

## Using country systems in Senegal Challenges, lessons and recommendations

### Introduction

Several international agreements call on donors to use country systems to the maximum extent possible for the delivery of development aid. These agreements acknowledge that when countries' own systems are used there is a potential pay-off of increased investment in strengthening these systems, coupled with improved efficiency and ownership of the development programmes delivered. A central mechanism of this pay-off is that the use of country systems allows aid programmes to be integrated better with countries' own expenditure, reducing duplication of effort and increasing the leveraging effect of development assistance resources and the sustainability of activities and results.

This policy brief on addressing the country-level barriers to the use of country systems is based on research for the dialogue on the use of country systems in Senegal, initiated by the government of Senegal (GoS) (see Box 1) with the assistance of CABRI.<sup>1</sup> CABRI has a long-standing programme of work on the use of country systems for delivering development assistance. Its interest stems from the importance of integrating development assistance with country budgets for the effectiveness and efficiency of these budgets. The intent of this brief is to provide an overview of the challenges commonly faced by African countries,

<sup>1</sup> The Effective Institutions Platform also provided early support to the project.

### Box 1: The Senegal country dialogue on the use of country systems

CABRI and the GoS agreed to undertake a country dialogue process in 2015, after the 2014 Global Partnership Monitoring Report indicated that the use of country systems in Senegal had declined from an already low 31 per cent in 2010 to 22 per cent in 2013. This was despite the ongoing implementation of a major public financial management reform programme in Senegal in the context of the West African Economic and Monetary Union (WAEMU) directives on budget reform. The country dialogue was intended to discuss and remove technical and political bottlenecks to the use of country systems. The dialogue and associated research occurred in several phases. In the first phase, CABRI and the Effective Institutions Platform conducted a preparatory visit to Senegal in June 2015, to present the project to the main stakeholders and to begin identifying major challenges with the use of country systems in Senegal. The findings from this process were refined further during dialogues held in the second phase in Dakar in September 2015. At the dialogues, the issues identified in the background study were discussed, and consensus was reached on their formulation and prioritisation. The GoS and its development partners agreed to focus the immediate further work on improving aid on plan, on budget and on report, as the weak supply and demand of aid information was seen as a priority concern for improving the use of country systems. In the third phase, CABRI gathered additional evidence on the Senegalese processes and systems for integrating aid information in the budget process. During the first quarter of 2016, the research team held more than 30 meetings and interviews with representatives from nine different directorates of the Ministry of Economy, Finance and Planning (MEFP),<sup>†</sup> three line ministries (agriculture, education and health) and technical and financial partners.<sup>††</sup> A technical report, finalised in early 2017, synthesised the findings of the three phases, and presented recommendations.

<sup>†</sup> The Directorate for General Administration and Equipment; Budget Directorate; Directorate General for Planning, Finance, Accounting and Treasury; Directorate General for Finance; Investment Directorate; Directorate General of Planning and Economic Policy; Information Directorate; Evaluation and Performance Unit; and the Directorate of Economic and Technical Co-operation.

<sup>††</sup> The following partners were interviewed: Spanish Agency for International Development Co-operation; African Development Bank; World Bank; Canadian Co-operation Office; G12; G50 Public Finance Group; Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH; Korea International Co-operation Agency; Luxembourg Development Co-operation; United States Agency for International Development; and European Union.

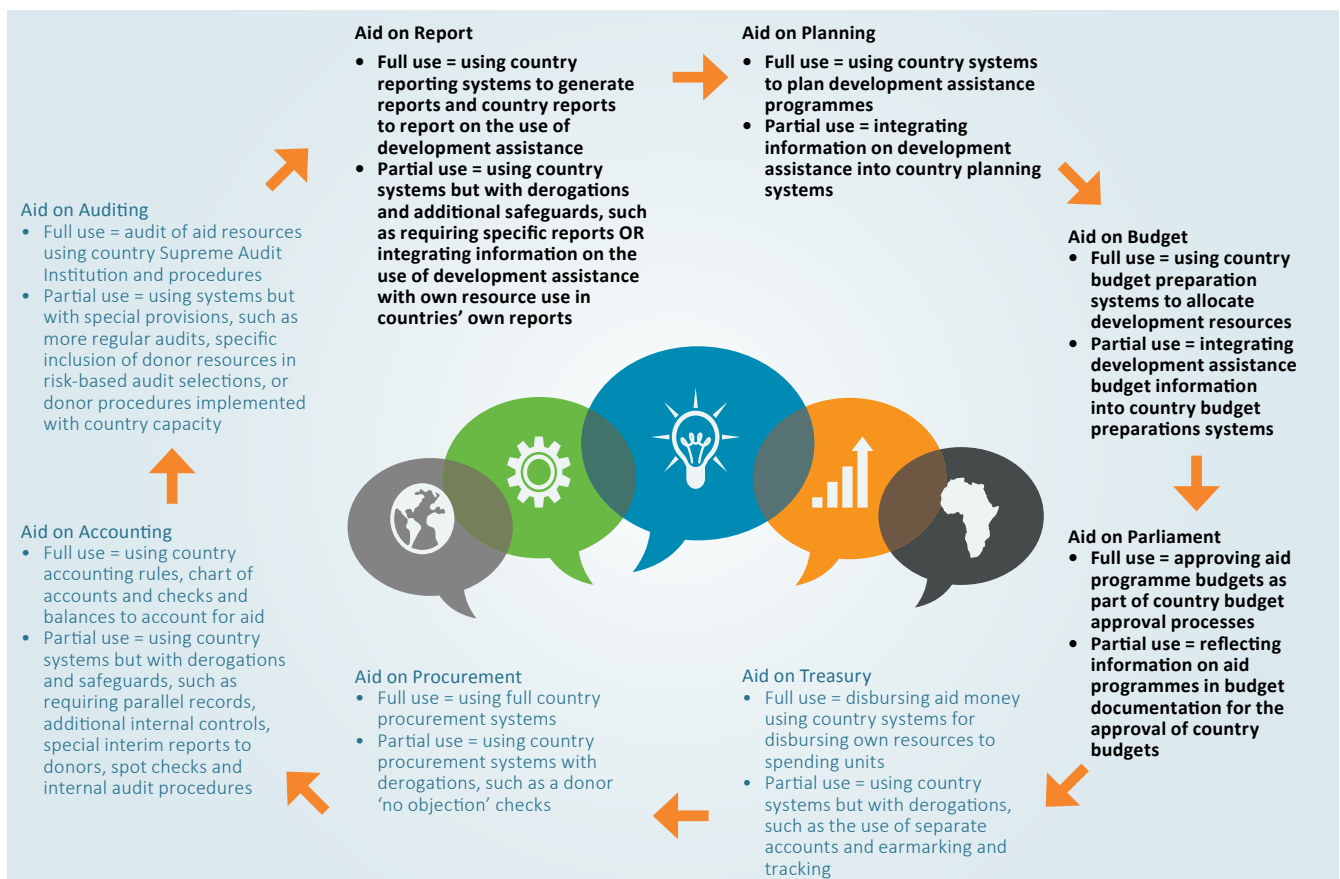
and to provide insights into how Senegal could improve on processes to integrate aid on plan, on budget and on report, the three dimensions of the use of country systems prioritised by Senegal. While the specifics of the challenges in these dimensions discussed in this brief are rooted in the Senegalese context, the issues are not unique to Senegal. The findings and recommendations set out here should, therefore, also be of interest to other African countries. CABRI hopes this will inspire other countries to reflect on their own processes and on ways in which those can be improved.

Various assessments over the years, including studies undertaken by CABRI, have revealed a weak correlation between the strength of country systems and the extent to which development partners use these systems for the delivery of aid. A central reason for this is that both countries and donors take an all-or-nothing stance. They often believe that the use of country systems implies the use of all such systems (or the delivery of budget support), rather than understanding that all donors, including the most risk-averse, can and should use some of the systems, even under the highest fiduciary risk conditions. Furthermore, studies have shown that international commitments and actions are insufficient to boost the use of country systems in the absence of deliberate steps by all parties at country level towards this end. It is only at country level that rules

and processes can be agreed upon that find the middle ground between the specific country's system and donor systems, and where the incentives encountered on the ground can be addressed. It is at this level that the immediate interests of both donors and country actors can result in less rather than more use of country systems, despite international commitments.

CABRI's work on the use of country systems has been to draw the attention of international and country-level actors to how any country's budget system can be divided into several parts (see Figure 1), and the development benefits that would arise even from the partial use of only some systems. Indeed, a critical accompanying argument of the work has been that if donors and countries agree on joint procedures to integrate aid into country planning, budgeting/approval and reporting systems (see the text in black type in Figure 1), the fiduciary risk is nil for donors, while the potential developmental benefits for both countries and donors are high. The common element in bringing aid on plan, on budget and on report is that it involves the flow of aid information, which is pivotal to the effective use of both donor and country resources. While some work can be done at the international level to facilitate this, operationalising the integration of aid into country budget processes depends on country-level agreements and arrangements (see Box 4).

**Figure 1: Breaking down the use of country systems across the budget cycle**



Participants in the Senegal country dialogue on the use of country systems decided to explore the barriers to the integration of aid in these dimensions and the means by which such integration could be improved, even when development partners manage aid flows themselves. This policy brief extracts the key challenges and lessons learnt from the process. It first sets out the common challenges faced in each of the focus dimensions, before discussing recommendations on how they could be overcome.

## Challenges to integrating aid on plan, budget and report

Country and donor decision-makers in Senegal encounter a series of challenges to integrate aid on plan, on budget and on report. These are about the incentives faced by institutions and individuals to share information, the generation of information in appropriate formats at appropriate times for country processes (see Box 2 for a brief definition of what is considered a good flow of aid information) and the budget system and aid management system weaknesses

### Box 2: Defining good information on aid

The CABRI definition of adequate aid transparency, as set out in its ‘Position on Aid Transparency’,<sup>†</sup> framed the Senegal country dialogue and research, and underpins the findings and recommendations in this brief. It sets parameters both for how aid information should flow and what is considered good enough information to support aid effectiveness, sound budgeting and accountable public financial governance systems at country level. In summary, the full integration of aid requires an adequate flow of and access to information not only between donors and country governments, but also between country institutions. The information must flow from donors to country governments, between aid managers and budget managers, between the centre and line ministries and from executive government to domestic stakeholders. It must be comprehensive, timely, reliable and useful (and in a useful format), and must be on aid commitments, disbursements and actual use. This requires, in the first place, that donors share information that complies with the above definition.

As is set out in this policy brief, overcoming the barriers to integration of aid on plan, on budget and on report (see Figure 1) is about both donors and countries setting up systems appropriate to the country to generate, collect, collate, verify and distribute aid information.

<sup>†</sup> See [www.cabri-sbo.org/en/publications/cabri-position-on-aid-transparency](http://www.cabri-sbo.org/en/publications/cabri-position-on-aid-transparency).

that generate challenges for aid integration. This policy brief presents the challenges individually, to examine the causes and consequences of each. However, as is apparent from the discussion, they are inter-linked and often mutually reinforcing, suggesting that selecting good entry points for system reform could trigger an opposing virtuous cycle.

### Challenge 1 Multiple uncoordinated processes of aid data collection

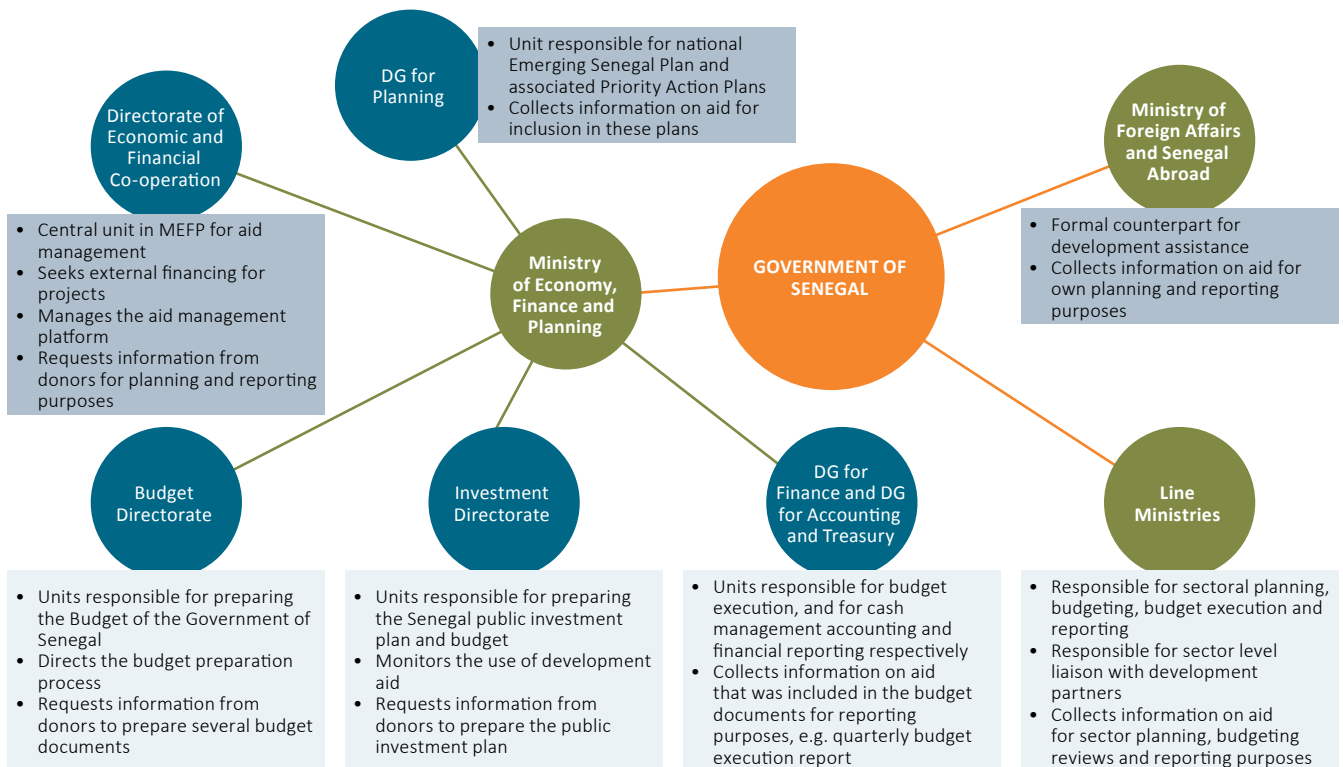
In the Senegalese system, different units of the government collect data on aid from donors for different purposes, at different times in the planning, budgeting, budget execution and reporting cycle (see Figure 2). Six directorates in the MEFP alone collect aid information. The Directorate of Economic and Financial Co-operation (DCEF), the unit in the MEFP responsible for aid management, and which manages the aid management platform<sup>2</sup> collects information for aid planning and reporting purposes; the Budget Directorate, for budget preparation purposes; the Investment Directorate, for the purpose of preparing the Triennial Programme for Public Investment (PTIP); the Directorate General of Planning and Economic Policy, to prepare the national five-year Priority Action Plans to implement the Emerging Senegal Plan; and the Finance Directorate and the Directorate General of Accounting and Treasury, to prepare budget execution reports. While some information is shared within the MEFP between units – for example, between the DCEF, the Budget Directorate, and the units responsible for compiling quarterly budget execution reports – all units may run supplementary processes to collect information for their specific purposes without any cross-vetting of information.

In addition, spending ministries run their own processes to collect information from donors, including for their annual sector reviews, which are not timed to align with the budget preparation process. The Ministry for Foreign Affairs and Senegal Abroad, which is the official development assistance (ODA) counterpart in Senegal, and the Technical Assistance Unit also collect data from donors, which are not shared with the MEFP.

The fragmentation of aid data collection leads to the fragmentation of aid information for integration in planning, budgeting and reporting processes, and creates incentives for aid to be managed outside of the country system. Each unit has only a partial view of aid, and no unit has a comprehensive, up-to-date view at any time. Furthermore, because data-collection processes ask for different sets of information in different formats from donors at different times of the year, often close together, the cost for donors of compliance with country formats is raised. Donors, consequently, report aid largely according

<sup>2</sup> An aid management platform is an up-to-date information base on aid to a country, together with the processes to collect and verify this information from donor partners and to share it with stakeholders. See Challenge 4 below for more information on the Senegal platform.

**Figure 2: Units of the government of Senegal collecting aid information from donors**



to their own categories and formats, and often with out-of-date information, making it difficult to translate the collected data into useful information for integration, with the result that aid remains opaque. As discussed below, the result is that the information on aid included in country budgeting processes is incomplete overall, and partial for each unit and process. It is also inconsistent over time, because it is reported in different formats and for overlapping time spans. The same occurs in reporting processes, which not only do not have a consistent information base on planned aid to report against but, in themselves, duplicate requests. Thus, aid execution reports are published with a lag time of several years, reducing their usefulness. By the time the reports are published, they are too late to aid accountability, it is too late to use the information to improve planning for future aid and budget flows, and they are no longer relevant in terms of helping stakeholders to understand what is working and why in their current context.

## Challenge 2 Poorly co-ordinated planning and budgeting processes for own resources

A leading factor in poorly co-ordinated multiple processes for aid data collection is the fragmentation and misalignment of Senegal’s planning, budgeting and reporting processes and instruments. At the time of the country dialogue, Senegal’s planning and budget preparation system, already complex, was in a state of flux with new planning instruments and WAEMU-linked

budget reforms being implemented. In the planning arena, the old sector strategic plans were being replaced by sector policy development letters (LPSDs) with different requirements for donor information. In the budget planning and reporting arena, the fragmentation of the underlying system between the recurrent and investment budgets – each with its own instruments and units – results in the different information collected by different units discussed in Challenge 1 across the budget cycle. This long-term fragmentation has been overlaid since 2014 by the replacement of the medium-term sector expenditure framework (MTSEF) with the multi-year expenditure planning/programming document (DPPD), which requires aid information in formats that differ from those of the MTSEF. This fragmentation and overlaying of instruments and processes results in a lack of clarity across and inconsistency between sectors, which raises the transaction costs for donor and government actors alike to provide and share aid information.

Furthermore, sector-level processes to co-ordinate the GoS and development partner interventions are misaligned with national budget preparation processes. This means that donors are asked for information on their commitments at least twice a year, first to prepare the national budget (with different requests at the sector level for the MTSEFs/DPPDs and at the national level for the PTIP) and the multi-year budget economic planning/programming document (DPBEP) separately, and again later in the year for sector review processes. They are also asked for information on actual disbursements and spending at

different points, for both national reporting purposes and the sector review processes. This is apart from requests to update their commitment, disbursement and actual spending information on the aid management platform.

### Challenge 3

#### Lack of clear institutional arrangements for aid information and its integration

Senegal does not have an approved aid management strategy/policy. A draft document exists, but it has not been formally adopted by the GoS. Together with the fragmentation of planning and budgeting processes and instruments, this is a key driver of multiple collection processes. A clear, comprehensive aid management policy and strategy would not only set out the rules for aid management, but also would help to bring clarity on how aid management cycles are to be integrated with budget management cycles in Senegal through the co-ordination of aid information flows.

Instead, each unit that requires aid information has its own and sometimes conflicting set of rules, formats and processes for collecting and reflecting aid information. Furthermore, there is no single unit with the formal

responsibility to lead the collection and management of aid information for the government's purposes. This means that there is little harmonisation of rules, no formal basis in terms of which rules can be enforced, and no clarity on who should enforce such rules, weakening the incentives for all actors to provide comprehensive, reliable information in the required formats. In respect of reflecting aid on budget and on report, this plays out in a number of ways to reduce the comprehensiveness and usefulness of available information, and mutual donor and country accountability for development assistance.

For example, as a result of a lack of protocol or guidelines, external aid is not regularly, systematically or consistently included in the Senegalese budget documents. The Budget Directorate of the MEFP formulates the budget within a fiscal framework, with aggregate amounts for grants and loans as externally financed expenditure. While certain aid modalities and types of aid flow are more likely to be included on budget making up this amount (see Box 3), the donor projects listed in the PTIP are decided, nevertheless, in a top-down manner without a clear set of rules guiding the inclusion/exclusion of flows. The research found that

#### Box 3: The use of country systems and different aid modalities, types and providers

Development assistance flows and providers are not homogenous. In Senegal, as elsewhere, different modalities (the means of providing assistance), different types of flow (grants and loans), and different providers (multilateral, bilateral and private, and traditional versus new development partners) present different challenges to increasing the use of country systems. This box briefly reviews these differences.

Across countries, some aid modalities are more likely to be integrated on plan, budget and report than others. At the one end of the spectrum, budget support, in which a cash transfer is made to the treasury of the partner country to be allocated, used and reported on the expenditure side of the budget without any tracking or earmarking, uses country systems fully, even if low predictability means that budget support flows may not be 'on plan' and 'on budget' in the sense of being reflected accurately in countries' plans and budgets. At the other end, donor-designed and -managed project support is the most difficult to integrate, as it is planned, budgeted, disbursed, procured, managed and reported according to donor cycles and systems. Programmatic aid that is managed through sector-wide approaches and pooled/basket fund approaches falls in the middle, with regular information flows and reporting between donors and country actors at the sector level, but still requiring specific rules to ensure that the information is shared across the government.

In Senegal, similar to other partner countries, the research found that whereas information on loans was collected and provided consistently and reliably for integration into country processes and reflection in documents, the same did not apply for grants. Multilateral and/or traditional donors were also more likely to provide information, and bilateral private and/or new donors (such as China and Turkey) less likely. This is partly driven by multilateral donors being more likely to provide loans, budget support and programmatic aid, and bilateral, private and new donors more likely to face individual and institutional incentives – despite their international commitments to using country systems – to provide neither budget support nor more programmatic/pooled/country system-managed aid, but rather to provide more visible, own-managed project aid.

The challenges and recommendations put forward in this policy brief apply largely to those aid flows that are not budget support, which make up the majority of development assistance disbursed for Senegal (as for other partner countries). The challenges of and associated recommendations for co-ordinating information on likely disbursement of aid over the forthcoming budget cycle, however, also apply to budget support.

projects without significant scope, projects negotiated directly between sector ministries and donors, and projects that are not through central government units are most likely to be excluded. Once flows are not on budget, they are also unlikely to be on report, in combination resulting in country accountability actors having neither a comprehensive picture of aid flows to Senegal or any one sector at any point in the budget or aid management cycles, nor clarity on which components of the picture they might be missing. This includes horizontal accountability actors both inside and outside of the executive (e.g. the MEFP, Cabinet and Parliament), and the citizens of Senegal and their associations.

Besides lack of clarity on why some projects are included and others not, there are also no clear mechanisms for interpreting information on donor commitments, which affects the reliability of aid information reflected on budget. As in many other countries, donors tend to overestimate commitments in the short term, and underestimate commitments over the medium term, due to poor execution of projects and programmes already approved and budgeted, and lack of certainty on future projects and programmes prior to formal approval, respectively. To compensate, Senegal's MEFP adjusts donor predictions of disbursements downwards for the budget year, but does so unilaterally, resulting in low incentives for donors to provide good information. Furthermore, when ex-post variance then occurs between budgeted and actual expenditure of donor funds, mutual donor and country accountability is elusive, as actors can never be sure whether there are underlying causes, or whether it is a reporting issue only. Clarity on the status of donor-provided information on future budgets at various points in the budget cycle linked to the specific cycles of donors, and clear rules on how this information is adjusted and why, allows donors to provide better information in the short and medium term, supports the credibility of donor information and of government instruments that contain donor information, and improves accountability.

#### **Challenge 4** **Sub-optimal utilisation of the aid management platform**

Senegal has an aid management platform, the *Plateforme de Gestion des Financements Extérieurs* (PGFE), managed by the DCEF. It is a web-based information system, which has been designed to enable development partners to enter information on commitments and actual disbursements directly into the database. The platform, however, suffers exogenous and endogenous weaknesses resulting in it not fulfilling its intended role in aid management.

Firstly, the absence of a legal or policy framework for the role of the DCEF and the PGFE in aid management,

which leads to overlaps between the roles of different units of the MEFP and competing data-collection processes, means that neither the GoS nor its development partners see the platform as the only or, at least, central point to collect and provide credible donor information. Once donors have provided information directly to different units through other collection means, they deem their data responsibilities fulfilled. In this way, the low credibility of the platform is reinforced.

Secondly, the PGFE exists as a database, but the capacity and institutional arrangements to ensure that the information in it is comprehensive, reliable and consistently classified, so that it can be used easily, are largely absent. Countries that have effective aid management platforms have processes and the institutional capacity to regularly and systematically collect, clean and verify the comprehensiveness and quality of the data, by double-checking the information provided by development partners and government entities, among other means. In Senegal, these processes do not seem to exist, necessitating, for example, additional Excel-based rounds of data collection to compile aid reports.

Thirdly, the PGFE does not use unique project numbers for development partner programmes and projects, which can be used by government actors and aid partners alike throughout the aid management and budget management systems to harmonise data. This results in overlapping and inconsistent data on any one project found throughout these systems, including between sector external financing databases and the PGFE, between data for budget preparation and budget reporting purposes, and between the aid management system and the budget management system. There is, therefore, no way to reconcile information from different data-collection processes without laborious, manual project-by-project checking and data manipulation.

Fourthly, the PGFE is not well co-ordinated or integrated with Senegal's budget system, reducing its usefulness as a pivotal interface between aid management and budget management systems and cycles. Its data-collection processes are not fully co-ordinated with the budget preparation timeline, nor with in-year and ex-post reporting cycles. Furthermore, it only partially interfaces with Senegal's integrated public financial management system (SIGFIP). The PGFE can draw information from the SIGFIP on the execution of externally funded projects, but cannot provide information to the SIGFIP. This is because the typologies and classifications of aid on the PGFE are oriented towards aid management purposes, and cater insufficiently for budget management and co-ordination purposes (see Box 4 for a discussion on why this is not unusual for aid management platforms, and experience elsewhere in addressing the issue).

#### Box 4: Aid management platforms and the effective supply and demand of aid information

Many aid-receiving countries across the world have aid information platforms, usually developed with the assistance of one of a few international providers. In a few cases, they are home-grown. A 2012 study undertaken by the International Aid Transparency Initiative (IATI) found that these systems can play a central role in making good aid information available to users in-country, but that this role is not automatic, even when the system is managed by a highly capacitated unit. For these systems to be effective, they need to be the sole designated data-collection point; their development and data-collection routines need to be informed by the needs of all users of aid information, including budget officials and line ministries, and they need to be used credibly and regularly by users for donors to provide good data.<sup>†</sup> This requires the units managing the platforms to recognise their ‘users’ as being the entire government.

The study also found that none of the aid information platforms of the 15 countries studied organised data according to the classifications used by the country to appropriate budgets. A key reason for this is that countries traditionally have managed aid flows and budgets separately, except for reflecting some donor projects in development budgets (by project), particularly when counterpart funds are needed. Therefore, aid management platforms were initially developed, often with donor financing and assistance, by country officials with responsibility for managing and reporting aid without much engagement from budget officials. In a context where donors themselves organised and disclosed aid information to fulfil their development planning needs, rather than the needs of country users,<sup>††</sup> the standardised ways of organising aid information were informed more by the planning and project cycles and categories than by budgets. Consequently, while many aid management platforms classify aid by national development plan categories and project cycle concepts, few, if any, use budget categories.

Some countries, such as Nepal and Malawi, have addressed this issue by creating cross-walk mechanisms between their aid information and budget information platforms. While their solutions are inherently technical, concerning data formats and standards, they also involve processes that link aid data collection to the budget process and the effective use of credible information. There have also been efforts internationally to address poor interoperability between aid and budget data. The IATI budget identifier is centred on a common code that facilitates the translation of the OECD Development Assistance Committee’s aid statistics categories into the common appropriation classification of country budgets, namely the administrative classification. The identifier also requires identification of the project share that is capital expenditure. The code has been tested against 40 country budgets and three donor systems in specific countries. These pilots found that using the budget identifier allowed 83 per cent of donor projects to be automatically matched with country budgets, but that for the remainder additional work was required. Furthermore, the way donors keep aid information in their systems does not automatically allow for much distinction between capital and recurrent flows.

<sup>†</sup> Fölscher AF, Carter R, Moon S, Graham G & Jeanjean F (2012) *Study on better reflecting aid flows in country budgets*. IATI.

<sup>††</sup> Publish What You Fund (PWYF) (2017) *With publication comes responsibility: Using open data for accountability in Benin and Tanzania*, PWYF.

#### Challenge 5 Weaknesses in the classification of development assistance

In Senegal, all aid is classified as investment expenditure for budget management purposes, and all investment expenditure is classified as capital expenditure. This is not unique to Senegal and is driven, as it is in other countries, by fiscal framework needs and budget co-ordination and chart of accounts structure.

Many governments have fiscal targets for the share of capital expenditure in public expenditure, which together with their external financing targets serve to keep development assistance flows out of budget preparation and reporting, and the (recurrent) flows that are reported, incorrectly classified. In combination,

this undermines allocative efficiency (as own resources are allocated without good knowledge of development partner contributions) and accountability.

A second factor driving the incorrect classification of aid is that the means to do so correctly are not in place. The PGFE does not classify aid according to government expenditure classifications, whether it be the economic, administrative or programmatic dimensions of the chart of accounts. At the same time, the budget and accounting classification system rules do not allow for aid to be fully classified within this system. As in many other countries, aid projects in Senegal are given a unique code in the economic classification segment of the chart of accounts, within the range designating capital expenditure. All expenditure against the project is then bundled against this

economic classification code, precluding the drawing of distinctions within the flows for a project between different recurrent (e.g. transport and travel, office expenses, goods and services) and different capital (e.g. vehicles, office equipment, buildings and infrastructure) expenditure purposes. This is symptomatic of the fact that public charts of accounts, including the chart in use in Senegal, which follows the WAEMU Directive No 09/2009, are not set up to manage aid flows effectively, despite aid often comprising a sizable portion of budgets in partner countries.

The lack of capability to translate aid information into useful budget information (and the fact that the PGFE does not play this role) also means that the classifications used by donors cannot be consistently translated into the classifications used by the GoS. External resources are not broken down according to classification for reporting on budget, and are tracked as a whole. For aid that uses country systems more fully, detailed execution-related data, therefore, are also not available on the SIGFIP, increasing the transaction cost of reporting on this aid to donors, as parallel systems need to be kept.

### Challenge 6 Misalignment of donor cycles with government planning and budgeting cycles

In Senegal, as elsewhere, the misalignment between donor budgeting and project management cycles and country planning and budget cycles creates problems for the reliability of aid information. The central issue is that many donors are not able to provide certainty on their likely disbursements over a budget cycle, at the point in the year when the Senegalese authorities require that information, as they do not yet have certainty themselves. Similarly, the individual budgeting and reporting arrangements set up for any one project may be out of sync with government budget and reporting cycles. Misalignment between cycles is inevitable: the salient question, however, is whether country-based arrangements allow for the issue to be managed so that the most reliable data are collected and the status of the information collected is understood by all partners. As is discussed in Challenges 3 and 4, the potential means to address the issue have not been put in place in Senegal.

### Challenge 7 Negative incentives and lack of credibility

The provision of comprehensive, quality aid information to potential users is encouraged by neither the GoS nor donor practices, with disincentives on both sides being mutually reinforcing. The result is poor information that is not trusted, and not used, resulting in even lower incentives to provide information. Any effort by partners to agree to rules and processes for collecting and sharing quality information, and integrating this information into government planning, budgeting and reporting

processes and documents, will have to pay attention to both the incentives for compliance (e.g. through using aid information well) generated by changed institutional arrangements, and the disincentives for non-compliance (e.g. through enforcing consequences).

The following are examples of the incentives and dynamics that drive weak provision, sharing and management of aid information in Senegal:

- Donor representatives at country level underestimate disbursements, most probably so as to save embarrassment internally and *vis-à-vis* their implementation partners when budgets from headquarters are confirmed at lower levels. They also overestimate disbursements in the short term, most probably to increase their relative bargaining power in joint forums. At the same time, the government underestimates short-term disbursements and overestimates medium-term disbursements to compensate for this. The result is unreliable aid information that is not used, lowering incentives to provide good information in the first place. For example, when donors know their estimates are adjusted downwards, they may counteract this with higher estimates. A key challenge is to shift the incentives for donors to provide better information by instituting clear rules about the status of information and adjustments that will be made on the basis of the implementation history of projects/donors/institutions.
- The government's incentives to collect reliable aid information are linked to whether this is important for budgeting purposes: only information on budget support, and on projects and programmes that are loan-financed or that require counterpart funding, is collected with any real practical purpose in mind. Government actors themselves are not clear on why information on the remaining aid flows should be collected, as neither budget decision-makers nor accountability actors are demanding the information, because existing information is incomplete and unreliable. Thus, the practice of making own resource allocation decisions without good information on aid-supported activities is entrenched.
- Donors have institutional and individual incentives around visibility, fiduciary risk and control over programme implementation that discourage budget support and the use of country systems in other dimensions (e.g. on treasury, on account), both associated with higher availability of good information.
- Provision of aid information is costly and time-consuming for donors, because of multiple collection processes. At the same time, it is not of practical importance to them: whether aid is on budget has no impact on their operations, and the benefit of providing information to government is unclear as the information is not used.
- Within the government, incentives for sharing the



aid information collected are weak. Line ministries in Senegal, as elsewhere, have an incentive to keep information on agreed donor projects that are neither on budget, nor require counterpart funding to themselves, to optimise their budget share. Units at central government level similarly are discouraged from sharing information or using the PGFE information, most probably because the information that is collected by others is collected in disparate formats, is difficult to harmonise and is not trusted, and because they may have an interest in maintaining individual relationships with donor counterparts.

Across these instances some of the incentives are exogenous to the Senegal system (e.g. donor incentives to control programmes and under/overestimate disbursements). However, some are endogenous to Senegal aid management and budgeting practices. Whether and how aid information is used is pivotal for budgeting and accountability purposes, and the lack of consequences for any actor not providing, sharing or using quality information drive the type and the quality of information that actually gets collected. While both exogenous and endogenous incentives can and should be addressed through the institutional arrangements agreed by donors, Senegal has more control over the second set. Interventions that immediately strengthen the credibility of budgets and aid information should be prioritised, to reverse the negative cycle of disbelief that information will be used and used well, resulting in poor information, that is then not used or not used well.

## Conclusion

The challenges set out above show that weak integration of aid into Senegal's planning, budgeting and reporting processes and documents stems from issues in Senegal's aid management system and budget and public financial management system, and, most importantly, from the lack of a considered interface between these two systems and their associated cycles.

## UCS lessons from Senegal

The barriers to the availability of good aid information for integration on plan, budget and report in Senegal suggest a number of necessary steps and good entry points for improvement. While the interventions set out below are Senegal-specific, they also apply in a generic sense to all contexts.

### **Decide what information is important and how it will be used as a basis for clear rules**

An initial step in this regard is for the Senegalese authorities to formulate clear rules for: (i) providing information;

(ii) reflecting information in different planning, budgeting and reporting instruments; and (iii) the treatment of different aid modalities. Various aid financing instruments and requirements for having aid on budget necessitate the adoption by Senegalese authorities of a clear set of rules. There needs to be an appropriate distinction between the 'on budget' and 'on Parliament' dimensions.

This will require Senegal to decide on the scope and detail of the aid information the country budget system should focus on, for what purposes, and in what order of priority. Not all aid information needs to (or can) be collected to the same level of detail and with the same frequency. There is a strong argument to be made that it is better to be clear on the aid flows that matter for budget and country accountability purposes, and to collect, integrate and reflect very good information on these flows against standards on scope, detail and timeliness linked to the budget process than to formally treat all aid flows equally and then collect poor information on all. This will necessitate clarity on which purposes for collecting aid information are more important than others (e.g. to manage own resources more efficiently *ex ante* could be seen as more important than to produce aid reports *ex post*, requiring greater emphasis on processes to collect aid commitments for the coming year).

Setting out the country-appropriate categorisation of aid flows with associated data collection, integration, use and reflection rules for each category will also avoid the negative incentives and consequences for the use of information arising from seemingly arbitrary decisions about which flows to include in country documentation and how to include them. It will also make data collection more cost effective. The categorisation is likely to involve distinguishing between different modalities, types, management arrangements and recipients of aid flows, and how these have different implications for the GoS budget and internal accountability requirements. Box 5 sets out a relevant example from Rwanda.

Senegal, of course, has different categorisation needs (included in the PTIP, budget execution reports, budget documentation, aid execution reports, and so on), and will have a different approach to demarcating aid flows based on its current practices (including projects with counterpart funds by default, for example), but some principles are likely to be shared, such as paying attention to the degree to which aid is under the control of the government and what that means for its inclusion in budget laws, versus budget documents.

### **Create clear processes/rules for participation of donors in country planning and budgeting cycles**

Senegal should set out more clearly country expectations of the donors' role in providing, classifying and verifying aid information, in clarifying the status of expected disbursements and actual use of information, and in

### Box 5: Distinguishing between aid flows for country budget purposes: the case of Rwanda

In the late 2000s, Rwanda faced issues similar to those of Senegal in the collection of aid information, and its integration with government processes and in government documents. Multiple units collected information, multiple databases were in existence, unique identification codes were not used, all aid was classified as capital expenditure, and aid estimates were arbitrarily cut for fiscal framework purposes, undermining sound aid and public expenditure management. To resolve these issues the government of Rwanda designated the following four factors as pivotal in deciding how aid flows should be treated: (i) the purpose for which the aid is used; (ii) the recipient of the aid; (iii) the timeliness of the information and its integration in the planning and budgeting process; and (iv) the degree of government control in planning, using and accounting for aid funds.

An important distinction in the Rwandan context was between aid that is 'on budget' (reflected in the budget documents), but not 'on Parliament' (not in the budget law) and aid that is 'on Parliament' (and, therefore, automatically on budget). The government decided that it would include aid in the budget law only when it had sufficient control over the use of the aid to be held to account. However, where such control was lacking, aid to the government sector would still be on budget to ensure its inclusion on plan and to make its flow transparent to Parliament, and to citizens and their organisations.

In short, where aid flows were to the government sector, were as a result of a signed agreement, were reported in time for inclusion in line ministry budget submissions, satisfied the five criteria of being 'under control of the government' and constituted aid to the central government, the flows had to be approved by the Rwandan Parliament as part of the Finance Law (or be 'on Parliament'). If any one of these conditions were breached, aid would either not be on budget at all (when one of the first three conditions was not satisfied) or be reflected only in the annexes to the Finance Law. If the first three conditions were satisfied, two key questions determined whether aid was in the Finance Law itself or only in the annexes: Was aid under control of the government and was a central government ministry the primary partner?

The five criteria for 'under control of the government' were that: the responsible government entity was active in decisions on the allocation of funds for the project; the disbursement of the funds was approved by the entity's budget manager; accounts for the project were submitted to the responsible budget agency; supporting documents for financial transactions were kept by the responsible budget agency; and, if a third party was the implementing partner, a contract had to be signed that included the government.

determining whether and how disbursement information will be adjusted given the timing of data collection and the purpose for which information is collected. This will allow donors to be clear on the frequency of and the rationale for the collection of aid information, to set up their internal systems to collect information from headquarters and/or project level cost-effectively, and to make appropriate judgements on how to adjust data according to agreed principles, so that they are more reliable for country purposes.

While the framework for donor participation would be built around a set of central principles and rules, how these apply to each donor would differ, given donors unique own cycles and institutional arrangements. It is, therefore, advisable for the GoS to engage all donors individually, once the approach is agreed through joint forums. However, it would also be vital for the change leaders on this issue in the GoS to make sure its approaches are functional, and to build up sufficient momentum for the reform to overcome the negative incentives for participation. A number of criteria should determine which

donors to start with: the size of the donor's development assistance to Senegal, the likely usefulness of lessons learnt from early adopters for other donors and sectors, and whether donors are willing to participate. It is vital to have a threshold share of the budget allocated better and managed more accountably because of better integration of aid, to demonstrate benefits and persuade less-willing donors and sectors to participate effectively.

#### **Designate clear responsibility for aid information management and back it politically**

Deciding on and implementing a new set of rules will require good technical leadership on aid information management, backed by political leadership, so that the government has a unified voice on aid information requirements and management, for all actors within the GoS and for donors. Assigning the technical leadership clearly to manage aid information for all of government to a single unit, capacitating this unit and politically backing it to co-ordinate the multiple units that need and use aid information is essential to avoid multiple processes

for collecting (and conflicting signals on the use of) aid information, and to manage issues and conflicts on an ongoing basis.

### **Create strong budget-aligned central aid collection processes, and standardise appropriate aid classifications**

Another necessary intervention would be to adjust the means of collecting and the classification of aid information collected. A vital reform would be to make the PGFE the main, if not the only, database of aid, and to create unique project identifiers.

If the PGFE were to be the main data collection and management instrument, the database, which was designed mainly for aid management purposes and not budget management purposes, would need to be adjusted. Specifically, the classification of aid information on it would need to reflect the set of rules decided above, to allow for differential processes of data collection and data sharing. For example, while the database may collect a minimum amount of information on all aid projects that are opened in a standardised way, more detailed information and updates on implementation may be collected differentially, depending on whether a project is on Parliament, on budget or just on aid execution reports.

The classification of projects on the database that are on budget and on Parliament would also need to be adjusted to reflect country chart of accounts' dimensions in an appropriate level of detail. This would include distinguishing between the recurrent and capital components of a project (even when it is reflected as development expenditure in the budget), between the primary recipient government entity versus all entities that may implement components of a project, and between the different government programmes with which the aid is aligned. This would enable a two-way communication of information between the database and the budget and SIGFIP.

It is also vital that the GoS sets out specific PGFE processes for collecting, cleaning, verifying and managing the data in it over time, and making sure the human resource capacity is in place to run the processes. Its data-collection processes must be adjusted so as to be aligned with the government budgeting and reporting cycle. In some countries, aid management platforms become well used – and, therefore, up to date and reliable – because their data collection is fully aligned with the budget calendar. In Malawi, for example, a donor 'budget circular' is issued as a joint aid management platform/budget instrument to collect up-to-date data for budget purposes.

### **Align sector aid management/review processes and the budget process**

To enable more effective integration of aid into budget decision-making and reporting, disaggregated classification of aid projects in the GoS chart of accounts

is needed. This may involve setting out the rules for designating donors and aid projects in the revenue segment of the chart of accounts, freeing up the economic segment to classify the components of projects correctly. Some countries use the revenue segment to identify the donor, and the programme segment to identify the project.

It is also important for the GoS to work not only at the central level but also at the sector level to improve the generation and sharing of aid information. Being able to triangulate sector-ministry information on aid with donor-provided information is vital for the completeness and reliability of aid information used at central (and sector) level. The MEFP Budget Directorate and DCEF, therefore, need to work sector-by-sector to address jointly negative incentives for sharing information within the sector and with the centre. This may be done by providing greater clarity on how central budget allocations will be made relative to aid, what information will be available at the centre, in any case, and building capability for the use of aid information at sector level. A second set of sector work would include harmonising aid management and budget preparation calendars to reduce the transaction costs of information collection and to increase the functional use of information.

In this respect, the fact that Senegal's planning and budget system is in the middle of an extended period of change has acted as a barrier to good aid information to date. It is, however, also an opportunity; it would allow for both better-harmonised inclusion of aid in country systems at the start of implementing new systems in further sectors, and lessons to be learnt for the adjustment of systems in sectors that have already moved across.

### **Start with existing systems, paying attention to the underlying reasons for the barriers preventing these systems from working properly**

Any attempt to reform the institutional arrangements for managing aid information in Senegal and its integration on budget should follow the generic rule of public reform: addressing existing problems through an additional overlay of new rules and creating new structures without understanding fully why the existing rules and structures do not work is more likely to exacerbate the problem than to address it. In the aid information arena in Senegal, this tenet holds true. Key to designating a central unit, categorising aid and setting out new processes and rules for data collection and use would be a thorough examination of why the DCEF has not been able to fulfil this role, why the PGFE has not succeeded in centralising processes and why data are not used. The Senegal Country Dialogue initiated this questioning and was able to unpack some of the systemic weaknesses and underlying incentives and disincentives in both the aid and budget management environments. For success, any further reform efforts will need to start with existing systems,

utilise existing capacities and continuously reassess, learn and adjust interventions.

**Clearly document the processes, rules and responsibilities for aid information collection, management and use, in both the aid management system and the budget management system**

However, take care to strike an appropriate balance between having a legal basis to enforce the arrangements, and allowing adjustments arising out of process learning to be made with relative ease.

In summary, the Senegal case, like other cases, shows that the effective integration of comprehensive, reliable and useful aid information in country systems requires:

(i) country technical and political leadership to establish trust in the agreed rules and to unify systems; (ii) a clearly mandated single database ‘entry point’ for aid information with associated streamlined processes for collecting and verifying aid information that satisfy a threshold of requirements for all users, linked to country budget processes; (iii) unique project numbers used across the budget and aid management systems, and a shared set of classifications to enable the translation of data both ways; (iv) a functional process interface between the systems to manage aid and own resources in terms of planning, budgeting and reporting; (v) adequate human resource capacity to undertake the initial design and ongoing management work; and (vi) attention to incentives.

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