



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

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DATE: 10 JUNE 2003  
MEMO TO: MEMBERS OF THE IFAC PUBLIC SECTOR COMMITTEE  
FROM: CHARLES COE AND PAUL SUTCLIFFE  
SUBJECT: **ACCOUNTING FOR DEVELOPMENT ASSISTANCE**

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**ACTION REQUIRED**

- **Review** and **approve** input on the attached key decisions questionnaire.

**AGENDA MATERIAL**

	<b>Pages</b>
11.2 Key Decision Questionnaire	11.2-11.18
11.3 Draft Invitation re Project Advisory Panel	11.19-11.20
11.4 Membership of Project Advisory Panel – to be tabled	

**BACKGROUND**

The draft key decisions questionnaire (KDQ) has been prepared for your consideration by Charles Coe, the consultant on this project. Members are asked to review the KDQ and provide input to Charles for further development prior to commencing discussion with the Project Advisory Panel. Charles will attend the meeting and talk to the KDQ.

The Project Advisory Panel is still being finalized. It is intended that its membership be tabled at the meeting.

**Draft Key Decisions Questionnaire**

**For Consideration by PSC July 2003**

## **Issue 1 - Scope of the Standard**

### **Background**

The Public Sector Committee has approved a Project Brief for an IPSAS on “Accounting for Development Assistance”. The Project Brief provides for a two stage development of the IPSAS (or IPSASs), stage one is to deal with accounting for development assistance received by governments and public sector entities which adopt the cash basis of accounting as specified by the IPSAS *Financial Reporting Under The Cash Basis Of Accounting*. Stage two is to develop an IPSAS dealing with accounting for development assistance within the accrual basis of accounting. This paper is prepared in accordance with stage one of the Project Brief, and will therefore address only the cash basis of accounting as defined in the IPSAS *Financial Reporting Under The Cash Basis Of Accounting*.

### **Issues**

**Issue 1 (a) Should this project propose that (or seek views on whether) the disclosures required when the cash basis IPSAS is complied with also be made by entities which adopt the accrual basis?**

The PSC has established a Steering Committee on Accounting for Non-Exchange Revenue (SC- non-ex-rev). That Steering Committee will issue an ITC in late 2003, and an exposure draft and IPSAS will be developed and issued in 2004 and 2005. Clearly there will be overlap between that IPSAS and this project.

### **Staff Recommendation**

*No. The focus of this project (and therefore the proposed IPSAS) should remain only on entities which report under the cash basis. The SC- non-ex-rev will deal with recognition and measurement issues under the accrual basis. The resolution of those issues may influence the detail and location of disclosures under the accrual basis. Retaining the focus of this document on cash basis only financial statements does not preclude the consideration of its application to accrual basis financial statements in the future. It is the Committee's intention to develop guidance addressing issues under the accrual basis of accounting in Stage Two of this project.*

### **Project Advisory Panel Recommendation**

*PAP Views to be sought*

### **PSC Decision**

*To be made following consideration of PAP views*

**Issue 1 (b) Should the scope of the proposed IPSAS be limited to reporting by Governments, whether at the National, State/Provincial, Local or Other government level.**

**Staff Recommendation**

*No. This IPSAS should be applied by all entities which prepare general purpose financial statements and adopt the cash basis of accounting in accordance with the cash basis IPSAS. In some jurisdictions, development assistance may be provided to government controlled entities, to entities established as a joint venture controlled by two or more provincial or local governments, or to governmental entities established in co-operation with private interests. The disclosures proposed by this IPSAS should be directed at enhancing comprehensive and transparent financial reporting by all entities which report in accordance with the cash basis IPSAS, including governments and governmental entities.*

**Project Advisory Panel Recommendation**

*PAP Views to be sought*

**PSC Decision**

*To be made following consideration of PAP views*

**Summary:**

**Staff Recommendation on Scope of IPSAS**

*An entity which prepares and presents financial statements under the cash basis of accounting as specified in the Cash Basis IPSAS Financial Reporting Under The Cash Basis of Accounting should apply this Standard in accounting for development assistance.*

**Project Advisory Panel Recommendation**

*PAP Views to be sought*

**PSC Decision**

*To be made following consideration of PAP views*

## **Issue 2 - Definition of Development Assistance**

### **Background**

#### **a) Multilateral and Bilateral Development Agencies**

Multilateral or bilateral development agencies usually provide development assistance directly in cash or by purchasing goods or services on behalf of a national government. In some cases the government purchases the goods and services and seeks reimbursement from the multilateral or bilateral agency. In most cases development assistance is provided to the national government which reserves for itself the exclusive right to negotiate with multilateral or bilateral agencies. In many cases the national government passes on the assistance to other units or levels of government or to state owned enterprises.

Development assistance is provided in many formats with or without conditions or covenants. Typical formats include at least the following loans, grants and technical assistance or combinations of these, as follows:

- General budget support loans or grants are usually conditional on macroeconomic policy considerations with few restrictions on what the money may be used for (usually prohibitions exist on military expenditures, environmentally damaging goods or services and luxury goods),
- Budget support loans or grants for specific economic sectors are usually conditional on sector specific economic policy considerations with similarly few restrictions on the use of the funds,
- Project specific loans or grants with or without sector specific, executing agency specific or project specific conditions,
- Technical assistance grants.

Access to development assistance may be conditional upon meeting certain criteria. For example some development assistance may require the recipient to achieve certain economic milestones before the assistance may be drawn down, in some cases the assistance is provided in tranches with additional performance criteria to be met for access to the subsequent tranche or tranches. Procurement of goods or services to be funded by the assistance may be narrowly or precisely defined, may require following specified procurement procedures and may be restricted to suppliers from the country providing the assistance or, in the case of the multilateral development banks, from their respective member countries. In other cases, maintenance of specified financial performance criteria by the project's executing agency may be required throughout the life of the assistance. In some or all of the above cases, the assistance may be immediately repayable in the event of noncompliance with covenants.

All of the above development assistance results from formal discussions between the recipient government and the provider of the assistance; usually formal agreements exist and some form of accounting by the recipient to the provider is required and is subject to audit.

b) Non-Government Organizations and Relief Agencies

i. Non-Government Organizations (NGOs)

Usually, foreign private development and poverty relief agencies provide assistance on a smaller scale than the multilateral and bilateral development agencies. In addition, they are more likely to provide the assistance directly to the citizens of the country without the assistance passing through the government or a government agency. Examples of the nature of the assistance may include development of micro-industries, development of small wells or self contained water supply systems, or the provision of food, clothing and/or shelter for poverty stricken families.

ii. Relief from Natural Disasters

Disaster relief may be short term assistance in dealing with the immediate effects of the disaster or long term assistance with rebuilding or replacing damaged or destroyed assets. For example, after a major earthquake emergency rescue crews and equipment may be airlifted in to help rescue victims, these people and the equipment may be removed once the rescue period is over. In addition, tents, medical supplies and food may be provided which is consumed or left behind when the emergency crews leave the area. Multilateral agencies such as the International Federation of Red Cross and Red Crescent Societies and NGOs may also organize and deliver supplies to help the victims of a natural disaster.

Multilateral and bilateral development assistance is sometimes used to repair, rebuild or replace damaged or destroyed physical infrastructure. In some cases, unutilized loan or grant balances are redirected for this purpose in other cases new loans or grants are processed. In some cases the exact physical infrastructure is replaced, and in some cases the opportunity to improve the previously existing infrastructure is taken or new infrastructure is put in place to minimize the effects of a future similar disaster.

iii. Relief from Man-made Disasters

Foreign governments, UN Agencies and NGOs provide assistance in times of civil strife and war. Such assistance may include the establishment and maintenance of refuge camps including food, medical supplies and resettlement services etc. These camps may be within or outside the borders of the country whose citizens benefit from the assistance. In other cases, medical assistance and emergency food and medical supplies may be brought into the country.

iv. Food Aid, Food for Work and Similar Programs

Some multilateral and bilateral agencies provide food or other assets to the government with an understanding that the assets will either be sold in the local market at local prices with the proceeds kept by the government or that the assets will be used as payment for services or labour provided on government projects.

c) Lending or Relending Development Assistance

In some cases, loans or grants provided to the national government will be lent by the national government to a lower level of government (a province or state) which may in

turn lend the proceeds to a lower level of government (a municipality). This is usually done because the national government reserves the exclusive right to negotiate contracts with multilateral or bilateral agencies, but the development project or activity is being implemented at a lower level of government.

d) Loan or Grant of Development Assistance to Local NGOs

In some cases, the proceeds of a loan or grant is provided to a local NGO to carry out its program. This would be done as part of the agreement between the national government and the development assistance agency.

e) Development Assistance Budgets

In most cases, governments seeking assistance from multilateral and bilateral development assistance agencies participate in a Consultative Group Meeting to discuss the government's development plans and its internal budgetary resources. The government actively participates in reaching an understanding with the development assistance agencies regarding those parts of its development plan that the development assistance agencies will participate in. These understandings will be reflected in the government's development budget, often as a separate and distinct part of the overall budget.

Specific development assistance undertakings result from further formal discussions and written agreements between a development agency and the government and/or other executing entity. These agreements would define the project or program; specify any terms and conditions that apply including preconditions, ongoing conditions, procurement rules and disbursement regulations. The results of implementing these agreements should be reflected in the financial statements of both reporting entities.

## Issues

### **Issue 2 (a) How should development assistance be defined?**

Staff Recommendation

*For the purpose of this IPSAS, development assistance should be defined as follows:*

Development Assistance means:

- (a) general budget or sector specific support loans, project specific loans and technical assistance grants from multilateral and bilateral development agencies to support its development budget; and
- (b) all cash resources provided to a reporting entity by an external party in support of its development budget, for no or nominal consideration in return.

Development Assistance does not include assistance provided directly to a citizen or citizens of the country for their personal benefit or relief,

Multilateral and bilateral development agencies means development agencies established under international agreements or by foreign governments, and

Non-government organizations means for the purpose of this IPSAS, private development and poverty relief agencies

*The accounting entity is the government. Development assistance received directly in cash by the government or other reporting entity directly from a multilateral, bilateral or other development assistance agency should be recorded as cash receipts when received, in accordance with paragraph 1.3.4(a)(i) of the IPSAS Financial Reporting Under The Cash Basis Of Accounting. Third party payments by either multilateral or bilateral or other development assistance agencies would be recorded when paid in accordance with paragraph 1.3.4(a)(ii) of the same IPSAS.*

*Assistance provide directly to citizens does not confer benefits in either cash or otherwise on the government. Particularly if cash is not involved there is no basis for recording a transaction under the cash basis of accounting. In the case of food aid which is provided to the government with the expectation that the food will be sold at local prices and the cash proceeds retained by the government, the cash proceeds received at the time of the local sale should be recorded as cash receipts by the government or other reporting entity. (See Issue 2(e) regarding receipt of non-cash development assistance)*

*Technical assistance provided by a multilateral, bilateral or other development assistance agency results from formal agreements under which the development assistance agency undertakes to provide goods or services on behalf of the government. Payments made under these types of technical assistance agreements qualify under paragraph 1.3.4(a)(ii) of the IPSAS Financial Reporting Under The Cash Basis Of Accounting*

### **Project Advisory Panel Recommendation**

*PAP Views to be sought*

### **PSC Decision**

*To be made following consideration of PAP views*

### **Issue 2(b) Should development assistance relent to another government level or entity be recognized as a cash receipt and payment by the relending entity?**

#### **Staff Recommendation**

*For the purpose of this IPSAS, relending development assistance should be defined as follows:*

Relending development assistance means loans or grants provided to a national government which are relent to a lower level of government (a province or state) and may be further relent to a lower level of government (a municipality) or to a government owned entity.

*Yes. Lending the proceeds of a development loan or grant to a lower level of government involves a series of loan and sub-loan agreements and transactions under which the national government both receives cash from the development agency and pays a similar amount to the lower level of government or the development agency makes disbursements on behalf of the national government under the primary loan/grant agreement and the national government makes disbursements on behalf of the lower level of government under the secondary loan/grant agreement.*

*The national government would record cash received from development assistance and an expenditure or assistance to a lower level of government; the lower level of government would record cash received from the national government (not from development assistance) and the appropriate expenditure.*

*If the senior government prepares consolidated financial statements incorporating the lower level of government the transactions should be eliminated. Paragraph 1.3.13 of IPSAS Financial Reporting Under The Cash Basis Of Accounting permits netting any repayments from the lower level of government involving the same loan or grant.*

#### **Project Advisory Panel Recommendation**

*PAP Views to be sought*

#### **PSC Decision**

*To be made following consideration of PAP views*

#### **Issue 2(c) Should development assistance provided to a local NGO be recorded in the accounts of the government?**

Staff recommendations:

*Yes. Development assistance paid by a multilateral, bilateral or other development assistance agency to a local NGO in accordance with an agreement to provide development assistance to the government is an indirect payment on behalf of the government and meets the definition stated in paragraph 1.3.4(a)(ii) of the IPSAS Financial Reporting Under The Cash Basis Of Accounting*

#### **Project Advisory Panel Recommendation**

*PAP Views to be sought*

#### **PSC Decision**

*To be made following consideration of PAP views*

**Issue 2(d) Do natural or man-made disaster relief constitute development assistance?****Staff Recommendation:**

*No. The reporting entity is a government or other government entity which would not report transactions between its private citizens and foreign governments or either foreign or local NGOs. Disaster or relief assistance provided directly to citizens of a country involves transactions between a foreign government/government entity or an NGO and a private citizen which does not confer a benefit on the recipient citizen's government nor does it constitute development assistance. Economic benefits received by a national economy are not necessarily received by the government or other reporting entity.*

**Project Advisory Panel Recommendation**

*PAP Views to be sought*

**PSC Decision**

*To be made following consideration of PAP views*

**Issue 2(e) Should the receipt of non-monetary development assistance be recognized as an indirect payment or its equivalent?****Staff Recommendation:**

*No. Non-cash development assistance, such as the direct provision of equipment or other goods instead of cash or the indirect payment for purchase of the equipment on behalf of the recipient should not be recorded as a cash receipt. However, disclosure of the amount of non-cash development assistance is encouraged, in the Notes to the Financial Statements.*

**Project Advisory Panel Recommendation**

*PAP Views to be sought*

**PSC Decision**

*To be made following consideration of PAP views*

**Summary:****Staff Recommendation Definition of Development Assistance**

*Development assistance means the resources provided in cash or by indirect payments on behalf of the government or other reporting entity (including to a local NGO) to further the reporting entity's development program and should be recognized in the financial statements of the reporting entity. Disclosure of non-cash development assistance in the Notes to the Financial Statements is encouraged. Development assistance relented by a recipient reporting entity to another level of government or other reporting entity should be recognized as both cash receipts and payments by the initial recipient entity. Disaster relief usually confers a benefit on the individual or individuals receiving the assistance with no benefit being conferred on the government. In addition, the assistance would not constitute a part of a country's development budget and would not be covered by this IPSAS.*

**Project Advisory Panel Recommendation**

*PAP Views to be sought*

**PSC Decision**

*To be made following consideration of PAP views*

### **Issue 3 Disclosure of Development Assistance Utilized**

#### **Background**

Development assistance that meets the scope to be included in the accounts of the recipient is defined above. These cash resources are provided directly to the recipient government or disbursed on the recipient government's behalf. When resources are provided directly to the recipient they are usually either budget or sector support cash tranches which are not identified with specific expenditures by the recipient or they are reimbursements for specific expenditures which meet project specific requirements as agreed between the provider and the recipient. As noted, development agencies may make cash payments on behalf of government directly to third parties. Paragraph 1.3.4(a)(ii) of IPSAS Financial Reporting Under The Cash Basis Of Accounting provides for separate disclosure of payments made on behalf of the reporting entity

#### **Issue 3(a) Should development assistance received be disclosed separately in the Cash Receipts and Payments Statement?**

Staff Recommendations:

*Yes, unless it is immaterial. In some reporting entities, development assistance may not be a significant source of cash receipts. Conversely, in special purpose entities established to represent a specific development project the loss of development assistance may raise going concern issues. In all cases where development assistance is a significant source of revenue it should be disclosed separately in the recipient's Cash Receipts and Payments Statement. Disclosure should reflect cash received in the cash column and indirect cash receipts resulting from indirect payments should be shown separately in a second column consistent with the disclosure of indirect payments required by paragraphs 1.3.4(a)(ii) and 1.3.24(b) of the IPSAS Financial Reporting Under The Cash Basis Of Accounting*

*Where more than one source of development assistance is provided to a reporting entity each source should, if material, be shown separately as cash receipts in the Cash Receipts and Payments Statement or in the Notes to the Financial Statements.*

*A reporting entity may receive development assistance from a number of sources and for a number of projects or programs, in which case the top five sources of development assistance should be separately disclosed.*

*Expenditure classification should follow a classification basis appropriate to the entity's operations.*

#### **Summary:**

#### **Staff Recommendation - Disclosure of Development Assistance Utilized**

*Cash receipts from development assistance should be disclosed where the amounts are material in relation to total receipts and separate disclosure should be made of cash received directly and indirect cash receipts.*

**Project Advisory Panel Recommendation**

*PAP Views to be sought*

**PSC Decision**

*To be made following consideration of PAP views*

### **Issue 4 Disclosure of Unutilized Development Assistance**

#### **Background**

As noted above, governments seeking development assistance from multilateral and bilateral development assistance agencies participate in a Consultative Group Meeting to discuss the government's development plans and its internal budgetary resources. Usually the meeting concludes with an announcement of the total pledges of assistance made by the development agencies, together with a breakdown of the amount of assistance per development agency. The conclusions of the meeting are not binding on either the government or the development agencies. Subsequent meetings between the government and the individual development assistance agencies result in specific written agreements covering loans or grants which will be provided. These agreements will specify any preconditions that must be met before gaining access to the funds as well as conditions that must be adhered to for continued access to the funds. In addition, conditions may be specified which determine whether some or all of a loan or grant must be repaid, such as violations of procurement regulations or non-compliance with financial performance targets.

#### **Issue 4(a) Should unutilized development assistance be disclosed in the financial statements?**

Staff Recommendations:

*Yes, consistent with paragraph 1.4.9(c) of the IPSAS Financial Reporting Under The Cash Basis Of Accounting. Undrawn loans and grants represent potential sources of cash to fund the development objectives of the reporting entity. The undrawn amounts may be significant and in the case of project specific assistance may represent a source of confidence for the entity's suppliers of goods and services that funds will be available to pay them.*

*The ability of the reporting entity to access the funds is dependent upon its ability to comply with any restrictions on the use of the funds, including conditions which could result in repayment of the loan or grant. Therefore the amount of any undrawn loan or grant balances together with any restrictions/conditions on accessing the loan or grant funds, plus conditions which could cause default and repayment of the loan or grant should be disclosed in the Notes to the Financial Statements. A statement should be made in the Notes to the Financial Statements to clearly state whether or not all conditions and covenants have been complied with.*

*Undrawn loan and grant balances should be shown separately by significant type of loan or grant with the five largest sources of undrawn loans and grants separately disclosed.*

*Pledges made at a Consultative Group Meeting are not binding therefore they should not be recorded or reported as available resources to fund the operations of the reporting entity.*

**Issue 4(b) Should details of development assistance made available during the period, expended/consumed or used during the period and the balance unused at the end of the period be disclosed.**

Staff Recommendations:

Yes. A summary showing the opening balance of development assistance unused, new development assistance approved, the amount of development assistance utilized and the balance unutilized at the end of the period should be shown for the five largest sources of development assistance as well as for total development assistance.

**Summary:**

**Staff Recommendation - Disclosure of Unutilized Development Assistance**

*The opening balance of development assistance available, new approvals, utilized and undrawn development loans and grants should be disclosed in the Notes to the Financial Statements, with the five largest sources of development assistance shown separately. Restrictions or conditions for access to the funds together with conditions which might result in repayment of the funds should be disclosed, together with a statement as whether all conditions have been complied with.*

**Project Advisory Panel Recommendation**

*PAP Views to be sought*

**PSC Decision**

*To be made following consideration of PAP views*

## **Issue 5 Disclosure of Outstanding Development Loans**

### **Background**

Loans from development assistance sources are usually concessional in relation to repayment term and interest rate compared to the rate at which the reporting entity may normally borrow. The amortization of development assistance may be a significant cash outlay for the reporting entity and has a bearing on the entity's ability to fund future development projects and programs.

### **Issue 5(a) Should long-term development debts be disclosed in the Notes to the Financial Statements?**

Staff Recommendations:

*As indicated in paragraphs 2.1.34 and 2.1.35 of the IPSAS Financial Reporting Under The Cash Basis Of Accounting information about a reporting entity's long-term liabilities is encouraged but not required. However, consistent with the disclosure recommended above regarding the availability of development assistance as an indicator of future cash flows, the picture would be incomplete and possibly distorting or misleading (at least vis a vis development assistance) if disclosure was not provided about future obligations to repay development assistance. It is also recognized that the recommendations above already include disclosure of a number of the terms and conditions of development assistance loans/grants. Therefore, staff are of the view that note disclosure should be required, providing details regarding any obligation to amortize or repay development assistance including grace period, interest rate, currency of debt, annual amortization and term of the repayments.*

### **Project Advisory Panel Recommendation**

*PAP Views to be sought*

### **PSC Decision**

*To be made following consideration of PAP views*

## **Issue 6 Foreign Currencies**

### **Background**

Loans and grants from multilateral and bilateral development agencies are usually denominated in a currency other than the currency of the recipient country. Disbursements from a loan or grant which are made on behalf of the reporting agency may be denominated in foreign currency. The undrawn balances of these loans and grants would also be denominated in a foreign currency.

### **Issues**

**Issue 6(a)** Should payments made by a development assistance agency to a third party in a currency other than the reporting currency be reported at the spot exchange rate on the date of the transaction?

Staff Recommendation:

*Yes. Consistent with paragraph 1.7.2 of the IPSAS Financial Reporting Under The Cash Basis Of Accounting indirect payments to third parties should be translated at the spot rate on the date of the transaction.*

### **Project Advisory Panel Recommendation**

*PAP Views to be sought*

### **PSC Decision**

*To be made following consideration of PAP views*

**Issue 6(b)** Should unutilized balances of development assistance denominated in a currency other than the reporting currency be reported utilizing the closing rate on the date of the financial report?

Staff Recommendation:

*Yes, Consistent with paragraph 1.7.3 of the IPSAS Financial Reporting Under The Cash Basis Of Accounting the unutilized development assistance should be translated at the closing rate on the date of the financial report.*

### **Project Advisory Panel Recommendation**

*PAP Views to be sought*

### **PSC Decision**

*To be made following consideration of PAP views*

**Issue 6(c) Should a gain or loss on the unutilized development assistance be disclosed?****Staff Recommendation:**

Yes. Consistent with paragraph 1.7.5 of the *IPSAS Financial Reporting Under The Cash Basis Of Accounting* exchange differences should be disclosed. Because unutilized loans and grants are expressed in domestic currency a change in the exchange rate against the currencies in which the development assistance is denominated may result in significant unrealized gains or losses in the balance of unutilized assistance. A table should be presented which discloses the opening balance of unutilized development assistance from the five largest sources together with total unutilized development assistance, new development assistance provided during the period, development assistance utilized during the period, gains or losses due to foreign currency exchange fluctuations and closing balances of unutilized development assistance.

**Project Advisory Panel Recommendation**

*PAP Views to be sought*

**PSC Decision**

*To be made following consideration of PAP views*

**Summary:****Staff Recommendation - Foreign Currencies**

*When development assistance is provided in a currency or currencies other than the reporting currency the foreign currency should be translated in a manner consistent with section 1.7 of the IPSAS Financial Reporting Under The Cash Basis Of Accounting.*

**Project Advisory Panel Recommendation**

*PAP Views to be sought*

**PSC Decision**

*To be made following consideration of PAP views*