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Aid Reform

ACCOUNTING FOR AID FLOWS TO DIAL

Summary

This document (also available in French) was written by Jean-David Naudet (DIAL/Paris). It is a summary of the study SAH/REFA(2000)1 (French only).

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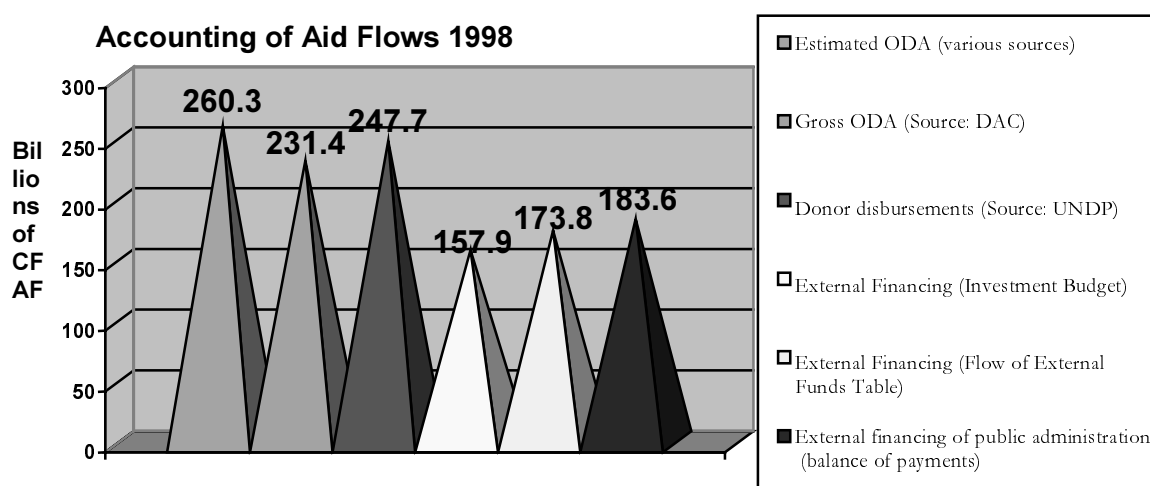
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ACCOUNTING FOR AID FLOWS TO MALI

Summary

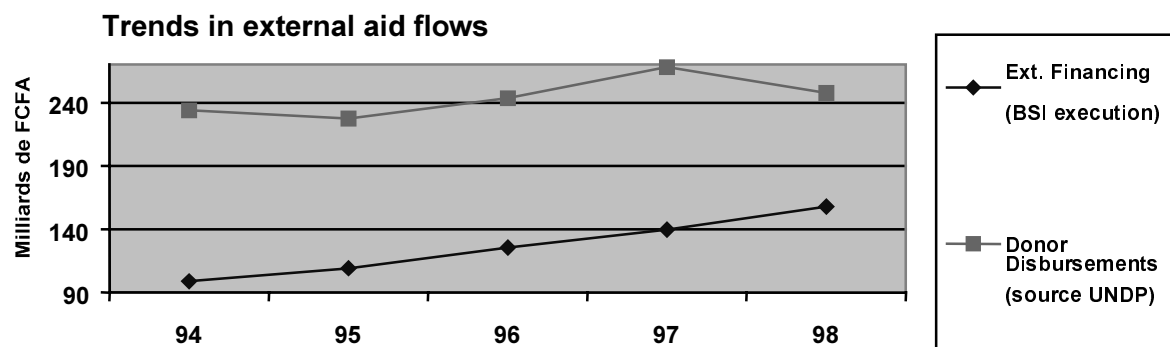
MACROECONOMIC OVERVIEW OF AID ACCOUNTING

In recent years, the aid reported by donors for Mali has accounted for between 15% and 20% of GDP. This significant amount consists of diverse components, which must be accounted for in different ways according to the type of flow. The chart below shows the amounts of aid (excluding debt treatment) reported by donors, according to various sources, and the amounts accounted for by the main accounting instruments or national statistics in 1998.



Some of the differences in the figures can be explained by differences in content (particularly the treatment of non-project technical assistance). However, since public accounts and the balance of payments are the only national instruments that record external flows (these are the sources used by national accounts), a large proportion of aid flows (roughly CFAF 70-100 billion depending on the year, i.e. close to a third) eludes national accounting.

In fact, the actual situation is even more worrying than this, because the share of aid that is supposedly recorded is mainly accounted for in the special investment budget (BSI), which is only a dim reflection of reality. The external financing trends shown up by the investment budget highlight the gap between accounted flows and actual flows.



The picture that emerges is that, while aid is practically stagnant in current CFA francs (+6% between 1994 and 1998), according to donor statements, the external financing recorded in the investment budget increased by 60% between 1994 and 1998.

A comparison of donor statements with the investment budget confirms that aid flows are poorly accounted for by the BSI. A detailed analysis was carried out on the health sector in 1996. In that year, donors reported disbursements of 17.1 billion for the sector, covering 86 projects. The BSI recorded expenditure of 8.3 billion across a total of 29 projects. Many of the projects reported by the UNDP donors do not appear in the investment budget. The reverse also occurs, with some projects recorded in the investment budget but not reported by the UNDP donors. Even more serious, the expenditure recorded for the projects that do appear in both databases is in most cases extremely different, which suggests that the information provided by statements of expenditure, which are used to monitor the execution of the investment budget, is often inaccurate.

Poor accounting of aid flows leads to incorrect monitoring of the Malian economy and major errors in all the main national economic accounts: flow of external funds table, balance of payments and national accounts. The size of the unreported flows, poor accounting of public investments and incorrect reporting of trends suggest that, if external aid were properly taken into account, substantial corrections would need to be made to these accounts.

PROCEDURES, CYCLE OF ACTIONS AND AID ACCOUNTING

The cycle of expenditure in aid actions can be roughly divided into three phases: pledge, payment order and execution. With the competent authority, the donor commits to a programme of actions and expenditure. Each expense item is then decided by one or more designated authorising officers. Lastly, the expenditure is executed and justified by supporting documents. Before examining the general issue of exchanges of information on aid flows between donors and Malian authorities, we shall describe briefly each of these phases and their associated difficulties, due to the diversity of donor procedures.

There is a wide variety of pledging practices, depending on the areas covered by agreements, the status of the partner authority and the nature of the pledges made.

- Some donors sign comprehensive annual agreements with the Malian party covering all or almost all their activities (e.g. UNICEF and the Netherlands); some sign different agreements for each project (development banks); some sign general agreements for each programme cycle (joint commissions), followed by specific agreements for the projects that come under these programmes; while some organisations conduct actions without agreements. Moreover, most donors have certain instruments,

sometimes managed by the agency's headquarters, that elude formal frameworks (such as budget lines, NGO lines, small projects and regional projects).

- The partners that sign the agreements are not the same for all the donors, even for agreements of a similar nature. For example, agreements on grant aid are usually signed with the Malian Ministry of Foreign Affairs (MAEME), while loan agreements are signed with the Ministry of the Economy and Finance (MEF). Project agreements can be signed with the MAEME, the MEF, sectoral ministries, parastatal or regional bodies and even civil society organisations.
- The term "pledge" has different meanings depending on the donor. For donors that take a project approach, it is a multi-year contractual commitment guaranteeing a specific amount, linked to actions and objectives. For donors that have adopted a flexible approach, it is an indicative plan for expenditure, which is reviewed annually and may even be amended during the course of a year. The latter is no longer a budgetary approach that involves opening an "expenditure authorisation", but is closer to forecasting.

This variety at the pledge stage means that no institution has a complete database of the agreements signed between Mali and its external partners, which could serve as an instrument for steering and monitoring aid flows.

However, an even broader variety is found at the payment order stage, where many scenarios are possible. For example, depending on the donor and project, authorising officers within the administration may be officials at the Ministry of Finance (AFD) or the Ministry of Foreign Affairs (EDF), general secretaries, directors of CPS and DAF at sectoral ministries, regional directors of the same ministries or project managers. Furthermore, some authorising officers come from outside the administration, from public enterprises (Manatali, Office du Niger, etc.), ad hoc bodies (project management committees, various units), local authorities or even civil society organisations. In some cases, the donors (e.g. GTZ and FAC) are the authorising officers, either directly or through private contractors, for some of their projects.

The situation is particularly complex as there is often more than one authorising officer for the same project. This is the case for projects where the donor has the power to authorise certain expenditures (technical assistance, large equipment), while the local project body has the power to authorise local operating expenditures.

The execution of expenditure phase follows the payment order phase, although the donor often executes the expenditure directly. There are three main scenarios.

- The expenditure is executed through the beneficiary government's budgetary procedure: this is mainly the case of budget aid, but partly that of AFD projects (for local expenditure).
- The project management body is endowed with an imprest account (World Bank, Swiss Development Cooperation, UNDP, USAID, etc.), to which the disbursements are transferred, that enables it to execute expenditure itself (once again, generally only local expenditure).
- The donor executes the expenditure directly at the request of the authorising officer (GTZ, FAC, UNICEF, the Netherlands).

The execution phase is important, because the executor of the expenditure is in possession of the supporting documents and is the real "accountant" of the aid flows.

This brief overview of the diversity of practices and procedures demonstrates the difficulty of monitoring aid flows and gives some keys to understanding the deficiencies described above. More specifically, the main difficulties are:

- The circulation of information is hampered by the diversity of stakeholders (between which there are usually no hierarchical links) involved in the three phases of the expenditure cycle described above. Many bodies have partial information that is of little value in itself.
- Many of the aid management bodies do not have a financial or accounting capacity (e.g. the MAEME, project bodies, management committees and other ad hoc bodies). They are therefore disconnected from the national budget process and are usually more involved in technical management than in financial reporting.
- It is rare for a national body to have responsibility for the entire execution of an action. The result is that aid flows cannot generally be monitored through accounts (which can be verified by supporting documents), but must be analysed through statistics instead. This is difficult because: (i) the bodies involved lack specific training and (ii) are not usually in possession of all the information, and (iii) the lack of supporting documents makes it extremely difficult to verify the information transmitted. The frequent result is that the statistical information forwarded is of poor quality and cannot even be checked.
- Numerous parastatal and non-governmental organisations are involved in the implementation of aid flows. Even if most of these actions come under the authority of a ministry, they are sometimes far removed from the ministry's activities, in which case information is rarely transmitted.

DIFFERENT ACCOUNTING CHANNELS FOR DIFFERENT TYPES OF AID

From the point of view of the procedures and approaches to recording flows, there are four main categories of aid:

- Budget aid. This aid (from the IMF, the EU and the Netherlands in recent years), perfectly integrated into national budget procedures, should theoretically not pose any accounting problem. However, in practice, it is difficult to collate the figures in the *flow of external funds table* with those reported by the donors.
- Project aid that is or can be partially or fully integrated into national budget procedures. This is usually aid for which the payment order and/or execution is centralised with a single manager at national level and for which the procedures of that manager are adopted (AFD, development banks, EDF). This aid could be recorded in accounts or quasi-accounts (because part of the execution can elude national bodies) and integrated into the budget procedure. In practice, this is not the case because of the break-up of centralising bodies, because of the alternative procedure of the investment budget and especially because of a lack of awareness of the value of integrating this aid into the budget procedure. In practice, this type of aid is not recorded any better than other project aid.
- Ordinary project aid to support the government. The break-up of the payment order and execution phases, and particularly the major role of the donors themselves in these phases, means that it is impossible to monitor these flows through accounts at national level, so a system of statistical monitoring needs to be used. This system could be improved if it were operated on the basis of two principles: (i) relying on a limited number of centralising information sources and (ii) obtaining information from several sources so that it can be cross-checked. Some information would need to be gathered directly from the donors. Currently, information on flows of this type of aid is deficient and unreliable.
- Residual aid (unrecorded public-sector aid). This highly varied category covers everything that is not budget aid or governmental project aid, i.e. mainly: projects conducted with public bodies that are not

strictly governmental, NGO support, local authorities and civil society, flexible instruments at the disposal of local agencies, instruments managed by agencies' headquarters (technical assistance, volunteers, thematic budget lines), emergency funds, regional projects, the operation of local agencies, etc. Currently, this aid is not accounted for at all by the national government (even though it has a significant impact on the balance of payments and national accounts). It can therefore be described as "unrecorded public-sector" external aid. This type of aid can only be recorded through regular surveys of donors.

It is difficult to estimate the amounts of these various types of aid. However, of a total of around CFAF 265 billion for the year 1997, project aid for the government can be roughly estimated at CFAF 140 billion (over half of which can be partially integrated into national budget procedures) and budget aid at CFAF 25 billion. The remainder, i.e. some CFAF 100 billion, is residual and falls into three main categories: aid to parastatal bodies (public enterprises, autonomous public or mixed bodies and regional organisations); aid to civil society and decentralised bodies; and technical cooperation and the operation of agencies.

HOW AND WHERE TO ACCOUNT FOR AID: TECHNICAL ISSUES

The previous section raised the difficulty of accounting for aid flows. But, while existing instruments and information channels could be improved, the growing variety of and constant changes to development aid pose fundamental problems in terms of the types of aid accounting instruments. We shall examine three issues in particular: budgetary expenditure and public expenditure; the inadequacy of the three-year investment programme/special investment budget (PTI/BSI) system for recording current aid flows; and local valuation of aid flows.

Budgetary expenditure and public expenditure

The donors' expenditure is undeniably public in nature. However, it often takes place outside the framework of the Malian government's budget. This issue does not yet seem to have been considered and the government's investment budget remains the only national instrument for recording aid. At the same time, direct donor support for a municipality, an NGO or an autonomous financing fund does not really fit into the Malian government's budget. This is an "external public expenditure" conducted by an "external administration". Although the government is responsible for directing all public expenditure, not every expense item is budgetary in nature. However, the State does need to account for and steer all public expenditure from both internal and external sources, whether budgetary in nature or not. This requires a new approach to the problem and new instruments.

Obsolescence of the three-year investment programme/special investment fund system

Several trends are making the PTI/BSI instrument less and less suitable for monitoring aid flows to Mali:

- The first, mentioned above, is the definition of public expenditure and budgetary expenditure and the validity of separating these two concepts.
- The difference between operating budget and investment budget is also no longer valid. The BSI is a collection of budgetary expenditures from external sources (with internal counterparts) and not an investment budget.

- While the project concept is still predominant among donors, it no longer has a monopoly. Many flexible instruments, mostly based on annual budgeting, have appeared. Some donors (e.g. USAID and UNICEF) have even completely abandoned the project approach. These flexible programmes and instruments are difficult to include in the PTI/BSI system.
- With this trend, the concept of pledging has become ambiguous and varies from donor to donor. The PTI/BSI system, under which a pledge opens a targeted payment authorisation that is subsequently disbursed in annual tranches, no longer reflects reality for some donors and instruments.

Local valuation of aid flows

Every aid flow must be recorded in one way or another because it necessarily generates an effect on the Malian economy, even when the expenditure is not carried out in Mali. However, distinctions should probably be made in the valuation of aid, according to whether it is accounted from the point of view of the donor or of the recipient. Donors spent CFAF 250 billion on Mali in 1998, but this does not mean that Mali received CFAF 250 billion in aid.

This can be illustrated by two contrasting examples. At one extreme is budget aid, where the beneficiary receives exactly what the donor pays out. At the other extreme are agencies' operating expenses, where the beneficiary receives nothing, although the donors make the expenditure and it has an effect on Mali's national accounts or balance of payments. Between these two extremes, there is a wide variety of situations. In the case of tied aid, particularly technical assistance, it is quite legitimate to value the grant for the beneficiary at the cost of local substitution rather than at the price the donor pays for it.

In time, it would be good for the beneficiary countries (including Mali) to account for the aid they receive, according to their own rules, in addition to donors' accounts of expenditure.

HOW AND WHERE TO ACCOUNT FOR AID: INSTITUTIONAL ISSUES

Aid accounting (the first step towards improved national steering of aid) is an extremely complex issue that can only be dealt with through a close partnership between the government and all the development partners. The institutional component of aid reform offers Mali an opportunity to progress on this issue and an appropriate framework to discuss ways to improve. Below is an outline of preliminaries for better aid accounting, ways to improve the existing system and directions for more ambitious reform to achieve genuine transparency.

Preliminaries

The most important preliminary to the improvement of aid accounting is that it respond to a real national need, which is far from being evident. Given all the challenges facing Mali, it is only natural to wonder about the validity of launching into a complex undertaking that has no obvious immediate benefit. However, the issue at stake is the need for overall steering of the economy and national control of aid. In the past, aid accounting deteriorated because of a lack of demand, combined with the growing complexity of instruments and procedures. Even now, the poor quality of the investment budget, although common knowledge, barely raises concern.

The second preliminary is a genuine commitment to institutional reform. The break-up of the donors' partner institutions is a hindrance to coordination that has been recognised on more than one

occasion. To improve aid accounting, a single body, with a financial and economic capacity, should be responsible for the monitoring of international development cooperation.

The third preliminary is a genuine commitment to transparency on the part of donors. The current process of aid reform is highly favourable to this condition. In general, however, donors are not particularly willing to report on their activities through national surveys (such as that carried out by the BCEAO), unless these are preceded by active awareness-raising conducted at political level by the Malian government.

Improving the existing situation

It would seem fairly simple (except for the capacity constraint) to improve the reliability and coverage of the BSI. It would suffice to compare existing information with the information held by donors, complete the list of projects under way and improve the monitoring of disbursements.

This improvement could greatly benefit from UNDP's experience and database, and from the OECD's database, and give rise to an active partnership between the National Planning Department, UNDP and all the donors.

Moving towards more ambitious reforms

An improvement of the BSI is important, but it will not resolve all the problems cited above. More ambitious reforms are necessary to achieve proper monitoring and steering of aid flows. Suggested directions for these reforms are to:

- Simplify the institutional component of partnership. This issue has already been mentioned. The 1999 workshop on the institutional component of aid management established operational recommendations in this direction.
- Give responsibility to a single body, with an economic and financial capacity, for monitoring external aid. The investment budget can only monitor budgetary expenditure as it is recorded by the donors and is ill suited to take into account numerous forms of aid. A more comprehensive monitoring of external aid (agreements and disbursements), distinguishing between budgetary expenditure and public expenditure, between donor expenditure and beneficiary receipts, and between projects and flexible instruments, can only be achieved if the task of monitoring external public expenditure is assigned to a specialised body.
- Encourage donors to move closer to national budget procedures. This change is already under way with the implementation of programmes in various fields (e.g. education, health and decentralisation). However, the donors that follow national procedures the closest are also those that have the most difficulty in disbursing the funds pledged. Only better sharing of jointly accepted procedures and an improvement of the channels of co-decision will facilitate harmonisation with national procedures. An extension of the practice of budgetary counterparts of projects would also be an excellent way to budget numerous projects.