

# IMF Working Paper

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## How Do Treasury Systems Operate in Sub-Saharan Francophone Africa?

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**IMF Working Paper**

Fiscal Affairs Department

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**Abstract**

<p>The views expressed in this Working Paper are those of the author(s) and do not necessarily represent those of the IMF or IMF policy. Working Papers describe research in progress by the author(s) and are published to elicit comments and to further debate.</p>
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Treasury systems in sub-Saharan francophone African countries share many features with the French public expenditure management system of the sixties on which they were modeled. However, in a different economic and institutional environment, key elements of this framework have evolved in unexpected, unwelcome directions. This paper critically examines two main features of the French system in the sub-Saharan francophone African context: the strict separation between the person ordering payment and the one disbursing funds, and the centralization of funds in the treasury. This examination calls attention to—and suggests remedies for—the specific flaws that have evolved from the traditional framework.

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### Acronyms and Abbreviations

BCEAO	<i>Banque centrale des Etats d'Afrique de l'Ouest</i>
BEAC	<i>Banque des Etats d'Afrique centrale</i>
CAA	<i>Caisse autonome d'amortissement</i>
CCP	Postal bank
CEP	Savings bank
CNSS	Social security
DENO	<i>Dépenses engagées non ordonnancées</i>
LdR	<i>Loi de règlement</i>
OP	<i>Ordre de paiement</i>
PNG	<i>Position nette du gouvernement</i>
SOE	State-owned enterprise
TOFE	<i>Tableau des opérations financières de l'Etat</i>
WAEMU	West African Economic and Monetary Union (UEMOA in French)

## I. INTRODUCTION

**Treasury systems in sub-Saharan francophone African countries<sup>2</sup> are modeled on the French treasury system as it existed in France at the time of African independence in the 1960s.** The French legal and technical frameworks were extensively adopted to replace the systems that had been in place during the colonization period. Although numerous modifications have been made by the African governments over the years, the salient features remain the same. We will therefore begin by describing the French system of the sixties and seventies in order to illustrate how francophone African treasury systems operate today.

**The French treasury system has always been highly regulated; it depends on extensive controls. It is therefore better suited to countries with good management capacity.** In the early 1960s, the system had just undergone a major overhaul in France. It became more sophisticated than previously and more demanding in terms of management capacity. Francophone African countries readily copied the new system, which was not necessarily suited to their management capacities and needs.<sup>3</sup>

**Conditions prevailing in Africa have led to adverse results, driven by two particular characteristics of the French treasury system:**

- **the structure of the expenditure process**, which requires a strict distinction between the person who initiates the decision to spend (*l'ordonnateur*) and the person handling the payment itself (*le comptable*). This is intended to reduce errors and irregularities through built-in checks, but there is evidence that the system has been abused (as well as further complicated) in francophone Africa;
- **the centralization of public funds**, which requires public entities to deposit some or all of their money at the treasury. Although this *circuit du trésor* has gradually narrowed down (both because fewer entities were required to deposit their money and because they were also allowed to make deposits in the banking system), it remains an important feature of the current system. Through this mechanism, the fiscal deficit can be offset by increased deposits by public banks (say), which substantially reduces the need for bank financing.

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<sup>2</sup> In the rest of the text, and for simplification, the term *francophone African countries* is used instead of *sub-Saharan francophone African countries*.

<sup>3</sup> However, the French system has been subject to profound change, especially during the last ten years, and further evolution is underway. By and large, these changes have eroded the specificities of the French treasury and brought it more in line with other developed systems. In francophone Africa, however, these changes have been further delayed, if made at all.

There are other features of the French treasury system that are worth exploring, but they are less likely to bear upon the good management of public funds or to lead to transparency issues.<sup>4</sup>

This paper describes the treasury systems in France and francophone Africa and draws lessons for technical assistance as well as for Fund programs in general. Boxes in the text provide a reference tool. Appendix I discusses issues in defining the net position of the government (PNG). Yet, our purpose is not to draft a manual on treasury systems or a reference guide, however needed, but rather to call the reader's attention to two striking and often poorly understood features of the treasury systems in francophone Africa.

The paper is organized as follows: Section 2 describes the concept of *trésor* in France and francophone African Countries; Section 3 focuses on the structure of the expenditure process; Section 4 deals with the *circuit du trésor*; and Section 5 concludes with lessons of relevance for Fund programs.

## II. THE CONCEPT OF TREASURY IN THE FRENCH SYSTEM

The concept of *treasury* in the Anglophone system encompasses the core financial function of the central government; *treasury* in the French system can have various meanings, and must be clearly defined to avoid confusion and misunderstanding.

The **Ministère des Finances** (ministry of finance)<sup>5</sup> is the concept closest to an Anglophone treasury, as it covers all activities related to the financial function. It is an organizational concept rather than a functional one.

The notion of *trésor* in France can relate to two administrative units:

- **La direction du Trésor** is in charge of central government financing<sup>6</sup> through debt and liquidity management. However, it has no role in recording transactions, or in handling payments;

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<sup>4</sup> The interested reader is referred to Block-Lainé and de Vogüé (1960), Magnet (1980 and 1998), and Jurgensen and Lebègue (1988).

<sup>5</sup> The main departments are the Direction de la Prévision (macroeconomic forecasting), the Direction du Budget (budget preparation, supervision of budget execution, and of the network of financial comptrollers within the line ministries), the Direction du Trésor (financing), the Direction générale de la Comptabilité publique (accounting and public treasury network), the Direction générale des Impôts (tax base and tax collection), and the Direction générale des Douanes (customs).

<sup>6</sup> It also advises on the central government's role as a shareholder of state-owned enterprises, and is in charge of international financial relations (e.g., through the Secretariat of the Paris Club).

- **Le Trésor public** is the network of public treasury agents. It is a functional and organizational concept rather than an administrative one. However, these agents are part of the *direction générale de la Comptabilité publique* in charge of accounting and recording. Public treasury accountants handle payments (and collect some taxes).<sup>7</sup>

In francophone African countries, the *direction générale du trésor* or *trésor* mostly refers to functions close to the Trésor public in France (centralized public treasury network) to which some of the functions of the *direction du trésor* (cash and debt management) are often added. However, different types of organization can be found, including some, which duplicate functions handled by one department in the French system. For instance,<sup>8</sup> in some countries, a *direction de la comptabilité publique* exists side by side with a *direction générale du trésor*. The former has in general only a regulatory role, not an accounting one.

In this paper, the word *trésor* is used when necessary to describe the specifics of the francophone system<sup>9</sup>. The word *treasury* is used in its general sense, relating to the ministry of finance or the functions it performs.

### III. STRUCTURE OF THE EXPENDITURE PROCESS

#### A. The System in France

Public expenditure management obeys numerous rules articulated from two main texts:

- the 1959 Organic Ordinance on Public Finance Acts spells out the rules regarding the elaboration, approval, and execution of the annual budget; and
- the 1962 Decree on the General Regulation of Public Accounting details the rules applicable to the public accounting framework.

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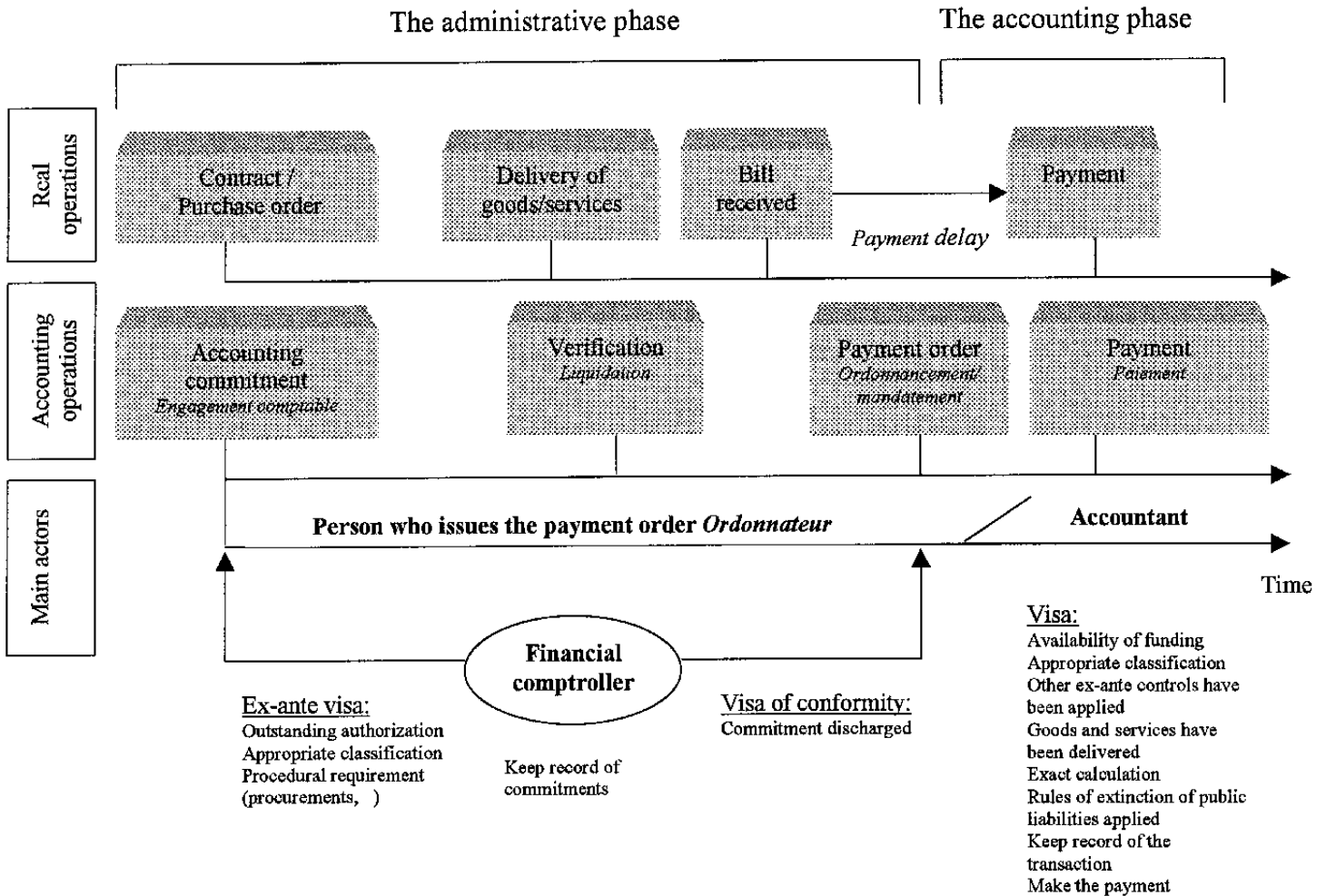
<sup>7</sup> Most taxes are now collected by the *direction générale des impôts* (the main tax administration besides the customs and the Trésor public).

<sup>8</sup> To give another example, in a different area, some countries have created a *direction des assurances* (insurance department), a mere duplicate of what is now a subdivision inside the *direction du Trésor* in France, and whose role in francophone African countries is arguably limited.

<sup>9</sup> French expressions like *correspondants* are also used when necessary.

Both texts have been supplemented by lower regulations and by court decisions.<sup>10</sup> While parts of the new laws already existed in previous regulations, the legal framework of the early sixties was better adapted to the requirements of a modern democratic environment where fiscal policies play a key role in the economy.<sup>11</sup> The main elements of the expenditure process are described in Figure 1.

**Figure 1. The Public Expenditure Process for Goods and Services**



<sup>10</sup> In the French system, the interpretation of this legal framework is under the jurisdiction of administrative Courts. The delineation between administrative and judicial has been studied extensively. For an overview, see Jean Rivero, *droit administratif*, 1987, 12 ed., Page 171.

<sup>11</sup> The incompatibility between the functions of *ordonnateurs* and *comptables* already existed in a 1862 regulation on public accounting.



**The distinction between the person who orders the payment, and the person who handles it is key in the French public finance system.** In the French public expenditure system, each line ministry initiates its own expenditure on the basis of its budget allocation. To ensure transparency and avoid abuses and errors, the person who initiates the decision to spend (*l'ordonnateur*) must, however, be dissociated from the accountant who effectively processes the payment (*le comptable*). The accountant is protected by a specific statute that ensures his/her independence from the *ordonnateur* (see Box 1). The split extends beyond the expenditure process and also applies to tax collection: the French system distinguishes between the person who establishes the tax base (*la liquidation*) and the person who actually collects the money on behalf of the state (*le recouvrement*). In practice, there are, however, significant nuances:

### **Box 1. The Distinction Between *L'ordonnateur* and *Le comptable***

The expenditure process in the French system is articulated by a strict distinction between the person who initiates the decision to spend (*l'ordonnateur*) and the person handling the payment itself (*le comptable*). Although considered to be a pillar of the system, this so-called principle has never been part of the French constitution or law and should rather be viewed as an internal regulation (adopted in 1862) at the level of the government.<sup>12</sup>

#### **This principle aims at a twin objective:**

- minimize fraud and the misuse of taxpayers' money; and
- increase compliance with budgetary laws by public agents.

#### **The principle embodies distinct responsibilities for each function:**

- The *ordonnateur* is an administrator of funds whose duties typically extend beyond this role. Although not entitled to actually handle the funds, the *ordonnateur* has responsibility for deciding on revenue and/or expenditure.

The *comptable* has a more passive role: he/she controls the regularity of the operations made by the *ordonnateur* and handles the funds without being entitled to make decisions regarding the use or management of these funds by the *ordonnateur* (except if rules are violated).

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<sup>12</sup> However, a law has fixed the responsibilities of the *comptables*

### **Box 1. The Distinction Between *L'ordonnateur* and *Le comptable* (cont'd)**

#### **The institutional arrangement reinforces the distinction:**

The *comptable* is generally not the subordinate of the *ordonnateur* (or vice-versa). In contrast, this is always the case in the private sector. This legal arrangement is necessary as the *comptable* is personally (and financially) responsible in case of irregularity or deficit. Such a responsibility would indeed be incompatible with a hierarchical arrangement. However, there are cases where there is no statutory independence: the *comptable* in the case of the tax department or the customs is the subordinate of the director of that department, who is also the *ordonnateur*. Similarly, the *comptables* of the treasury are the subordinates of the minister of finance who is the ultimate *ordonnateur*.

#### **The need for a distinction between “comptables” and “ordonnateurs” has changed**

**In France**, the distinction is no longer critical in the case of revenue under dispute: any citizen or company can take the government to court thanks to a well-functioning legal and judicial system. For expenditures, things are less clear and the *comptable*, whose accounts will eventually be checked and certified by the auditor general (*la cour des comptes*), may indeed play a useful role in keeping the activities of the *ordonnateur* in check. However, the increased computerization of the expenditure process greatly reduces scope for wrongdoings, often reducing the responsibility of the *comptable* to those of a cashier; these duties can themselves be automated.

**In Francophone Africa**, the efficiency of the system suffers from the absence of independence of the “comptable,” the virtual impossibility to enforce financial responsibility, the absence of treasury balances (see text) and the often poorly functioning legal system. As a result, the application of the “principle” in these countries turns out to be a very costly and rather ineffective management process.

- **on the expenditure side**, some substantial categories of expenditure (*les dépenses obligatoires*) escape the two-phase process and are paid rather with an automatic payment-order system. This is the case, for instance, for pensions and wages. The rationale is that there is no discretionary power to spend or avoid spending and controlling the regularity of payments is sufficient. In addition, expenditure made through special procedures can also escape the two-phase process;
- **on the revenue side**, the distinction is slightly less significant: the two functions are performed by agents belonging to the same ministry (the ministry of finance), and some key taxes are directly collected on the basis of the taxpayer's own declaration.

**The separation of the administrative and an accounting phase implies distinct functions and agents.** The administrative phase, handled by the *ordonnateur* comprises three steps: the commitment (*l'engagement*), the verification (*la liquidation*), and the payment order (*l'ordonnancement* or *le mandatement*). The accounting phase, handled by the *comptable*, is the payment stage, including controls over the regularity of the payment order and recording of the transaction (see Box 2).

## **Box 2. The Four Stages of the Expenditure Process in Francophone Africa**

**The expenditure process consists of four clearly distinct and consecutive stages:**

**Stage 1. *Engagement*** is the stage where the *ordonnateur* (see Box 1) commits the state to a future financial obligation. Prior to this action, the *ordonnateur* must verify that the correct budget appropriation exists, that the credits have indeed been made available, and that the nature of the expenditure is compatible with the corresponding appropriation. For example, the ministry of finance may decide to order some office supplies from a private company. In principle, the financial comptroller can oversee that decision.

**Stage 2. *Liquidation*** (or *verification*) is the stage where the *gestionnaire de crédit* (often the *ordonnateur*) checks the validity of the debt thereby contracted and determines the amount actually due.

**Stage 3. *Ordonnancement*** is the stage where the *ordonnateur* instructs the *trésor* (who is the public accountant—see Box 1) to pay the amount due (determined at the previous stage) after having received the approval of the financial comptroller.

**Stage 4. *Paiement*** is the final stage. This occurs when the *trésor* (who is the public accountant—see Box 1) issues the payment after agents have verified that the item meets the necessary requirements.

**Specific feedback is associated with each phase of the expenditure process.** The execution of the administrative phase is reported according to the budget classification and will eventually result in a *compte administratif* while the accounting phase is reported according to the chart of accounts and will eventually result in a *compte de gestion*. In principle, the information coming from one source checks against the other (this issue is discussed further below in Box 3).

**Because of its inherent rigidity, the system allows for alternative procedures,** usually when the amounts involved are small. Thus, there are petty-cash procedures (*régies d'avances*) for which a *régisseur* assumes both functions at the same time. Other notable exceptions include the so-called special and secret fund procedures occasionally used by the prime minister and certain other ministers. This last procedure allows ministers, on the basis of the initial warrant of appropriation, to execute these outlays outside of normal control procedures (and especially outside the scrutiny of a public accountant).

**The French system relies on a twin set of controls.** Two control points parallel the two phases in the expenditure process. At the commitment stage, the financial comptroller, an agent of the ministry of finance located in the line ministries, has two roles: (1) checking the regularity of the commitment before the creation of rights and obligations (thereby effectively controlling the regularity of the commitment toward budget appropriation); and (2) keeping a record of the commitments made. The approval of the financial comptroller is

### Box 3. The *Loi de Réglement* and its Contents

Donors have lately emphasized the timely submission of a budget review act (*loi de règlement* or LdR) to the assembly in developing countries. The LdR is supposed to provide a final account of central government financial operations, and to limit the scope for bad budget management practices, especially since an independent audit agency certifies it.

#### The LdR in France

The LdR “records the financial results of each calendar year and approves the differences between the annual budget act, outturns and estimates, as applicable complemented by supplementary budget acts”. As such, it ratifies supplementary appropriations. It also contains the final accounts of the year and includes a report by the State Audit Office and a general statement of conformity among the individual accounts of the accountants (*comptes de gestion*) and the accounting of the ministers (*comptes administratifs*). A few points are salient:

**The LdR is not a tool to enforce good management since, beyond reporting, it endorses underexecution as well as excess spending.** Even if explanations on major differences must be given in specific appendices, experience shows that the focus of the LdR is limited because it reports long after the actual expenditure.

**The additional information provided by the LdR is limited.** The LdR provides the final budget surplus / deficit and the final losses/profits resulting from government financial transactions. But preliminary estimates of this information have generally been available and approved by parliament months before the LdR is presented.

**Although the State Audit Office certifies the accounts, the process cannot enforce good management practices.** The State Audit Office reports on operations in the short term, flagging only major problems. Even if major flaws prevented the assembly from endorsing the LdR, there would be no sanction made against the government.<sup>13</sup>

**In sum, the main aim of the LdR is to verify the overall consistency of the central government’s financial operations.**

#### The LdR in Francophone Africa

In francophone Africa, the LdR has an even more limited importance than in France because:

- the absence of treasury balances normally makes it impossible to produce a *compte de gestion*;
- in the absence of a *compte de gestion*, the certificate of compliance is meaningless as accounts cannot properly be certified;
- when a *compte de gestion* exists and a certificate of compliance can be produced, it is often the service responsible for putting together the *compte administratif* who is also responsible for delivering the certificate of compliance;
- the time constraints for the state audit office are excessively short, especially when several LdRs are presented at the same time to catch up on past delays; and
- the state audit office itself is not generally granted an adequate level of independence or sufficient powers to carry out its duties fully.

**While in theory submitting the LdR regularly to parliament would increase transparency, provide an annual audited basis for assessing the policies of the government, and eventually limit the scope for bad budget management, or arrears accumulation, the emphasis by donors and international organizations to prepare LDRs has been counterproductive for governments struggling to put together a set of accounts without actually addressing the most basic requirements of good book-keeping, daily recording of transactions, and frequent reconciliation among sources (bank statements, administrative and accounting records).**

**To prevent the LdR from becoming an empty exercise, a reconciled *compte administratif* and *compte de gestion*, eventually under the effective scrutiny of a state audit office, should become a priority and prerequisite for the LdR.**

<sup>13</sup> To give a historical perspective, it was on September 28, 1807 that Napoleon created the *Comptabilité*

required for the *ordonnateur* to go ahead with an expenditure at the commitment stage. A second approval of the financial comptroller is also required at the payment order stage although the approval is then limited to the previous commitment and the subsequent recording of the discharge. At the payment stage, the accountant exerts an ex ante control over the payment order before proceeding to the payment.

**In principle, the twin set of controls guarantees the regularity of the operation.** To facilitate reconciliation between commitments and payments, these controls are supplemented by a number of accounting rules: (1) commitments are closed before the end of the year and an additional two months is allowed after the end of the year to process and record cash transactions; and (2) for investment operations and large procurements covering more than a year, commitments are controlled and recorded according to specific *autorisations de programme*, appropriated for in the budget, even if they do not involve any cash transaction during the year.<sup>14</sup>

**The presence several control points is also key in terms of tracking and of the division of power within the structure:**

- early controls make it possible to have a full record of commitments,<sup>15</sup> and subsequently a comparison to commitments discharged and payments, to have a **full assessment of the stock of outstanding commitments and arrears**; and
- **these controls clearly reinforce the role of the ministry of Finance in the expenditure process** through the financial comptroller and the accountant. However, none of these controls is, in principle, a control of opportunity.<sup>16</sup>

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*Nationale* with a mandate to report on the accounts of the government (including the main local authorities). A yearly report was submitted to the emperor. The need for a closer look at the books had been felt for a number of years: the perpetual state of war prevented the preparation of budgets and it is estimated that arrears had gone as far back as 1759 (48 years). In fact, arrears to the Northern Belgian Provinces alone were evaluated at FF 40 million out of a (estimated) budget of FF 720 million for the whole of France.

<sup>14</sup> For a line ministry, and for each line item corresponding to an investment operation, both *autorisations de programme* (authorization of commitment for an investment operation that may entail payments over a multi-year period) and *crédits de paiements* (actual payments during the year) are voted on and appropriated by parliament. When a procurement is made (it must correspond to some identifiable operation), the corresponding *autorisations de programme* are committed (under the control of the financial comptroller). During the same year, *crédits de paiements* will be committed, payment orders will be issued, and payments made corresponding to *autorisations de programme* during the previous years.

<sup>15</sup> The recording of commitments is made separately by the line ministry and the financial comptroller, each keeping a separate record to be regularly reconciled.

<sup>16</sup> These controls are made by agents of separate entities within the ministry of finance: in principle, financial comptrollers are attached to the budget directorate, while public accountants are under the administrative

(continued...)

## B. The System in Francophone Africa

**The main features of the French system as described in Section A apply largely to francophone African systems. However, while the French treasury can operate efficiently within the complex structure as described, deficiencies in the less developed countries of francophone Africa have created severe bottlenecks.** The accumulation of substantial arrears is a symptom of dysfunction.<sup>17</sup> Comparisons in this area are always difficult to interpret because arrears do not result from a single factor. Although at first glance the existence of a twin set of controls does not prevent the accumulation of arrears, the reality may be less gloomy. We do not want to convey the impression that the system in francophone Africa is worse than that prevailing in Anglophone Africa. There are at least two reasons why comparisons are difficult and may be misleading:

- the comparison with systems where commitments are not recorded may be unfair as francophone African accounting systems can provide more reliable and up-to-date information on arrears;<sup>18</sup>
- the absence of *autorisations de programme* makes it difficult to distinguish outstanding commitments that should have been discharged, and outstanding commitments still pending because they relate to multiyear operations. Besides, some countries have difficulty closing operations within the authorized time after the end of the year because it is often shorter than their customary processing time. This results either in outstanding commitments never reconciled with actual payments, or a longer delay in closing the accounts exceeding those legally authorized.

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supervision of the public accounting directorate (*la comptabilité publique*). In practice, while the public accounting directorate encompasses the largest network of public accountants, other public accounting networks exist, especially in the tax (*receveur des impôts*) and customs administration (*receveurs des douanes*), as well as in the education sector (*intendants* in any public school or university), and in the parastatal sector (agents of the post office).

<sup>17</sup> While arrears are sometimes narrowly defined as accounts payable for more than 30 days, this definition tends to exclude other types of arrears (such as DENOs, which are not recorded as accounts payable). The notion of arrears is discussed in detail in Box 3. In the text, we use the term *arrear* broadly (i.e. including DENOs and others).

<sup>18</sup> Anglophone African countries do not respect commitment-recording requirements, and therefore have little capacity to provide any immediate measure of arrears. By comparison, as long as commitments are effectively recorded, francophone African PEM systems will provide some measure of arrears, even if only partial.

**Nevertheless, general audits have revealed acute dysfunction in some countries.** <sup>19</sup>

Gradual, ad hoc adjustments have eroded the distinction between the administrative and accounting phases, at the expense of budget cross-verification. These adjustments became necessary because the economic environment changed, and trained manpower became scarce. The flow of information was often interrupted as data could not be gathered and compiled in a timely manner. Ad hoc solutions allowed the system to continue to operate. Gradually, these changes were embodied into the system and undermined

- the split between *ordonnateurs* and *comptables*;
- the set of controls built into the budget execution process; and
- the accounting records at the level of the treasury.

**Some countries have created a centralized payment order scheme**, usually taking the form of a specific division within the ministry of finance: the *direction des ordonnancements*. Although line ministries technically keep the initiative over expenditure, they no longer request the accountant to process and pay the suppliers' bills. Generally, the *directions des ordonnancements* have been ill equipped to process payment orders in a timely manner (especially when they centralize all payment orders from the territory, or when they have to regularize delegated authorizations to deconcentrated authorities). This has resulted in delays closing the accounts and inadequate monitoring of the fiscal situation.

**The emphasis on cash management in the Fund's programs has aggravated the situation.** The necessity of monitoring closely the impact of cash payments on bank financing and easily reconciling above- and below-the-line data has demanded the creation of instruments such as the *tableau des opérations financières de l'état* (TOFE) (fiscal tables) and (sometimes) a cash plan. However, substantial delays occur between commitments and actual payments, and some commitments remain outstanding. Therefore, the reconciliation of above-the-line data on a commitment basis with financing data is not straightforward (this is not the same issue as the scope of the TOFE discussed in Appendix I). One must extract commitments for multiyear operations with no good or service delivery during the fiscal year, and split the rest between (a) regular nonbank short-term supplier's credit; and (b) payment arrears (both as nonbank-financing items).<sup>20</sup> These additional requirements have contributed to the relative lack of interest in commitment controls at a time when such controls should have been strengthened to enforce hard budget constraints and limit circumvention.

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<sup>19</sup> Audits on central government domestic liabilities have unveiled stocks of arrears amounting to more than 10 percent of GDP in certain francophone African countries.

<sup>20</sup> See Box 3 for a discussion of arrears.

**In order to produce the information required for verification and cash-management monitoring, special funds and petty-cash procedures have been generalized.** In France, these procedures were meant to provide flexibility<sup>21</sup> in very specific circumstances, under appropriate controls.<sup>22</sup> Nevertheless, their existence should always be perceived as a quasi-legal way to circumvent the normal expenditure control mechanisms. There is a legitimate need for these procedures in francophone African countries: some areas are remote, for instance, and communication is inefficient, justifying the use of petty-cash procedures and “advance mechanisms”<sup>23</sup> (*régies d’avance*) to increase government efficiency for certain specific expenditures. Unfortunately, these procedures have instead been used by central public agencies with the political clout to impose their own expenditure priorities and timing:

- some countries have used petty-cash procedures as the *modus operandi* for a line ministry—or for all investment expenditure. In the absence of regularization, these operations end up being accounted for, in the best of circumstances, in suspense accounts (to be discussed later). The capacity to track the expenditure is lost, because it may well have been executed without any budget appropriation, as no commitment or payment order has formally been issued (see also Box 4);
- special funds have sometimes been used either without requesting prior payment order (in which case the special fund is equivalent to an unlimited capacity to draw on general resources, with no controls), or by creating special accounts which usually benefit from earmarked resources (this reduces accountability in the use of resources); and
- similar to the special funds, the *ordres de paiement (OP)* (see Box 4) are payments requested of the accountant in the normal way, except that they are not accompanied by vouchers. Emergency needs initially justified such orders, but they soon became common in several countries. Gradually, as these OP were not matched with initial appropriations by the financial controller or by the relevant control in the line ministries, the normal expenditure process and the need for budget authorizations were totally circumvented.

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<sup>21</sup> For a special fund, a global payment order is initially issued, and expenditure made on this basis does not have to be justified any further.

<sup>22</sup> Petty-cash procedures only allow immediate payment and the expenditure is later regularized. The person responsible for the petty cash, *le régisseur*, is under the supervision, and control, of a public accountant on behalf of whom he/she is acting.

<sup>23</sup> Advance mechanisms” typically involve larger amounts than petty-cash procedures but are the same type of mechanism.



**These circumventions have weakened any incentive towards efficiency, obscured responsibility, and ultimately undermined monitoring:**

- The rupture of the link between the person who orders the goods and services from a supplier, and the one who orders the payment, has led to an avoidance of responsibility within line ministries, an indifference to expenditure prioritization and, conversely, an incapacity in the ministry of finance to properly prioritize payments. These factors have led to wrong incentives, impeding the reconciliation of commitment with payment data, and the proof of effective delivery.
- At the same time, the financial comptroller function has been weakened to the point that sometimes commitments being discharged are no longer recorded. In some cases, this has led to the creation of additional administrative steps by the financial comptroller, usually relying on manual transmission of information (as he is generally located in line ministries). This additional control, or the one performed by the above-mentioned *direction des ordonnancements* can only serve as an information device since it occurs too late in the expenditure process to block an unwarranted expenditure. Nevertheless, the existence of such payment orders within the ministry of finance itself has overshadowed other existing controls and become the only focus of attention.

**Such evolutions, in particular the indiscriminate use of extraordinary procedures, weaken the capacity to maintain reliable records at any stage of the expenditure process. But the situation is particularly critical at the payment stage, that is, at the level of the *trésor* in francophone African countries. The lack of reliable information also reflects the general weakness of accounting records, a weakness which stems from another set of factors:**

- **Although insufficient human capacity in accounting<sup>24</sup>** is not specific to francophone Africa, its impact there has arguably been more severe than elsewhere. The rather sophisticated and detailed French expenditure process with different layers of control is costly in terms of human resources and does not allow for staff fungibles. This trait has sometimes been viewed as corporatist behavior by the treasury officials to prevent other agents from becoming public accountants even if such exclusivity creates redundancies with agents from the tax or customs administration, for instance, and further delays fiscal reporting.

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<sup>24</sup> In terms of timing, the fact that a large number of managerial, administrative, and accounting staff who were well acquainted with the functioning of the public expenditure management system retired in the seventies and early eighties may be considered a contributing factor to the progressive decay of francophone-African treasury systems.

- **As treasury balances are not available, monitoring data are computed on the basis of flows rather than changes in stocks.** Delays in closing the accounts prevent the compilation of entry balances for the current year since closing balances from the previous year are not available. The general ledger tends to become obscure, and a cumulative process is initiated that blurs any subsequent effort. This also drastically limits the capacity to interpret accounts payable.
- **The overdevelopment of suspense accounts has also played a crucial role in weakening the accounting records.** Suspense accounts were initially designed to ensure that every transaction got recorded, even if temporarily, until comprehensive information might be available for proper records. However, delays in the circulation of information, the absence of integration between the budget execution phase and accounting records, and the overcentralization of the accounting process, together with the abuse of the specific procedures mentioned above, have substantially increased the size of suspense accounts. The size of these accounts is especially difficult to keep track of since, in the absence of effective closing at the end of the year, suspense accounts are never purged.

**The weaknesses of the system have undermined efficient prioritization of expenditures in cash-trapped economies for two main reasons:**

- When a budget is cash-constrained, the treasury naturally becomes a prominent center of power although scope for raising financial resources is much more limited than in the French system.<sup>25</sup> This situation can cause a difficult balance of power, because the director general of the *trésor* often chooses who he/she sides with. For example, the director general may be a close relation to the president, who has ultimate control over which checks are effectively paid. By contrast, the minister of finance must then rely on the budget department to monitor the fiscal situation. The twin set of controls described above becomes a power struggle where the treasury usually has the final say. The power struggle may also result in the *trésor* on the side of the prime minister or the minister of finance, leading to a different, but equally damaging impact on the public expenditure process. In any case, these practices undermine both the budget process and the credibility of the government. They also explain the insurmountable difficulties in creating cash-planning committees, linking prioritization decisions over expenditures to commitments made, and streamlining controls even if they are redundant.

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<sup>25</sup> The limited size of the financial market compared to France, as well as the limited number of financial instruments, drastically reduces the capacity of the *trésor* to play a role similar to the *direction du trésor* in France. Furthermore, compared to France, the *trésor* often lacks the ability to issue treasury bills (a role taken over by the central bank) or to mobilize foreign financing (a specific aid and debt department inside the ministry of finance is sometimes in charge).

Officials have often applied circumventing practices to avoid hard-budget constraints, even after the crisis has been resolved. For example, if the actual control point is at the payment order stage (as often in francophone Africa when a *direction des ordonnancements* has been set up), commitments are made but payment orders never issued (for lack of transmission of the relevant vouchers to the ministry of finance or because the ministry itself prefers holding it back). This gives rise to the DENOs (for example) that plague many francophone African countries (see Box 4). If there remains a control point at the commitment stage, commitments may be entered without recording them properly, giving rise to off-budget expenditures, another common feature of an unraveling public expenditure management system.

**The absence of sound accounting records at the treasury means that there is no reconciliation between the two phases of the public expenditure process, the administrative and the accounting phases, and the two corresponding records, the *compte administratif* (the budget execution record) and the *compte de gestion* (the cash implication of the budget).** The *loi de règlement* is therefore no longer submitted to parliament (at least within a reasonable time) in many francophone African countries (see Box 3). This document presents the final record of the budget authorization during the year and normally includes as appendices the corresponding *compte administratif* and *compte de gestion*. In cases where it is submitted, it is often several years late and the corresponding *compte de gestion* is missing. An occasional bulk submission of *lois de règlement* in an effort to catch up on the delays makes effective verification virtually impossible.

- **The absence of a *loi de règlement* itself, whose production is sometimes targeted as a conditionality in Fund programs, is only the tip of the iceberg, and its absence a symptom of the poor recording system rather than a factor of deficient reporting.** The incapacity to reconcile the two sets of data further fosters wrong incentives:
- **budgetary procedures** are circumvented because expenditures made outside the budget, say through the circuit of the treasury, cannot be verified; and
- **arrears accumulation cannot be accounted for**, because the ultimate measure of arrears (including DENOs and all others) can only be made by comparing the used appropriations of the executed budget (*compte administratif*) to actual payments (*compte de gestion*). In fact, all other ways to measure arrears (including those in Fund programs) reflect the absence of such reconciliation and should in principle correspond to a short-term concern.

#### **Box 4. Arrears, DENOs (*Dépenses Engagées Non Ordonnancées*) and Other UFOs (Unidentified Fiscal Objects)**

Here we review the notion of arrears and identify other means of financing expenditures, resulting from leakages and occasional failures along the four stages of the expenditure process. We can identify at least three main types of failures:

- Usually, **arrears** are expenditures which have passed stage 3 of the expenditure process (the payment order has been issued—see Figure 1 and Box 2), but have not completed stage 4 (the check has not been issued or the payment has not effectively been made) within a certain period of time.<sup>1</sup> After this period, these should be considered treasury arrears. Their accumulation gives the *trésor* the ability to decide which checks effectively will be paid first. It is therefore an important opportunity for corruption.
- The **DENOs** (expenditures that have been committed but for which no order to pay has yet been issued) are expenditures which have completed stage 1 and 2 (they have been committed and generally verified) but not stage 3. They usually emerge when there is close monitoring of treasury arrears as defined above. Although they are difficult to monitor, it is interesting that the Fund has occasionally negotiated and set ceilings on their accumulation.
- **Some expenditure is not even committed formally** (although supplies are delivered). By extension, the name DENOs is often also applied to them although they did not reach even stage 1 in terms of the accounting record.

These failures interact with (whether they are encouraged by them or whether a stock of arrears fosters these malpractices) specific expenditure processes, or payment mechanisms:

- The much-abused *ordre de paiement (OP)* is an expenditure immediately paid by the *trésor* following an *order* of a Minister, meant to be regularized later. Originally designed for exceptional circumstances, the use of OPs has expanded to the point that in some francophone African countries, most of the expenditures have been settled through OPs, generating arrears for regular budgeted items, and eventually for OPs as well (although they were supposed to be paid immediately);
- The *dépenses par régies d'avance* were designed to speed up the expenditure process and they do not follow all its stages: payment is made just after stage 2 and the other stages are regularized ex post. A *régie d'avance* operates like the special or imprest accounts that donors establish to speed up disbursements for their projects;
- The *mandatement pour ordre en fin d'exercice* are « OP's » issued for a series of expenditure that has been « engagée » but not « ordonnancée » (a DENO) with a view to accelerating cash payments before the end of the fiscal year. While this type of expenditure reduces the stock of DENOs, the actual aim is to secure a payment while ensuring that the necessary approvals and checks cannot be performed, leaving an uncertainty as to the exact nature of the expenditure item. Once again, regularization is supposed to take place later.

The distinctions between the different sorts of arrears are useful to illustrate where the main weaknesses are in the various stages of the expenditure process. However, these are all arrears in the sense that they all correspond to government liability beyond the due date. They should be addressed systematically to avoid favoring circumventing behaviors. Although a detailed definition can be applied (see footnote 38 for technicalities), the weak monitoring capacity does not generally allow sophisticated computing of the delays by type of service/expenditure. In this case, and if seasonality is limited, a rough assessment can still be made by relying on the notion of standard payment delay. For treasury arrears, for instance, it takes into account the normal float. Each time undischarged payment orders are beyond this limit, they may be considered arrears.

**All these problems may have been aggravated by the monetary arrangement in these countries.** Most francophone African countries have no autonomous monetary policy, as the monetary stance is, in most cases, determined by the Banque centrale des Etats d'Afrique de l'Ouest (BCEAO) or the Banque des Etats d'Afrique centrale (BEAC) under an agreement with the French treasury. While preventing inflation through monetization of the fiscal deficit, this arrangement has tightened the cash constraint for the treasury and increased the importance of accurate budget forecasts and public expenditure management control mechanisms. Slippages in the system usually lead to large, inexplicable movements in arrears, in the balance of special or correspondents' accounts (see next section), and more generally in nonbank financing.

**Finally, the legal system does not provide the right incentives. Legal provisions are not always in place in francophone Africa and when they are, the judicial authorities are weak or their enforcement is limited.** In France, a strong system of sanctions over both the accountants and the *ordonnateurs* is included in the legal framework, and is effectively applied. The *mise en débet* for the accountants, and the *gestion de fait* for the *ordonnateurs* are effectively enforced by a specific jurisdiction (the account jurisdiction).<sup>26</sup> Sanctions are less effective in francophone African countries. In France, when an accountant is sentenced, he is personally considered to be financially responsible.<sup>27</sup> In Africa, his financial responsibility is meaningless as the personal wealth and income of public servants is unlikely to cover the amounts involved in the mishandling of public funds.<sup>28</sup> Besides, no insurance mechanism could protect these officials effectively.

#### IV. THE *CIRCUIT DU TRÉSOR*

##### A. The System in France

Another salient feature of the French system is the obligation of financial entities related to—or in—the public sector (*les correspondants du trésor*) to deposit some or all of their money

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<sup>26</sup> *Accounts jurisdiction* are the *cour des comptes* at the central level and the *chambres régionales des comptes* at the local level. They judge all accountants whether they effectively possess this title or have acted as such (*comptable de fait*). *Ordonnateurs* acting in their normal functions are also subject to the Cour de discipline Budgétaire et Financière in case of mismanagement. The jurisdiction of this court is limited, however, as ministers and local government authorities are outside its authority.

<sup>27</sup> In France, a system of mutual insurance has been designed to foster the solvency of public accountants in case they are *mis en débet*.

<sup>28</sup> As with other provisions copied on the French system, these may exist in many francophone-African countries, although they are sometimes totally overlooked.

at the *trésor*.<sup>29</sup> This systematic centralization of funds has several implications; the main one is that the fiscal deficit can (to some extent) be offset by a change in deposits by public entities. Figure 2 presents a graph summarizing the main elements of the centralization of deposits.<sup>30</sup> As a result, the link between the deficit and recourse to financing weakens (Bloch Lainé, 1955, was among the first to draw attention to this phenomenon).

**For example**, formerly in France, public servants were paid through a deposit on their postal accounts, and the postal bank, in turn, was forced to keep their deposits at the *trésor*.<sup>31</sup> Thus, when salaries were paid to civil servants, the whole operation would essentially boil down to a transfer from one treasury account to another. The operation had little impact, if any, on the need for liquidity, in spite of the increase in the fiscal deficit. Today, in France, civil servants are paid directly into their private bank accounts, but the earlier system still operates in most of francophone Africa.

**The *circuit du trésor* has gradually narrowed, but it remains an important feature of the French system.** This source of financing was important in the sixties and seventies, and represented a substantial source of autonomous nonbank financing.<sup>32</sup> Although centralized deposits shrunk as a source of financing during the eighties and nineties along with financial deregulation and increased provision of banking services, the stock of deposits by *correspondants* still amounted to a hefty FF 405 billion in 1998 (FF 181 billion for the postal bank) for a total budget of FF 1669 billion voted by the French parliament.

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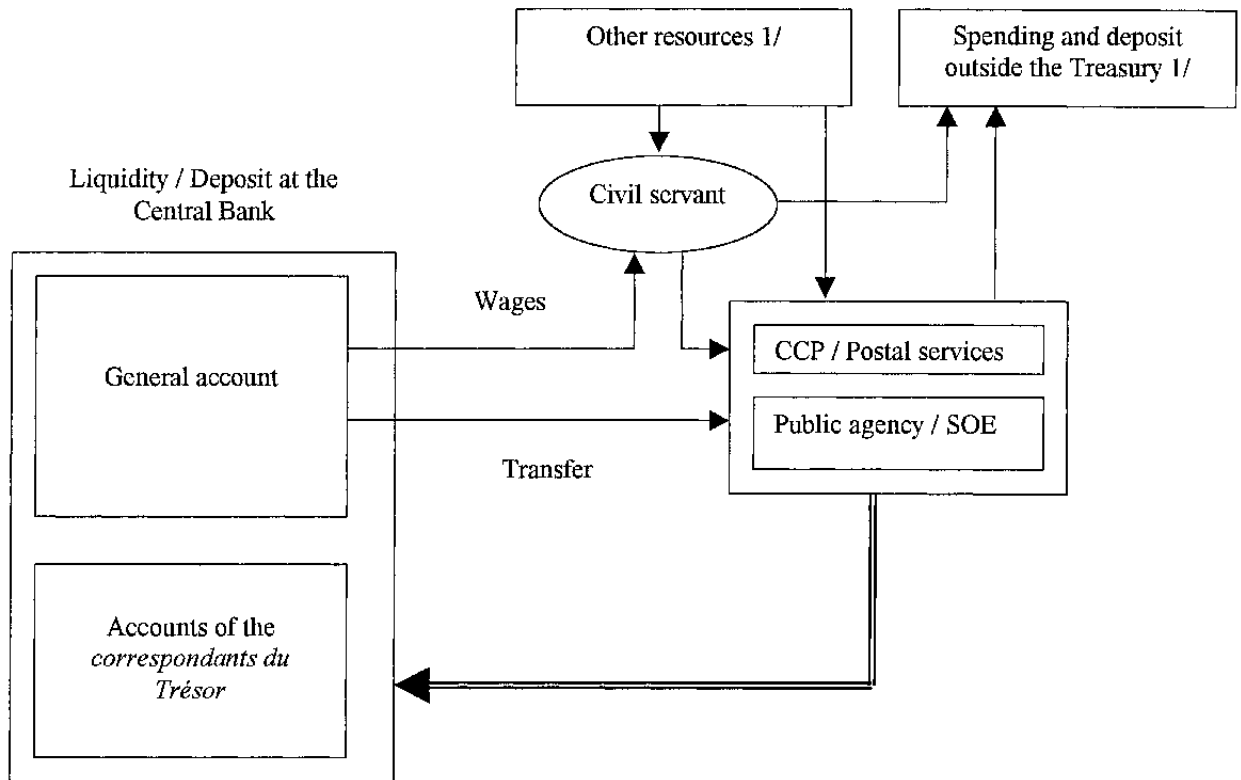
<sup>29</sup> Article 118 of the 1962 decree *Portant règlement général de la comptabilité publique*, explicitly defines the existence of entities that, compulsorily and voluntarily, deposit their fund at the *trésor*. It states that the *correspondants* are “public or private entities that are required by the law or by specific covenants to deposit part or the whole of their liquidities at the *trésor*,” and authorized to have their financial transactions executed by public accountants of the *trésor*. The list includes in particular the CCP (postal bank), the CEP (savings bank), the Caisse des Dépôts et Consignations (a specific financial institution with an overarching role in the economy and the public sector), the CNSS (social security), local governments, public agencies, universities, public high schools, and hospitals.

<sup>30</sup> Historically, that is why the *trésor* in France was so named. It was the recipient of massive deposits that greatly facilitated liquidity management. We shall see later that while this facility could be used for a good purpose, it could also be misused and has indeed been misused in many countries where the French system has been adopted.

<sup>31</sup> In fact, historically, private banks were reluctant to manage the accounts of civil servants because most did not earn enough to make it worthwhile. Hence, the state offered its employees the possibility of depositing their salaries at the treasury. The money would also be deposited one working day earlier than in the private banks, an advantage that many could not afford to neglect.

<sup>32</sup> While the overall stock has always been large, the ability to meet additional financing needs depends in fact on the ability of the *correspondants du trésor* to increase their stock of deposits. During the sixties and seventies, the contribution of the circuit to financing was boosted by the substantial rate of inflation that prevailed at the time.

Figure 2. The *Circuit du Trésor*



1/ Spending and deposits outside the *circuit du trésor* are leaks in the *circuit* and deplete its resources. On the other hand, other resources collected by the *correspondants du trésor* outside the *circuit du trésor* add to the liquidity of what is sometimes called *treasury money*.

**This centralization of funds is in a sense equivalent to a single treasury account extending to the public sector at large.** As a result of the involvement of the state in the economy, especially through the publicly-owned financial institutions, postal bank and national savings institutions (*caisses d'épargne*), assets of private entities and individuals ended up being deposited in the *circuit du trésor* and automatically contributed to the financing of the government deficit. This extensiveness, however, differentiates the French *circuit du trésor* from the general concept of a single treasury account, as entities whose day-to-day operations are not under the direct control of the central government participate in the general cash pooling and may, at times, act contrary to the best interest of the *trésor* in terms of cash management and planning.<sup>33</sup>

<sup>33</sup> In a period of economic crisis, including macroeconomic instability and debt crisis (with a possible depreciation of the currency), the need to mobilize, if necessary, all available resources is heightened. However, economic agents are, at the same time, likely to withdraw some of their deposits from the postal and savings banks to compensate for wage loss (in case of unemployment), or to move their capital to safer countries and

(continued...)

**The main problems with such an extensive centralization are the deceptive ease in financing a deficit, distortions in the economy, and a general lack of accountability and transparency.** France has suffered at times from some of these weaknesses, but not overwhelmingly so. The benefits include easier and cheaper liquidity management and a lower recourse to domestic financing than would otherwise be required. However, the reverse applies when a public company withdraws its deposits from its account at the *trésor*, and the state requires additional financing for an action that is not fully under its control. We shall show in the next section that this has often happened in francophone Africa and has led to numerous difficulties. Overall, the system presents a number of benefits, which may well outweigh its costs, as long as it is well organized and run according to strict accounting rules. This is considered the case in France.

### **B. The System in Francophone Africa**

**In francophone Africa, the *circuit du trésor* operated well up to the oil crisis of 1975.** Up to the early 1970s, the budgetary systems were relatively small in francophone Africa, as they had limited need for financing: deposits corresponded to their intended purposes, that is, to stabilize financial requirements, and to force public entities to operate within a common cash-management framework.

**With the oil crisis, countries that were not oil producers, started using these deposits to absorb the (structural) shock. De facto, the treasury system had gone bankrupt by 1975.** Instead of acting as a tool for improving cash management and easing short-term financing constraints, the *circuit du trésor* became a vector by which cash tensions and illiquidity were permanently transferred from the central government to other public entities. This resulted in severe imbalances and all over the region; large public financial establishments went bankrupt, including postal banks and national savings banks.

**The crisis forced numerous adjustments in treasury systems after 1975; they formally maintained the old system while undermining its foundations and involuntarily creating incentives for mismanagement.** Three major changes emerged at that time:

- debt management was partially delegated to separate entities, the *caisses autonomes d'amortissement* (see Box 5);

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currencies. Because this move is outside the control of the central government, the extensiveness of the *circuit du trésor* creates an additional risk, and further complicates cash management. With a single treasury account restricted to the central government, as is traditionally the case in anglophone countries, such risks do not exist, as deposits do not depend on the economic behavior of private individuals and entities.



### Box 5. The “*Caisses autonomes d’amortissement*”<sup>34</sup>

The *caisses autonomes d’amortissement* (CAAs) have existed in the French system since 1926. They were designed to bolster public bonds owners’ confidence by earmarking specific resources, e.g. tobacco or oil product duties originating from public monopolies to debt service. They gradually died out, but the concept was revived in 1986 with the creation of a new type of *caisse d’amortissement* where privatization proceeds were deposited.

CAAs have also been a common in francophone Africa. Based on the principle that earmarking increases confidence, their use has changed with time:

- they have sometimes been the recipients of foreign grants and loans (and not only of domestic taxes);
- they have tended to operate as a separate financial entity from the treasury, and have sometimes totally taken over responsibility for public debt management.

In general, CAAs were part of the *circuit du trésor* and their funds were therefore deposited at the *trésor*.<sup>35</sup> However, they gradually evolved into a full banking function, becoming progressively involved in the financing of the economy, but outside of the general budget management framework. Not surprisingly in a context of weak transparency and accountability, CAAs have been hit hard by economic difficulties and, rather than providing a source of financing, have become a source of imbalance in the economy as well as a liability for the central government.

- new budget management tools were developed to mitigate the illiquidity of the *trésor*. In particular, large numbers of special accounts and special funds were created, often linked to extrabudgetary activities and not necessarily located within the *trésor*; and
- more generally, short-term cash management of very scarce resources became a primary focus of financial policies and this aggravated the pressure on ill-equipped administrations.

**Special accounts have developed in the context of cash tensions and relative illiquidity.** Generally, rules pertaining to special accounts were designed to circumvent those of basic

<sup>34</sup> Their name actually varied across countries: Caisse Autonome d’Amortissement, Caisse d’Amortissement, and Caisse d’amortissement de la dette were the most commonly used.

<sup>35</sup> Some arrangements were more complex. For example, the CAA could cover two different entities: one in charge of foreign aid mobilization and debt management, and the other assuming a banking function for public entities. The former would not lend to the *trésor* directly, but would be a *correspondant* of the latter, itself a *correspondant du trésor*.

budget management, such as requiring an annual timeframe or avoiding earmarking. At best, special accounts were seen as a way of protecting specific policy objectives from the general illiquidity of the central government (by earmarking specific resources). At worst, they helped vested interests to finance their own purposes and protect themselves from the general illiquidity.

**The cash crisis at the *trésor* was exacerbated by the fact that *correspondants* were allowed to maintain their own bank accounts in parallel to the account at the *trésor*.** In the French model, *correspondants* are not administrative entities. They do not have specific bank accounts, and are integrated in data for financing the central government budget even if they can be identified separately. In francophone Africa, *correspondants* were allowed to circumvent the cash constraint created by the illiquidity of the *trésor* by owning their own separate bank accounts (an illustration of the accounting treatment of such movements in the TOFE is provided in Appendix I). Other public entities, such as universities and hospitals, also opened bank accounts to limit the risk of a sudden cash shortage. This exacerbated the cash constraint:

- even in cases where these bank accounts were limited, there was a leak in the circuit at a time of cash tensions in the public sector;
- this leak created a threat that massive transfers to privately owned banks and other financial institutions outside the circuit could suddenly deplete the circuit. Not only would such movements of funds be difficult to monitor or predict, but there was also a risk that these funds would be used for purposes that should not receive a high priority during a cash crisis;<sup>36</sup> and
- the existence of many bank accounts outside the control of the *trésor* fostered malpractices and fraud.

**The need to address the crisis, often in the context of Fund programs, created a narrow focus on short-term cash management which was ill-suited to the characteristics of the francophone African system.** First, the focus on short-term cash management distracted attention from structural problems whose eventual impact on the treasury position was sometimes quite substantial. Second, while negative positions of the *correspondants* of the *trésor* were prohibited by the law, the absence of supervision, the poor state of accounting records, and a generally weak enforcement of legal requirements led to automatic subsidies, through treasury advances, to many public institutions.<sup>37</sup> These implicit subsidies were not

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<sup>36</sup> This is also a concern in the context of the HIPC initiative.

<sup>37</sup> The publicly owned petroleum sector and also the CAA and the postal bank were among the main providers of this type of contingent liabilities through their accounts at the *trésor*. What remains of the publicly owned  
(continued...)

necessarily reflected in the fiscal reporting tables of the central government and, in any case, would not have appeared as expenditure items, undermining cash-management monitoring. As the issue of *correspondants* was rarely addressed at first in treasury planning, they started contributing to the deficit and/or massive errors and omissions appeared.

**This problem was exacerbated by the focus on net credit to government (the *position nette du gouvernement* or PNG) in the Fund's programs.** The focus on bank financing in Fund programs stems from the risk of macroeconomic instability, in particular of high inflation. Generally, central bank data are readily available and account for a major part of bank financing. Commercial bank data are also available as there are often only a few major commercial banks operating domestically. For all the weaknesses they may have, bank-financing data are more precise than the rest of the fiscal table, making them a privileged item for monitoring purposes. In countries where there is a regional arrangement, like the WAEMU, the strict limits imposed on recourse that can be made to the central bank constitute another advantage, as they cannot easily be circumvented. In fact, the central bank has the ability to capture incoming money if the position of the *trésor* is not satisfactory.<sup>38</sup> The focus on the PNG can, however, have undesirable implications (such as the ballooning of nonbank financing) and generates a lot of debate with regard to its scope (especially because consolidation above- and below-the-line can be different—see Appendix I).

**A major variable in the fiscal table in some francophone African countries is nonbank financing,** which includes the counterpart of hard-to-monitor treasury operations that have often ballooned considerably, sometimes to the point of generating instability.<sup>39</sup> Overall, bank financing is only one of the financing items and should not be overemphasized in the francophone system.

**While clearly necessary, the remedies to the crisis have often aggravated the cash situation at the *trésor* in the short term.** Efforts made to restore budgetary management orthodoxy through adjustment programs have led to the privatization of the most valuable *correspondants*, and to deregulation, especially in the financial sector. This has reduced the number of public entities able to play a substantial role as *correspondants du trésor*. The remaining ones are inactive or in financial disarray.<sup>40</sup> Thus, remaining *correspondants* tended

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sector in some countries can represent a substantial draw on central government resources, with the petroleum entity running a negative position at the *trésor*.

<sup>38</sup> This is only partially so. As a matter of fact, it has sometimes led *trésors* to intensify their relationship with the commercial banking sector, and also to adopt practices at odds with sound management (like cashing only tax payments made to commercial banks or CCP).

<sup>39</sup> Actually, one often finds in fiscal tables a revealing line called “nonbank financing and errors and omissions” (see Appendix I).

<sup>40</sup> The CAA, for instance, have been dissolved, or at least substantially reduced in scope, in many African countries. What remains is generally a stock of debt and a limited capacity to service it effectively.

to contribute to the financing need, implying additional cash tensions at the *trésor* without room for dilution in the rest of the public sector. Moreover, the *trésor* has usually been required to pay an interest on deposits kept by the *correspondants* that kept positive balances. Although this necessary consolidation phase is the direct consequence of previous errancy, the cash burden it creates, together with the weak capacity of the *trésor* to monitor and record financial transactions, has contributed to the emergence and development of payment arrears and still affects the overall financial situation in many countries.

**The existence of a *circuit du trésor* also complicates the relations between the central and local governments, and alternative financial arrangements need to be implemented prior to further decentralization.** Although most francophone African countries are very centralized, local governments have always been an institutional feature, even if their financial autonomy is limited. Local governments are usually *correspondants du trésor*. While they should in principle never run a negative balance, experience shows that this rule has often been overlooked, and local authorities (especially the major cities) have been mainly responsible for the deficit of *correspondant* and special accounts. The move toward a more decentralized environment has consequences in terms of financial organization that have rarely been addressed:

- The gradual decline in the size and scope of the *circuit du trésor* could reverse as local entities are asked to manage additional resources and deposit them in their respective *correspondants'* accounts. Unless there is a strong improvement in local management records, decentralization could even lead to more deficits and increased cash pressure on the *trésor*.
- Increased autonomy and better financial management capacity may encourage local authorities, especially the largest entities, to deposit their funds elsewhere. On one hand, this could lead to an improved allocation of resources but, on the other hand, it will hamper monitoring at the central level while the *trésor* has to make significant transfers to the local entities with a positive balance. This could, at least in the short-term, have a significant impact on the central government fiscal balance.
- In the context of the HIPC Initiative, because many local governments will become service providers during the fight against poverty, the impact on the balance of treasury accounts is uncertain: an increased demand for accountability may strengthen local governments' financial autonomy, while at the same time the need to track poverty-related spending, and the creation of *poverty funds* and HIPC accounts could limit local governments' autonomy.

## V. LESSONS FOR FUND PROGRAMS

Operating such complex systems as the *circuit du trésor* or the expenditure process critically depends on the quality of the staff and the adequacy of incentives. Both are linked because incentives are credible only if the staff can genuinely be made accountable for mistakes. In

France, if one agent fails to perform, he or she is usually punished by the law. This is less the case in francophone Africa: the staff (often with the help of supervisors) have found shortcuts to circumvent the difficulty created by any mistake. This has gradually undermined the system, but is almost unavoidable since human capital has remained insufficient. These practices have gradually crept in with the tacit endorsement of the authorities eager to prevent a total collapse of the system, and led to abuses, which can hardly be punished.<sup>41</sup> Yet, mistakes can result in massive costs, linked to a rupture in the flow of information and a dysfunction of the system. A case in point is the absence of treasury balances in so many francophone African countries.

**Some specific lessons for program monitoring have emerged:**

**Cash monitoring and the emphasis on the TOFE** shift priorities away from accounting; this undermines the budget process in several ways:

- **Arrears monitoring** is obviously critical, but must be applied to the whole expenditure process. Otherwise, not only does it paint a biased picture of the actual situation, but it also provides incentives to create other types of arrears where there is no monitoring (e.g., the DENOs).
- The **compilation of account balances** by the *trésor* is fundamental. If the *trésor* does not have balances readily available, it should refocus its activities. In particular, it may become necessary to give responsibility for preparing the TOFE to an independent unit (possibly the forecasting directorate or another unit responsible for checking the overall economic consistency) while insisting at the same time that accounting data be improved and used to the extent possible.<sup>42</sup>
- Even when short-term cash monitoring is necessary, **strengthening commitment control** should remain a priority for sound public expenditure management.

**The monitoring of actual budget implementation and auditing should receive more emphasis.** In particular:

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<sup>41</sup> Essentially this is because the whole administration has gradually internalized the short-cuts. From a game theoretical point of view, the situation is such that both the agent (the civil servant) and the principal (the government) have an incentive to circumvent the system: the agent, because of the possible punishment, and the government, because of the need to collect data and keep the system going.

<sup>42</sup> There is often a misconception that the TOFE is an accounting tool. It is not: it is essentially a tool to monitor budget implementation. Even when the *trésor* is in a position to compile the lines of the TOFE on the basis of account balances, it is useful to give responsibility for putting together the final numbers (including those produced outside the *trésor*) to a unit whose focus is on economic development and policies.

- Sources of financing should always be included in the budget documentation to (1) provide a more comprehensive view, (2) increase awareness about the financing constraint at the time of budget presentation, and (3) foster transparency by allowing for disclosure (and discussion) of the potential impact of nonfinancing items.
- There is no point in insisting that the LdR be submitted to parliament (sometimes a conditionality in Fund programs) if the *compte de gestion* and the *compte administratif* are not included.

**The budget implementation process should be substantially streamlined** as an excessive number of administrative steps and controls nurture rent-seeking behaviors and undermine effective monitoring. Administrative arrangements often constitute good targets for streamlining:

- The **distinction between the *ordonnateur* and the *comptable*** should not be seen as an essential feature of the system since it creates redundancies and delays in recording. Gains can be achieved in tax and customs administration, for instance, when public accountants in these departments are allowed to record transactions directly.
- **Expenditure processes that are derogatory to the normal administrative and accounting phasing can be used**, but only with caution under adequate supervision (such as the *régisseur* for example). However, the objective should be to mitigate problems caused by distance and scarce management resources and increase the efficiency of the delivery of public services (at the local level for instance), not to provide top officials with tools for circumventing the budget expenditure process.

**High priority should be given to adequate and reliable accounting records.** Under a short, streamlined expenditure process, reconciliation among the various (but limited) administrative stages becomes easier and should be encouraged as a systematic ongoing practice. The internal financial audit function should help disseminate and enforce these practices.

**Nonbank financing items should be investigated more thoroughly**, given their importance in francophone countries, especially their role as counterparts to the movements of funds by SOEs and *correspondants* (see Appendix I). The purposes should be to:

- better understand the underlying financial position of the *correspondants du trésor* and other public entities (This can only be done by analyzing the associated fiscal risks through a full disclosure of their accounts. Hence, a narrow scope for the TOFE is not a good option);

- limit the *circuit du trésor* by eliminating (or at least reducing) the deposit requirements (at the *trésor*) and increasing the autonomy of *correspondants* (and privatizing them when suitable); and
- eventually, extend the fiscal reporting coverage to encompass revenue and expenditure of the remaining *correspondants*, if possible, when justified by their fiscal or quasi-fiscal activities.

**The Scope of Fiscal Reporting Tables (*le champ du TOFE*)**

The scope of the TOFE (which is really the scope of the PNG) has been a subject of much debate between authorities in francophone African countries and the IMF. The debate is often colored by misperceptions concerning the exact implications of narrow or broad definitions. While it should really boil down to the issue of the comprehensiveness of fiscal tables, there are some accounting complications associated with a difference of scope between below-the-line and above-the-line items. We will illustrate these and parallel them with the operations of corresponding special accounts.

**Consider the two following scenarios:**

- Scenario (I): A *correspondant* who does not appear above the line but only in financing. The *correspondant* withdraws 10 units from its account at the *trésor* to pay a bill.;
- Scenario (II): A *correspondant* appearing above the line in “net correspondant and special accounts”. As in Scenario (I), the *correspondant* withdraws 10 units from its account at the *trésor* to pay a bill.

Table 1. TOFE (in currency units)

	Baseline	Scen (I)	Scen (II)
Revenue	100	100	100
Expenditure	140	140	150
O/w correspondant	0	0	10
Deficit	40	40	50
Bank financing	40	50	50
O/w corresp. Treasury acct.	0	10	10
Nonbank financing	0	-10	0
Errors and omissions	0	0	0



**Implications:**

- Scenario (I) does not generate a higher deficit (because the correspondent is not part of the scope of above-the-line items). However, it affects the PNG and is compensated for with a decline in nonbank financing. This is the typical example flagged by the authorities to argue that these entities should be expelled from the *champ du TOFE* since the PNG is degrading without their direct involvement. Note that the opposite, where the entity receives money and deposits it on an account, would improve the PNG, although again without the direct involvement of the authorities;
- Scenario (II) generates a higher deficit compensated by higher financing. It does not impact nonbank financing as it is already considered an above-the-line item.
- In Scenario (I), the difference of scope between the above- and below-the-line items does not have implications on errors and omissions (another argument often raised during the discussions). They remain constant.

## Glossary

*Autorisations de programme.* Authorization of commitment for an investment operation that may entail payments over a multi-year period.

*Circuit du trésor.* Centralization of funds at the *trésor* through the obligation for a number of financial entities related to -or within- the public sector to deposit some or all of their money at the *trésor*.

*Comptable de fait.* See *gestion de fait*.

*Comptes administratifs.* Accounts kept by the *ordonnateur* and the financial comptroller reflecting the use of budget appropriations.

*Comptes de gestion.* Accounts kept by the public accountants and reflecting the effective use of funds (payments), and other financial operations without any impact on the budget.

*Contrôleur financier.* Financial comptroller located with the *ordonnateur* and who checks his capacity to commit expenditure and to issue payment orders against budget appropriations.

*Correspondants du trésor.* Entities related to—or within—the public sector that are subject to the depositing obligations.

*Comptable.* Public accountant who controls the regularity of the operations made by the *ordonnateur* and manages the funds without being entitled to make decisions regarding the use of these funds.

*Crédits de paiements.* Actual payments during the year linked to an *autorisations de programme*.

*DENOs (dépenses engagées non ordonnancées).* Expenditures that have been committed but for which no order to pay has yet been issued.

*Dépenses obligatoires.* Mandatory expenditures such as debt service.

*Direction des ordonnancements.* Specific division or directorate within the ministry of finance which handles the centralized payment order scheme.

*Engagement.* Initial stage of the expenditure process when the *ordonnateur* commits the state by taking a legal action triggering a future financial obligation for the state.

*Gestionnaire de crédit.* Administrator of funds who generally seconds a *ordonnateur* but does not himself have the authority to issue payment orders.

*Gestion de fait.* Management by a person (*comptable de fait*) who does not effectively possess the title of accountant but has acted as such.

*Liquidation* (or *verification*). Stage of the expenditure process where the *gestionnaire de crédit* (often the *ordonnateur*) checks the validity of the debt thereby contracted and determines the amount actually due.

*Loi de règlement.* A budget act that records the financial results of each calendar year and approves the differences between the annual initial budget act, outturns and estimates, as applicable complemented by supplementary budget acts.

*Mise en débet.* Ministerial decision or judgement which sanctions the financial responsibility of the accountant and forces him to pay back.

*Ordonnancement* (or *mandatement*). Order to pay issued by the *ordonnateur* to instruct the public accountant to proceed to the payment of the amount due. Mandatements are issued issued by second-tier *ordonnateurs*.

*Ordonnateur.* Administrator of funds who has the authority to issue payment orders.

*Paiement.* Final stage of the expenditure process when the public accountant issues the payment.

*Recouvrement.* The act of collecting government revenue on behalf of the government.

*Receveur des impôts et des douanes.* Public accountants who collect taxes and customs levies in their respective administration.

*Intendants.* Refers to public accountants in the public education sector (in any public school or university) or in the parastatal sector (agents of the post office).

*Régies d'avances.* Generally correspond to petty-cash procedures, but can also involve large amounts managed and disbursed according to the same procedures.

*Régisseur.* The manager of the *régies d'avances*.

*TOFE (Tableau des Opérations Financières de l'Etat).* Financial table summarizing financial operations both above and below the line and, in principal, linked to the public accounts. TOFE can be established on a commitment, a payment order or a cash basis.

*Trésor.* Entity or functions relating to the network of public accountants and the handling of funds (see pages 3 and 4).

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