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SYMPOSIUM ON  
**RECURRENT COSTS  
IN THE SAHEL**

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THE SAHEL COUNTRIES AND THE PROBLEM OF  
RECURRENT COSTS : THE CASE OF MALI

by  
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*At the Fourth Conference of the Club du Sahel, held on November 1980, the CILSS and Club Secretariats presented a document entitled "Recurrent Costs of Development Programmes in the Countries of the Sahel".*

*This document led to a preliminary exchange of views among participants, who requested the CILSS and Club Secretariats to organize a symposium in 1981 to review the follow-up to be given to the report, particularly how to implement its recommendations.*

*With a view to facilitating discussion, preparatory documents will be distributed as we receive them. They will be of a standardized format and their contents are the sole responsibility of their authors. Participants are kindly requested to bring all documents to the symposium.*

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This document was written in the context of a study of recurrent costs of the Sahel Development Programme coordinated by the Club du Sahel and the CILSS. The final report of the study was prepared by Clive Gray (HIID) and André Martens (CRED - University of Montreal) and was submitted to the Fourth Conference of the Club du Sahel, held in November 1980. A Symposium devoted to the follow-up of that report will be held in Ouagadougou 11-15 January 1982. Meanwhile, different views on the problem are being disseminated. The present document has been prepared under the sole responsibility of its author and does not necessarily represent the views of CILSS, the Club du Sahel or of the governments involved.

The following information was obtained from the records of the Department of the Interior, Bureau of Land Management, regarding the land in question.

The land in question is located in the County of [County Name], State of [State Name]. It is situated in the [Township Name] Township, [Range Name] Range, [Section Name] Section.

The land is owned by [Owner Name], who is the [Relationship] of [Relationship Name]. The land is being offered for sale by [Seller Name].

The land is situated in the [Township Name] Township, [Range Name] Range, [Section Name] Section. It is situated in the [Township Name] Township, [Range Name] Range, [Section Name] Section.

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Recurrent costs(1) are the set of expenditures enabling a capital asset, once installed, to be both used and maintained in satisfactory working order. The financing of recurrent costs seems to be a major problem in the development of many developing countries. The case of Mali is typical of a situation which recurs, in varying degrees, in other Sahel countries.

Analysis of the operation of development projects and actions provides many examples of inadequate financing of recurrent costs. For instance, a shortfall in maintenance outlays can culminate in negative net investment, i.e. a loss of capital, to a point at which it might be asked whether it would not be worthwhile having less capital, but better maintained and used. Admittedly, the results obtained could be improved by modifying the structure of certain of the organisations concerned, and introducing management reforms. Similarly, progress could be achieved by levying charges on the beneficiaries of development actions. However, the position observed in many instances is also the reflection of the overall scarcity of resources in a country, and of their misallocation. If a given development operation seems incapable of reaching financial balance, it slows down the country's overall growth. Thus, securing self-financing capacity is equivalent to securing a full contribution to the development process i.e. rendering development autonomous and giving an incentive for individuals to become agents of progress.

Some development operations and public enterprises involve a large net cost to the Malian economy with no prospect of reversing this position in the foreseeable future. For these, the only answer is their disappearance. In other cases, resources are wasted or underutilised because an important factor is absent or present in insufficient quantity. One of the reasons for inadequate financing of recurrent costs seems to be a shortage of working capital.

An improvement in profitability to individuals through higher producer prices should enable more rapid extension to be undertaken, with improved maintenance, in certain cases.

Experience with animal health care in the Sahel indicates that herders readily understand the value of vaccination, and are willing to pay for it. The fact that vaccination is compulsory does not imply that it need be free. Nevertheless, in this field as in others, awareness of herders grows gradually, so that a programme may justifiably be launched using subsidies. Even so, at least a minimum contribution should be asked for from the outset, to avoid creating illusion of total exemption from costs.

(1) Occasionally referred to as "recurrent charges" or "recurrent outlays".

Overall, the problem of financing investment and recurrent costs in Mali is probably more serious than it seems at first sight, since the statistics do not reflect the "decapitalization" that plagues certain operations. The reality is that without external financing the stock of capital in Mali would deteriorate, with obvious damage to its development. As Mali cannot cover its replacement by investment from its own resources, it is hard to see how it could manage to finance its recurrent costs. In other words, if Mali were to be asked for too great a financing effort to meet the recurrent costs of its new investment projects, either these costs would not be met (whence unutilised capital assets) or if met, this would be at least partly through disinvestment i.e. the value of Mali's capital stock would not be maintained. Either way, the whole of its development process would be brought into question.

Analysis of Mali's budget is one of the keys to understanding the recurrent cost financing problem facing the country. It is in this context that the inadequacy of resources to finance recurrent costs is felt most severely. In the immediate future, external capital for this purpose is indispensable. Yet the present and future problems of Mali's budget are such that solutions must be found for a number of other priorities before it becomes feasible to envisage devoting a greater share of budgetary resources to recurrent cost financing.

It may well be necessary to consider detaching some civil service officials doubtless the most junior of them to work in communes and districts in rural development projects and operations. The closure of State enterprises in a poor financial position, and improved management of others would avoid the need for excessive recourse to credit, and would free financial resources for other activities. At present, most State firms and enterprises not only do not cover their recurrent costs, but do not even maintain their productive capital i.e. a process of disinvestment is under way.

At all events, the financing of recurrent costs in Mali should be perceived as being above all a macro-economic matter. In order to cover them more satisfactorily, some part should certainly be drawn from external sources. But if they are to play an incentive role, it can readily be imagined that outlays will be financed by the foreign sector only to the extent that the Malian budget also takes on part of the financing of the recurrent costs of the development operation concerned. To the writer of this report, the optimum decision would be to secure the same ratio between local and foreign financing as between recurrent costs and investment.

Another cause of underfinancing of recurrent costs is the poor performance of financial and monetary circuits. The Treasury's role is essential here, since a high share of financial and monetary flows transits through it. However, instead of the cumulative creation of confidence which underpins a sound financial system, there has been a cumulative process of growth of mistrust. Furthermore, the policy of low interest rates has had a harmful effect on development by discouraging savings, and engendering an unsuitable distribution of financial resources. Finally, price policy can lead to under-evaluation of the true burden of recurrent costs, or alternatively, to their overstatement.

Many development operations have accomplished good work on the technical side, but at a cost to the nation which is unknown and probably high. Their many tasks, the rigidity of their price scales, and the distortion of prices have thwarted efforts to introduce rational management. Nor have they allowed a precise determination to be made of the extent to which recurrent costs have been covered, and whether they have been financed in the least expensive way.

In making proposals, the substantial overall inadequacy of the resources available to Mali must be borne in mind; it would be self-deception to anticipate any significant increase in the internally-generated resources available for recurrent costs financing over a time horizon of two to five years.

Nevertheless, some improvements could be made rapidly. The information available could be improved, and a common method laid down for presentation of information by the various donors. This would make it possible to evaluate the overall consequences of different projects, their needs for recurrent cost financing, and the means of covering these needs.

The general practice in aid policy is to finance investments in priority, and not recurrent costs. Like the practice of aid tying, of which it constitutes one aspect of implementation, it is not justified. In total, an improvement could be achieved if the respective shares of Mali and its foreign donors were the same for investment projects as for recurrent costs, and if all the parties had available a framework in which they could regularly bring under review the implications of aid programmes for Mali's macro-economic equilibrium. As regards individual development projects, it is important to seek means for future self-financing, and provide the agencies responsible for projects with adequate capital and working funds, which should moreover rise over time. Finally, no aid should be extended unless the donor has ascertained that an efficient organisation for management and control exists, or is prepared to contribute to their creation.

Other reforms can only be expected to have longer term impact, in that they should be introduced immediately. Thus the tax base should be enlarged through expansion of private sector production. Indeed, it is of crucial importance that the Malian authorities ease overall domestic financial constraints by dealing with the two major problems of the civil service and the State enterprise sector. This obviously implies that graduates should have some employment outlets other than the civil service, that some production units which are an economic millstone for the country be abolished, and the management structure of others be reinforced. It should be remembered that Mali's donors are aware that Mali's students, who have guaranteed access to a civil service job enjoy privileges which donors' own students do not enjoy. It is a simple fact of observation that the level of foreign aid will depend in part on Mali's ability to solve its own problems.

Finally, as regards the smoother functioning of financial circuits, the treasury must be able to count on a smooth flow of revenue and there must be a return to budgetary equilibrium. To this extent, it may be possible to envisage procedures for other countries to guarantee the availabilities required for more regular operation of the country's financial and monetary circuits. A reform of present interest policies is also indispensable.