178'500
Information and communication technology	100'000	96'500	50'000	43'780	50'000	47'500	75'000	61'400	150'000	147'000
Social awareness program	125'000	123'780	125'000	123'600	49'000	45'780	50'000	49'500	80'000	74'500
Training and publicity poverty reduction program	1'450'000	1'434'000	1'275'000	1'245'000	300'000	233'693	395'000	367'000	420'000	327'500
Improving good governance	175'000	156'000	175'000	167'000	150'000	145'300	100'000	98'400	54'000	53'500
Others	196'000	157'780	210'000	189'938	350'000	345'700	350'000	331'904	300'000	297'600
<b>Total</b>	<b>8'423'480</b>	<b>8'129'640</b>	<b>8'054'580</b>	<b>7'859'458</b>	<b>7'986'204</b>	<b>7'723'759</b>	<b>6'905'604</b>	<b>6'641'839</b>	<b>6'538'600</b>	<b>6'107'060</b>

**Table 8: Capital vs. recurrent expenditure share over time**

Item	Estimated 2015-16	Actual 2014-2015	Actual 2013-2014	Actual 2012-2013	Actual 2011-2012	Actual 2010-2011
Recurrent Expenditure	4'388'480	3'912'330	3'599'983	3'239'381	2'160'581	1'892'153
<b>Share of Recurrent Expenditure</b>	<b>48%</b>	<b>47%</b>	<b>47%</b>	<b>43%</b>	<b>43%</b>	<b>45%</b>
Capital (Development) Expenditure	4'750'000	4'465'700	4'042'680	4'337'039	2'872'300	2'324'260
<b>Share of Capital Expenditure</b>	<b>52%</b>	<b>53%</b>	<b>53%</b>	<b>57%</b>	<b>57%</b>	<b>55%</b>

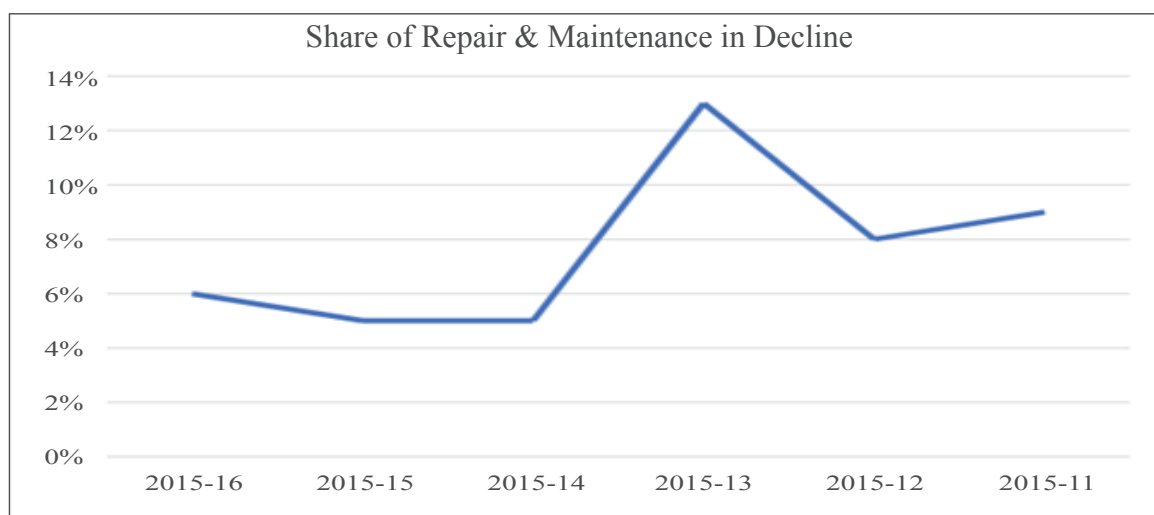
**Figure 8: Graphical illustration of capital expenditure vs. recurrent expenditure over time**



**Figure 9: Illustration of the expenditure share for repair and maintenance 2010 to 2016**

Item	Estimated 2015-16	Actual 2014-2015	Actual 2013-2014	Actual 2012-2013	Actual 2011-2012	Actual 2010-2011
Spending on Repair and Maintenance	560,000	391,300	365,933	984,510	425,303	373,769
<b>Share of Repair and Maintenance</b>	<b>6%</b>	<b>5%</b>	<b>5%</b>	<b>13%</b>	<b>8%</b>	<b>9%</b>
<b>Total Expenditure</b>	<b>9,138,480</b>	<b>8,378,030</b>	<b>7,642,663</b>	<b>7,576,420</b>	<b>5,032,881</b>	<b>4,216,413</b>

**Table 9: Share of repair and maintenance over time**





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