

**Tracking of Poverty-Reducing Expenditures  
(in the framework of the HIPC Initiative)**

**Republic of Mali**

**Evaluation of the Capacity to Track Expenditure Execution and Action Plan**

**version of January 14, 2002**

**I. INTRODUCTION**

An IMF mission visited Mali to evaluate, with the Malian authorities, the capacity to track execution of poverty-reducing expenditures and to prepare an action plan to improve that capacity.<sup>1</sup> The mission also worked on preparing a Report on the Observance of Standards and Codes (ROSC) regarding fiscal transparency.

In March 2001, the Executive Boards of the IMF and the World Bank examined a study on the capacity to track poverty-reducing public expenditures in HIPC Initiative beneficiary countries. In this context, the two institutions had prepared preliminary evaluations of the public expenditure management (PEM) systems for the 25 countries that benefit from the HIPC Initiative, including Mali. The evaluations focused on tracking poverty-reducing expenditures, whether they are financed by HIPC resources or by national or external resources. The Boards requested that IMF and WB staff provide assistance to these countries so they can take responsibility for these evaluations (or modified ones, if necessary) and for preparing draft action plans aimed at bringing poverty-reducing public expenditure tracking systems up to standard, if necessary.

The mission's four objectives were to:

1. Advance from the preliminary evaluation of existing capacity to track poverty-reducing expenditures to an assessment conducted in collaboration with the Malian authorities; and discuss with the authorities a questionnaire designed to that end.
2. Take stock of all reform programs (domestic or supported through external financing and technical assistance) to improve the PEM system, emphasizing tracking of poverty-reducing expenditures.

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<sup>1</sup> The meetings with the authorities were held in Bamako from July 17 to 31, 2001 by an IMF mission composed of Mr. Lienert (Head of Mission) and Mr. Bouley (Fiscal Affairs Department, IMF). The IMF Resident Representative, Mr. Williams, actively participated in the mission's activities. The World Bank staff, both in Washington and in the resident mission in Bamako, were kept fully informed of the mission's activities.

3. Establish a plan to improve tracking capacity, bearing in mind reform programs under way and based on a realistic evaluation of the country's absorption capacity.
4. Prepare a draft action plan specifying additional needs, reform priorities and external assistance requirements, year by year; and submit that draft to the authorities for comment and modification before it becomes final following another review by the Fund and the World Bank.

## **II. EVALUATION OF TRACKING CAPACITY**

The mission examined with the working group from the Ministry of Economy and Finance (MEF) their preliminary response to a specially-designed questionnaire for HIPC countries, which is the basis for the evaluation of capacity to track specific poverty-reducing expenditures. Staff of the World Bank and the IMF in Washington, as well as the Malian authorities, reviewed the preliminary assessment and action plan (AAP). Their comments on the earlier version are incorporated in this document.

### **Summary of the assessment of the expenditure tracking system**

The Malian public expenditure management (PEM) system has a number of desirable features which permit a reasonable degree of tracking specific expenditures. Since Mali already has administrative, economic, and functional classifications in the budget nomenclature, it is able to track specific expenditures with a considerable degree of detail and with relatively short time lags for producing expenditure data (on a payments order basis). In addition, for the past four years program budgets have been prepared for all ministries. A worrisome feature is whether the tracking capacity at central government level will be able to be replicated at sub-national government levels (the decentralization process is being accelerated).

The evaluation of the PEM system agreed with the authorities is a little less optimistic than the evaluation made in Washington in December 2000 by the staffs of the World Bank and IMF (see Table 1), it reveals the following:

- Budget preparation is relatively satisfactory, although improvements are required in: coverage of government, information on grants, budget classifications, and medium-term projections. The current budget provides budget categories for HIPC-financed expenditures, but does not yet identify non-HIPC poverty-reducing expenditures.
- Budget execution procedures meet the assigned standards.
- The principal weaknesses relate to the fiscal reporting systems and auditing of annual accounts.

**Table 1. Mali: Capacity to Track Poverty-Reducing Expenditures**

Budget management	Level to be achieved	Evaluation Dec. 2000	Evaluation July 2001	Level attained?
<b>Comprehensiveness</b>				
1. The consolidated statements adhere to GFS standards for general government.	A	B	B	
2. Government activities are not conducted through extrabudgetary operations to a significant degree.	A	A	A	Yes
3. Budget execution is very close to forecasts (in terms of level and appropriation by function).	B	B	B	Yes
4. The budget includes donor-financed current and capital expenditures.	A	C	B	
<b>Classification</b>				
5. The budget classifications are administrative, economic, and functional.	B	B	B	Yes
6. Poverty-reducing expenditures are clearly identified in the budget.	A	A	B	
<b>Projections</b>				
7. Medium-term projections are integrated into the budget cycle.	A	C	B	
<b>Internal controls</b>				
8. Low stock of arrears; low accumulation of new arrears in the previous year.	A	A	A	Yes
9. Internal control is effective and efficient.	A	A	A	Yes
10. Tracking surveys supplement internal controls.	B	C	B	Yes
<b>Reconciliation</b>				
11. Banking and government accounting data are systematically reconciled.	A	A	A	Yes
<b>Tracking expenditures during the year</b>				
12. The ministries' or Treasury's internal reports are received within four weeks of the end of the reference period.	B	A	B	Yes
13. Regular fiscal reports include expenditures categorized by functional classification.	A	C	C	
<b>Final audited accounts</b>				
14. Draft annual accounts are prepared within two months of fiscal year-end.	A	A	B	
15. The accounts are audited and presented to Parliament within 12 months of fiscal year-end.	B	C	C	

A = Satisfactory B = Acceptable, but improvements needed C = To be improved

## Detailed Findings

### A. Degree of Deconcentration and Decentralization in Expenditure Procedures

Several years ago, Mali introduced deconcentrated structures for budget execution in its regions, by creating regional budget directorates, regional financial control directorates, and regional Treasury offices. Although the recurrent budget for the nine regions (including the District of Bamako which is also a deconcentrated entity) remains very small, when the draft investment budgets executed at the regional level are included, deconcentrated expenditures in the regions and counties (*cercles*) account for well over 25 percent of budget appropriations for poverty-reducing expenditures. The MEF estimates that 44 percent of additional HIPC-financed investment projects would be implemented at the regional level, mainly in education and rural development.

This percentage is expected to rise in the near future with the implementation of decentralized governments. Although the decentralization process was launched in 1991, in November 1996 it was redynamised and the number of communes increased from around 20 to 703. The regions and *cercles* were declared autonomous decentralized governments (9 regions and 49 *cercles*). In line with Law No. 99-35 of August 10, 1999, lower-level governments are currently being established.

### B. The Budget

#### Comprehensiveness of the budget

##### *Coverage of the budget*

The government's budget covers central government only. It therefore only partially covers operations of the general government sector, as defined in the IMF *Government Finance Statistics Manual (GFS)*. Only transfers to various administrative public entities' (EPAs) are recorded in the government budget. The same is true for the decentralized governments. Social agencies, such as the National Institute of Social Welfare (INPS) and the Malian Retirement Fund, are excluded from central government budget operations.

Ministries' own fees are generally limited, as in the case of parents' contributions to tuition costs for primary education. But for some EPAs, revenues other than central government budget transfers can be sizeable (e.g., over CFAF 1 billion in the 2001 budgets of all hospitals and the veterinary laboratory).

##### *Extent of execution of budget*

Recurrent expenditures are executed close to the amounts budgeted. In contrast, the investment budget (BSI) is considerably under-executed. However, since 1998, there has

been major improvement: the rate of execution is now over 80 percent of appropriations made. However, this rate is evaluated on a different basis from that for recurrent expenditures, because it takes into account investment spending that was not included in the investment budget appropriations, since financing was obtained after the budget was approved.<sup>2</sup>

### ***Inclusion of donor resources in budget***

Loan-financed expenditures are included totally in the budget. In contrast, expenditures financed by grants are not exhaustively incorporated, because some transactions are conducted directly by donors and the beneficiaries, for which the MEF has no information. This problem is more acute for the special investment budget; direct payments by donors to third-parties may be made without the knowledge of the MEF. However, the National Planning Directorate of MEF believes such operations are quite limited compared to total grants recorded by the MEF.

### ***Information on tracking donor-financed operations***

Execution of multilateral donor-financed operations is available within a satisfactory time frame. In contrast, the quality of information from bilateral donors varies; some donors provide no systematic data on their operations in Mali. The UNDP conducts an annual survey of technical assistance operations. Generally speaking, information on execution of donor-financed expenditures is available later than other information on budget execution. An exhaustive statement of capital expenditures is prepared only six months after the end of the reference period.

## **Classification**

### ***Classification categories***

The budget nomenclature for the central government budget is composed of administrative, functional, and economic classifications. The Mali classification system is close, though not fully consistent with WAEMU guidelines. A bridging table (*tableau de passage*) has been prepared and the 2001 budget has been transcribed to follow the WAEMU economic and functional classifications. However, the WAEMU guidelines do not include program

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<sup>2</sup> In the 1999 PER, execution rates for some sectors exceeded 100%.

classification, nor are they consistent with the latest functional classification system adopted by the international community.<sup>3</sup>

For Mali, the main titles of the budget adopted by Parliament are in terms of a “functional code”, which is in reality a budget sub-section. It is a mixture of organizational identifiers (ministries have functional codes 10 to 81), transfers to EPAs, regional budgets, budget annexes and special funds (there are few of these) and centralized expenditures (*dépenses communes*). These budget sub-sections do not correspond to a functional classification, as a single ministry can cover several functions.<sup>4</sup> Nonetheless, an authentic functional classification is embedded in the budget nomenclature (described in Law 86/102<sup>5</sup>). Although budget expenditures can be disaggregated by functions and sub-functions, this is not done—neither in the budget document itself, nor in regular expenditure reports. The budget nomenclature also contains an economic classification at the level of chapters.

A sectoral classification is used when adopting the special investment budget; its coverage is different from that of the other classifications. Sectors, which are the basic categorization unit in the investment budget, are not connected to ministries, which are the basic categorization units in the recurrent budget. Nonetheless, when presenting the budget (*loi de finances*), a major effort is made to group investment expenditures by ministry.

A program budget has been prepared for the entire general government budget since 1998. The budget nomenclature does not include a classification by program, which would enable the execution of the general government budget to be tracked by program.

Different classification systems are used for other non-central government entities, EPAs, and local governments. The classification in the new accounting nomenclature of the communes is different from that of central government and from that proposed in the WAEMU directive on the General Government Chart of Accounts. This unnecessarily complicates the consolidation of general government operations.

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<sup>3</sup> The Classification of Functions of Government (COFOG), as published by the United Nations Statistical Division, identifies 10 broad Division (functions), as well as groups (sub-functions) and classes. has been incorporated into the 2001 Manual of Government Financial Statistics of the IMF (available on IMF website, see [www.imf.org](http://www.imf.org)).

<sup>4</sup> For example, the Ministry of Mines, Energy, and Water has operations under two different functions: industry and agriculture; the Ministry of Industry, Trade, and Transport has trade and industry and transportation functions; the Ministry of Investment, Land Development, and the Urban Environment has six main functions: transport, agriculture, urban development, security (civil protection), general administration, and leisure.

<sup>5</sup> Which modified the Law 67-25 determining budget nomenclature for the Republic of Mali.

*Specific classifications used for poverty-reducing expenditures*

Poverty-reducing expenditures have only been very broadly defined in the Interim PRSP. Their more precise identification is currently being studied in the context of full Poverty Reduction Strategy Paper, for which a first draft was prepared in August 2001.

In contrast, a subset of poverty-reducing expenditures, namely those financed by resources released under the HIPC initiative, have been fully identified and allocated to seven key ministries.<sup>6</sup> The allocation in 2001 is shown in Box 1.

<b>Box 1. Mali: Allocation of HIPC-financed expenditures, 2001 1/</b>		
<b>(In billions of CFA francs)</b>		
<b>Ministries</b>	<b>Before HIPC</b>	<b>After HIPC</b>
Education	60.8	67.6
Health	36.8	39.5
Social development, solidarity and old age	10.3	10.4
Rural development	92.6	94.1
Equipment, territorial development, urbanism and environment	75.0	75.8
Promotion of Women, Children and Family	1.4	1.5
Other	297.4	299.1
<b>Total</b>	<b>574.3</b>	<b>587.9</b>

<sup>1</sup> General budget, including foreign-financed expenditures and exceptional outlays in 2001 for rural development.

A special account was opened at the central bank (BCEAO), which will facilitate tracking inflows and outflows of total HIPC resources. The 2001 supplementary budget (*loi de finances rectificative*) included the additional HIPC-financed expenditures. For most recurrent expenditures, these items are allocated to a single “HIPC” budget line created specifically for that purpose (chapter 23 of the economic classification). Centralized

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<sup>6</sup> Ministries of Education, Health, Rural Development, Investment, Social Development, Employment, and Water.

expenditures (for some HIPC-financed expenditures) are posted to chapter 43. For investment expenditures, ad hoc codes are used that link the numeric codes corresponding to Chapters 31 and 32 to a specific identifier. This type of itemization, which is essentially manual, is not fully satisfactory in the framework of automated data processing. Furthermore, by allocating specific chapters of the economic classification to HIPC-financed expenditures, regardless of the nature of the expenditure, the economic classification system is misused.

### **Medium-term forecasts**

There are three-year estimates for the investment budget. In contrast, for the recurrent budget, there are no detailed multi-year estimates of expenditures. Nonetheless, for key sectors, notably health and education, the annual estimates take into account the multi-year strategies that have already been prepared. Although expenditures financed by the HIPC initiative were identified in the annual budget for 2001, in mid-2001, this sub-component of poverty-reducing expenditures was not projected into 2002 or beyond. However, the more urgent need is to prepare multi-year projections for *all* poverty-reducing expenditures.

## **C. Budget Execution**

### **Internal control**

Internal control is conducted by financial controllers, public accountants, the *Inspection des Finances*, and internal inspection departments in some ministries. In addition, the Controller General of Public Services (under the Prime Ministers' Office) audits all public services.

The role of the financial controller is twofold: to check the regularity of expenditure commitments and payment order issuance; and to keep the accounts for budget execution in the pre-payment phases, allowing for cross-checking with the records kept by the expenditure authorization officers.

These internal controls are supplemented by audits of public expenditures conducted by the *Inspection des Finances* and the Controller General's Office. Currently-available audit reports suggest that internal control could be improved further, since some illegal or irregular operations continue to take place.

### **Expenditure arrears**

The procedures used by the Treasury make it possible to have reliable data on unpaid bills received by the Treasury. Articles 21 and 22 of the 2001 annual budget (*loi de finances*) strengthened legal provisions for making authorizing officers responsible and for absolving

the government of making payments for which there is inadequate documentation.<sup>7</sup> Partly because of this, there are no arrears, as measured by the Treasury.

### **Supplementary budgets**

Supplementary budgets are provided for by law to account for changes in the macroeconomic framework, as well as contingencies that arise in a given fiscal year. For fiscal year 2000, the supplementary budget *reduced* budget appropriations, given the projected shortfalls in revenues. For 2001, the supplementary budget *raised* budget appropriations (following discussions with IMF staff), to incorporate subsidies for the *Compagnie Malienne pour le Développement des Textiles* (CMDT) and *Énergie du Mali* (EDM), to increase amounts needed to prepare the 2002 elections, and to distribute additional HIPC resources (which were higher than initially projected).

### **Reconciliation of accounts**

Government bank accounts are reconciled monthly with treasury ledger accounts. They are based on the monthly statements prepared by the Central Bank, which are submitted to the Treasury a few days after month's end. Treasury funds are deposited with the Central Bank (the BCEAO) and with BCEAO branches in Mopti and Sikasso. For other localities in the interior of the country, the Treasury uses local branches of the Development Bank of Mali.

Differences between the above-the-line budget records and below-the-line financing of the deficit are insignificant.

## **D. Budget Execution Data**

### **Tracking expenditures during the year**

Data on budget execution are generated in different departments: the Budget Directorate, the Financial Control Directorate, the Treasury, and the spending ministries (DAF). The computer systems that produce the data are not integrated, making it difficult to obtain exhaustive data quickly. Data is often transferred between computer systems in hard copy, which requires considerable effort and makes it necessary to verify detailed data.

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<sup>7</sup> Article 21: Any government official or agent who makes expenditure commitments in excess of existing appropriations or who executes expenditures without prior authorization from the Financial Controller is personally and financially liable for such action, without prejudice to any administrative and criminal sanctions that may be applied. Article 22: the government is not liable for payment of expenditures executed without prior authorization from the Financial Controller.

The monthly budget execution reports (TOFE), which present expenditures only by economic type, are prepared from several sources, particularly the administrative accounts, monthly accounting data from the Treasury, and non-treasury data. They are produced six to eight weeks after the end of each monthly period. A budget execution report for the first six months of the year is submitted to the National Assembly when the draft budget is submitted in October.

A statement on the use of appropriations at the commitment and payment order stages is prepared monthly by the Financial Control Directorate (DNCF) and is available within ten days of the end of the reference period. It is not published.

Although it would be possible to devise a monthly expenditure report by functional classification, such statements are not currently prepared.

### **Final accounts and budget execution**

The regulations stipulate that treasury's accounts (*comptes de gestion*) must be closed and sent to the Supreme Court's external audit agency (*Section des Comptes*) by July 31 of the year following the end of the fiscal year. No specific schedule is set forth for depositing the government's annual general account with the *Section des Comptes*, although this is a key element for preparing the report of the *Section des Comptes* that goes with the draft budget execution law (*loi de règlement*), which must be submitted to the National Assembly by the end of the year following the fiscal year in question. This schedule is unrealistic under present circumstances, since it the *Section des Comptes* does not currently have the resources to prepare the fully-justified certificate of compliance required for the National Assembly to examine the draft budget execution law.

MEF staff have made major efforts recently to resume the schedule set forth in the regulations for preparing the final accounts and the *loi de règlements*. The latter for the 1993, 1994, and 1995 budgets were adopted. Work on this front is under way for the 1996 and 1997 *loi de règlements*. However, the working conditions at the *Section des Comptes* make it impossible to speed up the work to meet the schedule set forth under the law, because human and material resources are very limited, and annual accounts have not been closed and presented to the auditor (*juges des comptes*) for many years.

### III. Action Plan to improve tracking of poverty-reducing expenditures

Although the expenditure tracking system is relatively robust, there are a number of short-term and medium-term actions that need to be taken to improve the operation of the PEM system. Table 2 lists the key areas where measures need to be adopted. In terms of priorities, the most urgent actions for improving the capacity to track poverty-reducing expenditures are to:

- Modify classification systems: both short-term measures and medium-term reforms are needed.
- Accelerate the production of monthly treasury balances and fiscal reports (TOFEs)
- Strengthen external audit

The rationale for the three-year action program is indicated below.

#### 1. Improving budget classifications

Poverty-reducing expenditures, once defined and then identified in the budget, need a robust classification system to permit their tracking. The only choice at this stage is to identify poverty-reducing expenditures by a combination of the available administrative, economic and functional classifications, for which short-term improvements are needed.

As indicated earlier, the budget is adopted by “functional code.” This is partly an administrative classification; it is definitely not a functional classification. There is need for a clear organizational classification, which corresponds to ministries and spending units, in which subsidies to EPAs, regional budgets, centralized expenditures, and budget annexes are shown under the supervisory ministry. Moreover, as observed by WAEMU,<sup>8</sup> centralized expenditures (*dépenses communes*) should be broken down as much as possible and shown under Ministries.

A decision was taken to identify the specific expenditures related to the HIPC Initiative by specific codes. The use of chapters of the economic classification to identify HIPC current expenditures is not the appropriate solution (most recurrent expenditures are listed in Chapter 23, regardless of their nature). In the case of investment expenditures, chapters alone do not allow for the clear itemization of these expenditures; in the short-term, an ad hoc code (outside the formal codification structure) is required to track these outlays.

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<sup>8</sup> See the Report of the Seminar on the Evaluation of the Implementation of Directives concerning Public Finance Harmonisation, Bamako, 22-24 August, 2001.

**Table 2: Actions to be taken to improve tracking of poverty-reducing expenditures**

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>1. Budget classifications</b>	Integrate a specific coding for HIPC-financed expenditures. Review the consistency of the classification codes.	Specification of codes for poverty-reducing expenditures. Add a program classification to the codification for the 2003 budget.	Review the entire structure of budget classifications, for greater homogeneity.	Implement the new budget classification.
<b>2. Budget presentation</b>	Ensure coherency between the “program budgets” and the conventional budget.	Improve the readability of the budget. Study for the common presentation of the conventional and program budgets. Draft a budget execution procedures manual, covering each level of government.	Continue actions to improve the preparation of the program budgets.	
<b>3. Consolidated general government statements</b>		Feasibility study of presenting a fully consolidated budget for <i>general</i> government.	Prepare budget annexes for the EPAs revenues and expenditures. Presentation of six-monthly reports.	Prepare a budget annex presenting consolidated data on the decentralized governments, with six-monthly reports.
<b>4. Inclusion of grants</b>		Study to quantify the extent of grants not included in the budget.	Assess results of study, develop a strategy for improving information on grants, and implement a tracking system.	Continue these activities.
<b>5. Improving medium-term projections</b>		Improve the programming of medium-term expenditures for the entire central government budget.	Extend this activity to incorporate the EPAs and decentralized governments.	Continue this activity.

**Table 2: Actions to be taken to improve tracking of poverty-reducing expenditures**

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>Area for action</b>				
<b>6. Improving Treasury-based data</b>	Improve the timeliness of the preparation of the Treasury balances.	Prepare the TOFE mainly on the basis of treasury account balances.	Present a semi-annual budget execution report to the National Assembly when presenting the program budgets. Prepare a coherent execution report for the investment budget.	Continue this activity.
<b>7. Internal control and audit</b>	Discussions between the various internal audit services with a view to optimising their work.	Strengthen technical training in internal audit for all those involved in inspection activities.	Continue training staff.	
<b>8. Harmonizing the chart of accounts of the decentralized governments</b>		Harmonize the accounting nomenclature of the decentralized governments with the central government's.		
<b>9. Computerizing expenditure at each stage</b>	Study on improvements in data transfers among different players.	Implement recommendations of the study, with a view to eliminating all re-entries of data by the different government agencies. Unify the software used in the expenditure process, in order to enhance consistency and integrate data processing.	Continuation of these activities and beginning of an integrated system. Development and testing of computer applications.	Implementation and use of the integrated system.
<b>10. Ex post audits</b>		Strengthening the resources of the <i>Section des Comptes</i> . Consider how to improve ex post audits.	Continue these activities so as to reduce delays in adopting budget review laws and auditing the accounts.	Continue these activities; the 2003 draft budget review law is submitted to the National Assembly in the required format and necessary time frame.

Since HIPC expenditures are linked to a specific source of financing, a specific module should be established in the budget nomenclature to codify that financing. The module would also be useful for investment (BSI) expenditures, as an additional source of information on whether such expenditures are financed domestically or externally. By introducing a “source of funding” module into the budget nomenclature, the current misuse of the economic classification would be prevented.

There is no codification by program for ministries’ program budgets. A program classification needs to be implemented in order to identify the budget items in the program budgets. Establishing a program codification module would make it possible to track program budget execution. This is especially important once poverty-reducing expenditures are identified by programs.

### **Recommendations**

- Define poverty-reducing expenditures in the PRSP. Once defined, identify how these expenditures can be tracked using the currently-available classification system. In the medium-term, identify such expenditures by program, and track them using a program classification (see below).
- Introduce a clear organizational (administrative) classification to replace the existing “functional codes”.
- Disaggregate *dépenses communes* to the fullest extent possible, showing them under the Ministries responsible for the associated spending.
- Integrate into the budget nomenclature an identifier for expenditures by source of financing. This would make it possible to track HIPC-financed expenditures and investment spending financed domestically and externally.
- Add to the classification a codification by program, in order to track the execution of program budgets. Codes would be specific to Mali, and would incorporate the programs already in the annex to the budget.
- In the medium term, the budget classifications must be reorganized based on a coherent modules that allow increased flexibility. The expenditure nomenclature would include an administrative classification and classification modules by program, by function, by economic type, by source of financing, and possibly by beneficiary.
- In reforming budget classifications, ensure that deconcentrated government units (especially EPAs), as well as local governments, adopt the same budget nomenclature that is used by central government.

## **2. Budget presentation**

The 2001 annual budget presented for approval by the National Assembly includes an annex on “program budgets” for all the ministries. Data for some ministries was not the same in the main budget and in the annex.

The main budget document contains no summary of expenditures by function. A re-classification would clearly define the government’s expenditure objectives.

Bearing in mind the considerable effort that goes into preparing the program budget, budget appropriations could eventually be adopted on a program budget basis.

### **Recommendations**

- Ensure that the data in the main budget and the program-budgets are consistent.
- Introduce a summary of expenditures by function in the presentation of the 2003 budget.
- Consider adopting the budget appropriations on a program basis (i.e., adopt a budget by ministry, program, and chapter).

## **3. Consolidated general government statements**

Data on government operations outside the central government are not exhaustive: there is a need to consolidate government operations conducted by the EPAs and decentralized governments. Otherwise it will not be possible to track all poverty-related expenditures.

### **Recommendations**

- Prepare annexes to the budget that present a summary of the budget estimates for the EPAs, with poverty reducing expenditures clearly identified. Review the current system for preparing their budgets.
- Present the budget estimates for decentralized government operations in an annex to the budget. Prepare periodic fiscal reports of non-central governments and include them in selected regular reports of central government.

#### **4. Inclusion of grants**

Given the absence of data on some grants, the MEF's fiscal reports are incomplete. This situation arises in part because of procedures imposed by donors. An evaluation is required, in order to achieve a realistic view of all government activities. This would make it possible to determine whether or not these operations, which are not shown in the budget, are significant. If so, specific tracking procedures may be required. Another problem concerns the recording of inflows and outflows from donor bank accounts: it is necessary for the MEF to be kept fully informed of when transactions occur.

#### **Recommendations**

- Quantify the extent that certain grants by-pass the budget, using fiscal year 2000 as a baseline. Examine particularly: (1) the donors which are currently excluded from the reporting system; and (2) the extent of direct payments by bilateral donors to suppliers outside Mali.
- Align, to the fullest possible extent, the recording of the receiving of grants and their spending with public accounting rules.

#### **5. Improving medium-term projections**

There is no detailed medium-term framework (MTEF) for all government agency operations. the basis for an MTEF has already been laid in priority sectors, but it should be completed and extended to all sectors

#### **Recommendation**

- Implement a medium-term expenditure framework for central government (in the first instance).

#### **6. Improving Treasury-based expenditure data**

Although data for expenditure commitments (*engagement*) and payment orders (*ordonnancement*) are available quite quickly after the end of a given month, it takes 6-8 weeks to prepare data on a payment basis. Several factors are responsible for the weaknesses in tracking expenditures at the treasury stage, including: the relatively long time it takes to obtain the treasury account balances; the TOFE is based in part on non-treasury data; delays in obtaining investment budget (BSI) execution data; and incoherencies in some data (for example, the execution of the BSI exceed 100% in some sectors). Production of the monthly accounts needs to be sped up by improving the procedures for preparing monthly balances. If these are not available within one month after the end of a given month, timely analysis of budget execution is thwarted.

## Recommendations

- Conduct a study to determine the actions required to produce monthly treasury account balances within four weeks following the end of a give month.
- Produce the TOFE directly from treasury balance data, for maximum information and greater accuracy.
- Accelerate the tracking of the BSI—the medium-term aim should be to produce reliable monthly information within one month. A dynamic approach should be taken to reduce the present unacceptable delay of up to six months after the reference period.
- Update appropriations for investment spending, via supplementary budgets, so as to prevent budget execution transactions exceeding appropriations.

## 7. Internal control

Mali has a solid system of institutions involved in *a priori* and concomitant controls and audits. Although the *a priori* controls exercised by the financial controllers prevent exceeding budget appropriations, it does not prevent over-billing. The treasury's downstream controls are somewhat redundant with those of the financial controllers' controls conducted earlier in the expenditure process.

The inspection services established in a few line ministries do not appear to be effective in preventing all abuses. Also, the functions of the *Inspection des Finances* overlap with those of the Controller General's Office and their work programs are not exchanged. Their reports indicate that some irregularities persist.

## Recommendations

- Examine ways of strengthening *a priori* controls, especially with a view to preventing invoices with unrealistically high prices.
- Review expenditure control at each stage, with a view to eliminating redundant steps, especially between financial controllers and the treasury.
- Strengthen the internal audit units of spending ministries, especially with a view to making them independent of management structures.
- Enhance collaboration between the Controller General of Public Services and the *Inspection des finances* so that they only complement each other's audits activities.
- Train officials in internal audit, particularly for the inspections by departments.

## **8. Standardizing the chart of accounts of the decentralized governments**

The chart of accounts for the decentralized governments does not use the same main accounts as in the chart of accounts used by the central government or that proposed by WAEMU. For a consolidated accounting of general government expenditure, it is essential that the classifications used by all levels of government be standardized.

### **Recommendation**

- The chart of accounts for the decentralized governments should be consistent with the central government's General Chart of Accounts.

## **9. Computerizing each stages of expenditure**

Expenditure execution operations have not been computerized in an integrated manner. Different ministries (or departments within the MEF) manage their own computer systems, which are not necessarily compatible with those of other ministries. Different software are used, sometimes even within a single ministry. Transfers from one system to another are usually done manually on the basis of hard copies, thereby enhancing the risk of errors. Digital transmission would speed up budget execution and improve the quality of data transfers. A fully integrated financial management information system would speed up the budget preparation and execution processes, automate many formal controls, and provide data rapidly.

### **Recommendations**

- Examine the possibilities for digital transfer of expenditure data between departments and within the MEF. All budget execution applications in the MEF must be made compatible.
- Implement, in the medium term, an *integrated application* for the entire budget preparation and execution process (revenue and expenditure), and for all upstream and downstream phases of expenditure execution.

## **10. Ex post audits**

The National Assembly and the *Section des Comptes* are just beginning to conduct ex post audits; in the past this function was barely exercised. Budget execution laws (*Loi de Règlement*) were not systematically adopted, and very long delays are experienced in the auditing of annual accounts.

## **Recommendations**

- Provide the *Section des Comptes* with the necessary resources to fully exercise its functions.
- Examine how ex post audits could be improved, with a speeding up the presentation of the budget execution law and auditing the accounts. Aim at presenting the 2002 draft budget execution law (*Loi de règlement*) in October 2003 when the 2004 draft budget is submitted to the National Assembly.

## **Training**

To implement the above reforms, skilled personnel are required in both the MEF and in line ministries. To ensure the success of the reforms, training of personnel will be required.

## **Recommendation**

- Assess the training needs in each main of public expenditure management, identify priorities and formulate training programs accordingly. If necessary, appeal to the donor community for assistance in specific areas.

## **IV. Technical Assistance**

The main donors have provided substantial aid in the past (see Table 3), particularly for preparing program budgets and computerizing budget preparation and execution. Good use was made of this assistance; Mali endeavours to ensure that technical assistance results in permanent changes to fiscal management structures.

In some areas, additional technical assistance would not only be useful but essential for implementing the recommendations contained in the proposed action plan. In other areas, the authorities plan to make the necessary changes using their own resources.

### **Technical assistance planned by donors**

The World Bank, the *Coopération française*, and the European Union plan to provide substantial assistance (Table 3). In November 2001, the IMF agreed to provide assistance to improve the budget classification system. The European Union plans to meet several urgent needs including: strengthening the Supreme Court's *Section des Comptes*, conducting a diagnostic study on expenditure procedures and improving government procurement operations. Several donors are planning training activities: the EU, the WAEMU, and *Coopération française*. In the context of its structural adjustment credit, the World Bank plans to provide technical assistance to set up a medium-term expenditure framework. Prior to this, assistance is expected to be provided for preparing PERs and conducting a CFAA.

The *Coopération française* intends to continue its assistance to the Ministry of Finance, by providing resident advisors in three directorates: the Office of the Minister, the Treasury and Public Accounting Directorate, and the Customs Directorate. In the latter two directorates, it will support computerization, including computerization of regional treasury offices. Finally, USAID plans to focus its aid on decentralization.

**Needs for technical assistance not currently provided for (updated in December 2001)**

The most urgent need is to improve the timeliness of the preparation of Treasury balances, the monthly TOFE, and the annual accounts.

**Table 3. Mali: Technical assistance received and planned**

<b>Provider</b>	<b>Description of the technical assistance received and planned, by project</b>
World Bank	Received from 1997 to 2000 2001
	Planned for 2002 to 2004
IMF	Previous years and 2001 2002
	2002
WAEMU European Union	Previous years Planned for 2002 to 2004
	Previous years
UNDP	Previous years
Canada <i>Coopération française</i>	Previous years Previous years
	Previous years

	<p>PAGE Project: assistance to the authorities for preparing their public expenditure review. Support for auditing domestic arrears (survey, audit).</p> <p>Missions in May and June: preliminary evaluation of the public expenditure management and tracking system; discussions on identifying poverty-reducing expenditures.</p> <p>Support for tracking expenditures.</p> <p>Support for the public expenditure review.</p> <p>CFAA – before the PRSC.</p> <p>Training in use of model RMSM-X to be used for MTEF.</p>
	<p>Technical assistance mission on fiscal transparency and evaluating capacity to track poverty-reducing expenditures.</p> <p>Technical assistance in improving budget classification</p> <p>Training.</p> <p>Aid for the health sector, assistance for decentralization.</p> <p>Improvement and control of public expenditures, particularly:</p> <ul style="list-style-type: none"> <li>• Diagnostic study on expenditure procedures;</li> <li>• Aid for completion of the site for the <i>Section des Comptes</i>;</li> <li>• Training officials at the audit agency, DAFs, and the MEF;</li> <li>• Preparing a user manual—government procurement;</li> <li>• Establishing official market prices—government supplies;</li> <li>• Technical assistance for the Budget Directorate;</li> <li>• Assistance for decentralization, aid for computerization in the <i>cercles</i>; and</li> <li>• Review of public expenditure on health.</li> </ul>
	<p>Support for decentralization.</p> <p>Support for training.</p> <p>Computerization of taxes (PAMOR).</p>
	<p>Computerization of the Treasury: general government accounting system</p> <p>Technical assistance for the Office of the Minister, the Treasury and Public Accounting Directorates, and the Customs Directorate. Assistance for computerizing customs.</p>

	2001 to 2004	<p>Technical assistance for the Treasury and Public Accounting Directorate and the Customs Directorate.</p> <p>Assistance for computerizing the departments of the Treasury, directed at the deconcentrated departments, and Customs departments, including the procurement of computer equipment.</p>
United States	Received from 1997 to 1999	<p>Technical assistance for formulating program budgets.</p> <p>Computerization of expenditure management in the DGB, the DAFs, and at the central and deconcentrated levels (PRED).</p>
	2000 and 2001	<p>Technical assistance to modernize the Controller General's office</p> <p>Assistance for decentralization. Study on weaknesses.</p>