

**Comments to
"Disclosure Requirement for Recipients of External Assistance"**
(Proposed IPSAS, International Public Sector Accounting Standard)

General

Sida welcomes the effort to harmonize various donor requirements for how external assistance should be disclosed in recipient countries' financial reports because this will ease the burden for the cooperation governments, not only Ministries of Finance but also other ministries, agencies and other public bodies.

However:

- The fact that donors make adherence to "international accounting standards" a condition for grants/loans force governments to implement accounting reforms they may not otherwise have chosen to implement (for perfectly respectable reasons)
- Normally, accounting for appropriations and revenue according to structures in the government budget is a legal requirement and a democratic necessity. IPSAS do not take such requirements into consideration and may take precedence over them due to donor pressure although IFAC/PSC does not have any status as a regulatory body over governments/parliaments
- The proposed IPSAS places high demands on recipient governments' capacity. It is not clear to which extent the information requirements have been guided by information needs in that country and in the donor community, respectively (eg. the need for comparison between countries seems more pressing for donors than for recipient governments whose needs may be different). It is also unclear whether governments in donor countries would be able, and willing, to disclose the information required in this IPSAS.

Structural

Five *types of assistance* must be shown separately.

- There is often a blurred line between Development Assistance and (long standing) Emergency Assistance. Which is the information need for separate items?
- Balance of Payment assistance is applicable only to National Banks – which may, or may not be part of the Government accounting structure – in emergency situations and only from one donor (IMF). It seems questionable to include the item in regular accounting reports from any government institution.
- Programme (budget/sector) support is reported together with project support
- Which is the information need for a separate Export finance item?

(art 15 et al)

Five *forms of assistance* must be distinguished:

Under cash basis of accounting, only grants (1) and loans (2) actually received by the entity during the period should appear in the accounts – here, the separation of loans from other types of revenue is necessary. In

addition, the IPSAS requires separate disclosure of cash paid on an entity's behalf by a third party within (3) and outside (4) of the economic entity, respectively. Moreover, the entity is required to disclose goods and services received in-kind (5), valued at "fair value" (which is probably often difficult to establish – eg. a used car, consultancy services or medicine); however the difference between these figures and payments on the entity's behalf (3-4) may be difficult to distinguish. It is also doubtful whether supporting documents from donors will be available. Although there is undoubtedly a certain value in obtaining information on all these different types of assistance, the associated amount of work and difficulty may not make it valuable enough.

In addition, the entity should disclose the *sources of external assistance*, irrespectively of their size or importance.

Moreover, the entity must disclose the amount of loans that have been re-lent or other types of assistance that have been *assigned* to another entity. This may not always be easy considering that only parts of an amount may have been passed on, and that some of the resources may be in-kind.

(These four structures are found in art. 15-18, 21, 43)

In Sida's view it is of outmost importance to ensure that our partners get the basics right first. A sequenced phasing-in of increasingly more complicated information requirements must be made possible.

Undrawn external assistance should also be disclosed, both grants, loans and guarantees. It is unclear whether grants in the form of third-party payments and/or gifts in-kind are included here; if so it may sometimes be difficult to establish whether or not the assistance has actually been received according to the agreement/pledge. According to art. 8-12, only amounts covered by a written agreement with a donor should be included. This has the advantage of ensuring that amounts are reasonably reliable, and that supporting documentation exists. However, donors can often only make one-year commitments, and support during future years are made in the form of pledges and/or indications, sometimes orally at formal meetings or in public; sometimes in writing. Increasing coverage means reducing reliability – it is important to strike a balance here.

The requirement to disclose exchange rate differences is an additional burden, but the information must be available in the government anyway, at least for outstanding loans, and is therefore not unreasonable.

(Art. 23-24)

However the requirement to disclose terms or conditions of external grants or loans – both according to agreements and whether or not they have been met – does not provide for guidance on level of detail. If every condition in every agreement is to be listed, the list would become very long and not very useful. *(Art 27-42)* The line between earmarking and conditionality *(art 30)* is not clear.

Article 36 includes the requirement for disclosure of (any?) non-compliance with conditions. However it may not always be clear, at the time the financial reports are prepared, whether or not conditions have been complied with – and furthermore there may be disagreement between the government and a donor about the extent to which a condition has been violated. Should such disputable instances of non-compliance be separately disclosed?

In *article 33*, the focus is on guarantees, but the amounts to disclose relate to outstanding balance of loans. This means that guarantees that have been issued but that do not cover any loan (because a loan has been repaid or not yet received) and therefore gives additional borrowing potential are not taken into consideration. If this is the intention, guarantees should rather be handled in connection with article 23a dealing with outstanding loans. However not all loans may have been provided as external assistance, but may be commercial. Therefore the relationship between loans and guarantees may need to be clarified – at least in the IPSAS (another disclosure requirement may brake the camel's neck). When are grants covered by a guarantee?

Details

Articles 8-10 may be drastically shortened to include a description of what constitutes an agreement which results in an amount being included in the balance of undrawn assistance (however see discussion about pledged or indicative amounts above)

Article 28 may be rewritten to include the provisions of articles 27 and 29; the same is valid for article 30 to include articles 31-32.

Besides, there are a few minor instances of wording where I will be pleased to suggest changes.

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