



Fiscal space and public spending for children in Senegal

Senegal's economy was among the best performing in sub-Saharan Africa until 2005, as Gross Domestic Product (GDP) had grown by 5% per year on average since the mid-1990s. After 2005, however, a series of shocks, including shocks to the chemical and energy sectors in 2005-06, flooding and drought, shocks to food and fuel prices in 2008, and the global financial crisis in 2009, caused GDP growth to fall, inflation to rise and heightened needs for social services.

Spending and revenues increased from 2006 to 2009, but less than anticipated in the Poverty Reduction Strategy Paper (PRSP) 2006-2010, and at the cost of a worsening public deficit from 2004. This briefing note discusses what these changes implied for fiscal space and public spending for children.

Fiscal space

Fiscal space refers to the room for manoeuvre that a government has to increase the absolute and relative volume of resources devoted to a particular agenda, such as child services. Additional fiscal space can be created by, among other means, raising additional revenue through tax, borrowing domestically or from foreign sources, receiving external grants, or reprioritising expenditure away from low priority spending towards higher priority needs.

Senegal was able to continue spending despite the collapse in GDP growth from 2006, as shown in Table 1.1. GDP growth per capita has been negative since 2008. Revenues and spending grew more slowly than anticipated in the PRSP, and revenues actually fell in 2008 as taxes and grants stagnated in the crisis, picking up again in 2009 as parts of the economy recovered. Spending growth slowed in 2007 but recovered in 2008 and 2009 as the government attempted to offset some of the negative effects of the slowdown in Senegal. The overall fiscal deficit grew slightly in 2008 as a result, and external borrowing grew. The IMF (2010) predicts that economic growth will rebound from 2010, providing there is some global economic recovery. However, spending for children will compete with other priorities, so economic growth may not lead to more spending for children.

IMF (2010), 'Staff Report for the 2010 Article IV Consultation', IMF Country Report No. 10/165.

Table 1.1 : Fiscal indicators (2006-2009)

	2006	2007	2008	2009		Actual change (06 - 09)	PRSP projected change (06 - 09)*
GDP growth		4.8%	2.3%	1.5%	GDP	8.8%	20%
Revenue growth		12.2%	-0.8%	8.3%	Revenue	21%	29%
Spending growth		1.9%	3.9%	5.3%	Spending	12%	26%
GDP per capital	436	446	446	442			
Overall deficit (% GDP)	5.8%	3.8%	4.7%	4.3%			

Source: Author's calculations from TOFE. * Calculated from PRSP optimistic scenario, 2006 and 2009.

Sector budget allocations are negotiated within the context of an overall resource envelope determined by projections of revenues by the Ministry of the Economy and Finance (MEF), taking into account budget execution rates, performance and existing budgets. The time available for negotiation is short, and ministries often have to revise their submissions downwards very quickly. Some ministries (including education, health and family) undertake this exercise through the production of sector Medium Term Expenditure Frameworks (MTEFs) that aim to improve prioritisation by linking policy to budget in the medium-term. In Senegal, MTEFs also provide costs based on activities and are linked to performance indicators set out in the PRSP.

Social services typically receive a stable share of the budget – around 31% – as Table 1.2 shows. The education sector receives around 20% of the budget (the largest share of any ministry), health around 6% (the third largest), and the Ministry of Family (the principal social protection ministry) under 1%. By comparison, the Ministry of Armed Forces receives the second largest budget share at 7-8% of the budget. While the share for education compares favourably with agreed commitments, health performs less well (see Box 1.1).

Box 1.1 Commitments for health and education spending in Africa

African governments have at various times made commitments to the share of their budget they will allocate to the social sectors.

Health: In 2001, the Heads of State of the Organisation of African Unity signed the Abuja Declaration on HIV/AIDS, Tuberculosis and Other Related Diseases. In this declaration, they pledged to allocate at least 15% of their annual budget to improving the health sector. From 2006 to 2009, Senegal allocated 5 to 6% of total budgeted spending to health.

Education: In 2005 and again in 2007, the Conference of Ministers of Education of the African Union committed to spending 20% of their national budgets on education.

From 2006 to 2009, Senegal allocated 20% of total budgeted spending to the education sector.

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Table 1.2 : Share of total government budgeted and actual expenditure in selected ministries, 2006–09

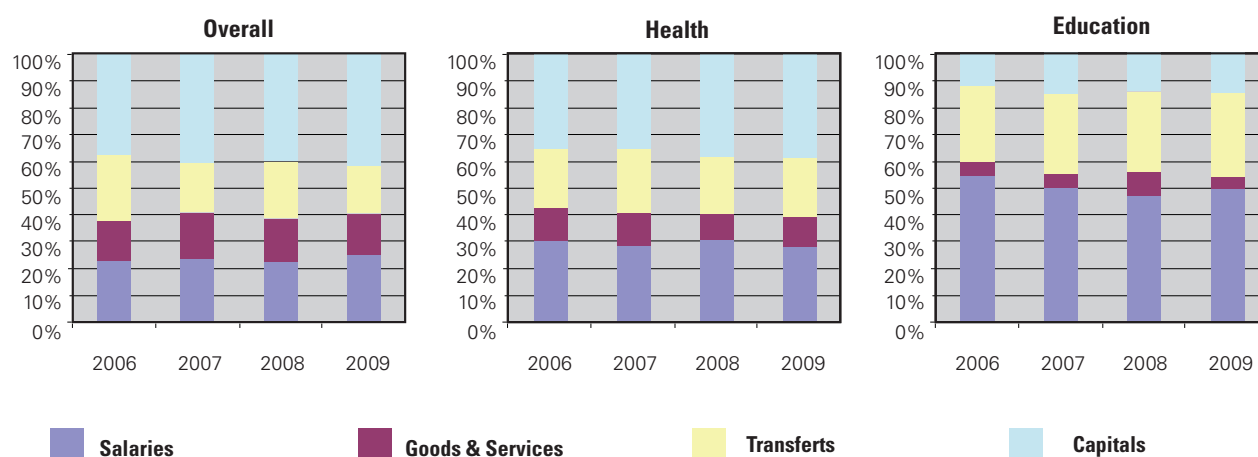
	Budgeted				Actual spending			
	2006	2007	2008	2009	2006	2007	2008	2009
Social services	31.8%	30.7%	32.1%	30.6%	27.0%	25.3%	29.3%	28.5%
EDUCATION sector*	20.7%	19.9%	20.1%	20.2%	17.4%	16.2%	19.4%	18.8%
M. HEALTH	5.8%	5.7%	6.0%	5.3%	5.4%	5.0%	5.4%	5.3%
M. FAMILY	0.7%	0.5%	0.8%	0.8%	0.5%	0.4%	1.2%	0.7%
M. YOUTH	0.4%	0.4%	0.4%	0.5%	0.4%	0.3%	0.2%	0.4%
M NATIONAL SOLIDARITY	0.1%	0.4%	0.1%	0.0%	0.1%	0.3%	0.1%	0.0%
Economic services	21.6%	23.4%	22.4%	19.9%	20.0%	21.5%	18.3%	18.5%
General government services	19.5%	20.4%	19.8%	18.6%	18.9%	19.5%	18.5%	17.7%
Public powers	4.7%	4.2%	5.2%	5.5%	5.9%	6.6%	8.5%	10.7%

Source: Author's calculations from SIGFIP and Loi de Finances. *From 2008 higher education was in a separate ministry and figures here include both.

In most ministries (including health), salaries account for just over 20% and capital for 40% of spending in both budgets and actual expenditure (see left hand side of Figure 1.1). In education, however, salaries account for nearly

50% and capital for less than 20% of budgets and actual spending. Low capital expenditure reduces the room for manoeuvre in the education sector.

Figure 1.1 : Budget shares by economic category (actual spending)



In-year reallocations to the initial Loi de Finances are made as a result of low implementation capacity, the influence of powerful ministries, and revised needs and revenues. These tended to increase the budgets for social service ministries. Some programmes in the investment budget were cut, most severely in 2008 after the economic contraction,

when vaccination programmes were cut, among others. However, operational budgets for social services ministries were typically increased (often substantially) through in-year reallocations (for instance, the goods and services budget for education was increased by 162% in 2008).

Explaining low budget execution

Nevertheless, the proportion of actual expenditure undertaken by social service ministries is typically lower than their share of the budget, as Table 1.2 shows. What drives these low execution rates?

Senegal's expenditure process is similar to that of most Francophone systems. The final authorisation of the budget is followed by payment originations (engagements) by spending ministries, validation (liquidation) by the MEF, authorisation by the MEF credit manager (ordonnancement), and finally implementation when the Treasury disburses money (montant pris en charge). Analysis of spending data for each stage indicates that low payment origination (engagement) rates on authorised budgets (after in-year reallocations) are the main source of low execution rates. This is set out in Table 1.3, which shows a low origination rate for goods and services, particularly in education (between 14% and 23%), that is much

lower than the origination rate for the government overall (between 64% and 70%).

Some programmes had lower execution rates than others, and these included many programmes that were prioritised in the PRSP. Of the large budget lines in education, Primary Education and Primary School canteens had particularly low origination rates, possibly because they included performance incentives that were not paid. In health, no payments were originated at all for the vaccination programme in 2008, and this meant that very little vaccination was undertaken that year. For education, health and social protection, payments to regional and local structures were almost never originated (under goods and services).

Table 1.3 : Percent authorised budget for which payments originated, selected ministries (2006-2009)

% authorisation originated		2006	2007	2008	2009
Education					
	Goods and services	20%	16%	23%*	14%*
	Transfers	92%	100%	86%*	100%*
	Capital Spending	93%	87%	88%*	92%*
	Capital Transfers	98%	92%	100%*	98%*
Health					
	Goods and services	69%	80%	85%	91%
	Transfers	99%	99%	96%	100%
	Capital Spending	62%	74%	95%	72%
	Capital Transfers	100%	95%	100%	80%
Family					
	Goods and services	65%	48%	60%	89%
	Transfers	57%	30%	93%	99%
	Capital Spending	81%	91%	98%	90%
	Capital Transfers	90%	78%	98%	83%
All government					
	Goods and services	65%	70%	64%	69%
	Transfers	139%	142%	95%	92%
	Capital Spending	79%	78%	82%	83%
	Capital Transfers	82%	77%	97%	99%

Source: SIGFIP. * Does not include higher education ministry.

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A second source of low execution rates applies to investment budgets and takes place when payment originations are not validated (liquidation). This was very significant for construction projects in education in 2008 and 2009. Responding to a need to improve rural school infrastructure identified in the PRSP and the education sector strategy, the government had launched an extensive programme of classroom construction. However, low capacity to manage contracts and a burdensome process for the procurement of public works (made more complex after recent reforms designed to improve transparency) meant that validation rates for construction projects were as low as 30%. This meant that very few new structures were constructed in 2008 and 2009.

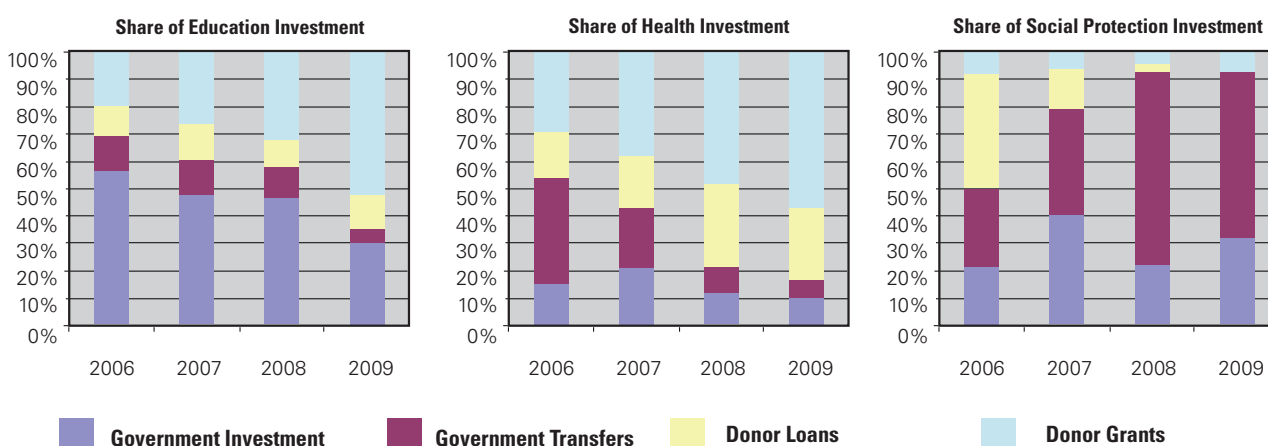
It should be noted that these problems of budget execution do not apply to poverty-related programmes that are run from the Prime Minister's Office. The programmes against AIDS and against malnutrition have execution rates of 100%. This is attributed to greater flexibility in management than exists in the line ministries, since these programmes are not subject to normal civil service procedures. However, the independence that generates this flexi-

lity – and high levels of donor funding – raise concerns in the future for how these programmes can be integrated further into the government budget (and indeed the wider health system).

Donor investment

Low rates of budget execution for investment projects have been to some extent compensated by increasing donor involvement in investments in education and health, as Table 1.4 shows. However, donor involvement has typically been project-based rather than supporting sector strategies or the PRSP as a whole, particularly in the nascent social protection sector, which has constrained the development of government systems. On-budget funding for social protection almost dried up in 2009, but off-budget projects continue, which complicates financial management and planning.

Tableau 1.4 : Donor and government shares in investment outturn, education, health and social protection



Source: SIGFIP and external financing data provided by the Government of Senegal, author's calculations

Conclusions and recommendations

Lower than predicted GDP growth has constrained the real growth of social sector budget allocations. In education and health, this has been compensated by increases in donor support. As the economy recovers, absolute levels of health and education budget allocations should increase given their current shares of the budget and of new budget resources, but spending could be more efficiently directed to priorities and to the poorest. In social protection, however, budget allocations and donor support have both been low, partly reflecting a poor execution record. While improving execution rates should be a priority, there is also a need to:

- Provide clear budget ceilings to spending ministries before they prepare budget proposals.
- Improve the policy, strategic, budgeting, spending and management capacity of social protection ministries in order to improve their policy proposals, increase their share of the budget and actual expenditure, and better coordinate donors.

- Increase the share of the education budget devoted to capital investment.
- Maintain or increase the budget share devoted to health to bring it in line with international commitments.

Increasing actual education and health expenditure principally requires more effective budget execution in key areas, particularly for key poverty priorities such as elementary education, classroom construction, reproductive health, and for local and regional structures. Execution could be improved through:

- Building financial and programme management capacity in the parts of the education, health and family ministries who as a consequence of low capacity struggle to originate payments and negotiate public works procurement processes.
- Continuing with public financial management reforms that reduce the complexity of the normal expenditure process.

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