

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

REPUBLIC OF SENEGAL

Joint Staff Advisory Note on the Second Poverty Reduction Strategy Paper

Prepared by the Staffs of the International Monetary Fund and
The International Development Association

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I. OVERVIEW

1. **Senegal's Second Poverty Reduction Strategy Paper (PRSP-II), covering 2006–10, builds on lessons learned during the implementation of the 2003–05 Senegal Poverty Reduction Strategy (PRSP-I).**^{1, 2} The PRSP-II pushes the poverty reduction agenda forward so as to meet the objective of raising economic growth to about 7 percent per year necessary to halve poverty by 2015, in line with the targets set out in the New Partnership for Africa's Development (NEPAD) and the Millennium Development Goals (MDGs). This Joint Staff Advisory Note (JSAN) reviews the PRSP-II and provides advice on key priorities for strengthening the updated strategy and promoting its effective implementation. After the overview, the JSAN discusses poverty trends, macroeconomic policies, and the PRSP-II strategic pillars. The last section of the note presents staffs' main conclusions and recommendations.

2. **The PRSP-II was prepared in a participatory manner.** Extensive consultations took place both at the national and district levels with a broad range of stakeholders, including representatives from the parliament, central and local governments, donors, the private sector, think tanks, trade unions, and civil society organizations. In July 2006, the PRSP-II was presented by the prime minister to key stakeholders in the country, including donors, and was subsequently endorsed by the council of ministers in mid-October 2006. This process laid the foundation for wide support for the implementation of the strategy and outlined expected assistance from development partners, particularly to fill the financing gaps identified in the priority action plan.

¹ The PRSP-I was welcomed by the Executive Boards in December 2002 (www.imf.org, www.worldbank.org).

² These lessons are documented in the 2003 and 2004 Annual Progress Report (APR) of PRSP-I, which were reviewed in joint staff advisory notes in December 2004 and November 2005 (www.imf.org, www.worldbank.org). The analysis of implementation and progress in 2005 has not been presented in a stand-alone APR, but included in the PRSP-II.

3. **The PRSP-II is based on four strategic pillars: (i) wealth creation; (ii) access to basic social services; (iii) protection of vulnerable groups and risk management; and (iv) good governance.** While the first three pillars were already at the center of the PRSP-I, the fourth one reflects the government's acknowledgement that improving the quality of public services and strengthening transparency and accountability both in the public and the private sectors are crucial to make headway on poverty reduction. The overall strategy appears relatively well aligned with the policy documents developed at the sectoral level.

4. **Staffs welcome the strengthened focus on growth and the priority attached to governance issues.** However, the broad policy framework needs to be translated into a strategic set of actions, with a precise timetable and clearly-assigned responsibilities, and a full set of monitorable actions and results with an appropriate pro-poor focus. The authorities will also need to clarify the link between their strategic choices and budgetary processes and allocation, not only at the sector level, but also within sectors and across regions.

II. POVERTY TRENDS

5. **While updated poverty data are not available,³ there are indications that poverty continued to decline over the implementation period of the PRSP-I, from 68 percent of the population in 1994 to less than 57 percent in 2005.⁴** The authorities cautioned that in spite of this positive evolution: (i) the absolute number of poor households has increased; (ii) poverty remains concentrated in rural areas; and (iii) two-thirds of households perceive themselves as poor and one-third of poor and nonpoor alike feel poverty has substantially increased in their community over the last five years. They also emphasized that the recent trend remains insufficient for Senegal to achieve its first MDG of halving the poverty level by 2015.

6. **Poverty in Senegal is highly correlated with access to basic infrastructure services, human development, employment, and vulnerability to external shocks and catastrophes.** The regions with the highest levels of poverty (e.g., Ziguinchor, Kolda, Kaolack, and Djourbel) are those with the lowest access to water, sanitation, and electricity, and with the highest mortality rates as well as the lowest educational attainments. Poverty in Senegal is also linked to the difficulty in finding jobs since as much as four out of ten potential workers are unemployed or underemployed. This proportion is even higher for young people who lack skills and experience. Another determinant of poverty is the vulnerability of the rural population to external shocks (such as climatic conditions), which affects their income negatively, leading to increased migration toward cities, in particular

³ The most recent comprehensive analysis of poverty in Senegal is based on data from the household survey of 2001–02.

⁴ Poverty indicators are projected according to estimated elasticity parameters and the observed growth of real GDP per capita. The projection assumes constant elasticity of -1.38 between poverty reduction and growth between 1994 and 2005.

Dakar. This in turn contributes to the deterioration of living conditions in urban areas and to the emergence of new vulnerable groups (e.g., street children).

7. **Staffs concur with the assessment of poverty made in the PRSP-II, but urge the authorities to fill the current information gap on the recent poverty trend.** The government needs to finalize the ongoing household survey, and indicate how it intends to improve its capacity to monitor and analyze poverty determinants and outcomes. A better understanding of linkages between the policy actions identified in the PRSP-II and poverty outcomes also merits greater attention. This applies, in particular, to the expected impact of structural reforms in the electricity and agricultural sectors. Improvements in these areas will enhance the government's ability to implement its PRSP agenda over the next few years.

III. MACROECONOMIC POLICIES

8. **The PRSP-II describes the satisfactory results achieved under PRSP-I in maintaining a high degree of macroeconomic stability and robust growth.** Annual average real GDP growth exceeded 5.5 percent during 2003–05. The overall fiscal deficit moved from a balanced position in 2002 to a deficit of 3 percent of GDP in 2005, but the fiscal stance remained consistent with the last PRGF-supported program targets and the authorities' goal of preserving low inflation. The ratio of the NPV of public external debt to exports is estimated to have fallen from 118 percent at end-2004 to about 55 percent at end-2006 owing to enhanced HIPC and MDRI debt relief. The current account deficit increased by about 2 percentage points (to about 8.5 percent of GDP) as a result of higher oil prices.

9. **The document appropriately underlines that the continuation of sound macroeconomic policies is essential to the success of the poverty reduction strategy.** Given that monetary and exchange rate management falls under the purview of the regional central bank, prudent fiscal and borrowing policies will remain the key instruments for preserving macroeconomic stability. In this context, the authorities pledged in the PRSP-II to pursue a fiscal policy which would: (i) generate a basic fiscal surplus over time;⁵ (ii) eliminate the fiscal burden associated with losses of parastatal companies by proceeding with structural reforms (including promoting private sector participation); and (iii) guarantee the long-term financial balance of the civil service pension scheme through adequate revenue and investment policies. The document also confirms the authorities' preference for borrowing externally only on concessional terms in the post-MDRI era so as to preserve debt sustainability.

10. **The PRSP-II includes three macroeconomic scenarios that differ with respect to the anticipated level of external financing, the absorption capacity of the economy, and hence the growth rates.** The trend scenario envisages that only investments included in the government's standard three-year investment plan will be carried out. In this scenario, growth

⁵ The basic fiscal balance is defined as total revenue minus total expenditure, excluding externally financed capital expenditure and HIPC/MDRI expenditure.

is in line with the recent growth performance of about 5 percent annually. The medium case scenario assumes that, in addition to the three-year investment plan, half of the projects listed in the Priority Action Plan—which are still unfunded—will be realized. This scenario envisages an average growth rate of about 6.5 percent over the 2006–10 period. The high case scenario assumes that all projects listed in the Priority Action Plan will be realized, which, in turn, requires a large implementation capacity on the part of the authorities and substantial extra financing from donors. This scenario targets average real GDP growth rates of almost 8 percent a year. The PRSP-II further assumes that, in the medium and high growth scenarios, the private sector will increase its activities as the result of the implementation of the Accelerated Growth Strategy (AGS) (see section on wealth creation), fueling higher investment and exports growth rates. Sound macroeconomic policies would help maintain inflation below the West African Economic and Monetary Union (WAEMU) convergence criteria of 3 percent and reduce the current account deficit under the three scenarios.

11. **While the main objective of PRSP-II is appropriately geared toward accelerating economic growth, staffs find the high and medium scenarios' growth targets particularly optimistic, given historical trends and the anticipated decline in the GDP growth rate to about 3.5 percent in 2006.**⁶ In particular, the rapid growth in private sector investment under these scenarios appears too large, and the assumed implementation rate for public sector investment projects would imply an unprecedented jump in the public administration's implementation capacity. Also, the average growth rates assumed for the primary sector are especially high, given its vulnerability to external shocks. In light of this, staffs recommend that the authorities continue to program their financial policies based on more realistic growth scenarios.

12. **Staffs caution that the recent deterioration in public finances will make it difficult to meet the PRSP-II targets and call for corrective measures.** The overall fiscal deficit is likely to almost double to about 5.7 percent of GDP in 2006 and the authorities' fiscal program might lead to a deficit of about 5.5 percent of GDP in 2007. In view of the deterioration of the fiscal outcomes, fiscal objectives in the baseline scenario of the PRSP-II seem optimistic, especially since the document does not include any measures to ensure the objectives are attained. Staffs are concerned that the high deficits could undermine macroeconomic stability and urge the authorities to limit the fiscal deficit to 4.5 percent of GDP in 2007 and about 4 percent in the medium term, mainly through a reduction in energy subsidies and keeping the wage bill stable relative to GDP. A correction of the fiscal stance is necessary to preserve low inflation and debt sustainability, and help reduce the current account deficit. In addition, there is a need to improve evaluation and management of fiscal risks stemming from Public-Private Partnerships and enterprises with public participation to limit contingent liabilities.

⁶ The decline in economic activity is mainly due to the negative impact of the increase in international oil prices and the bankruptcy of the largest industrial company (ICS—Industries Chimiques du Sénégal).

IV. STRATEGIC PILLARS

A. Wealth Creation

13. **By placing the AGS at the center of the first pillar of the PRSP-II, the authorities have rightly emphasized the need to encourage private sector-led growth and to expand and diversify exports.** The AGS is based on two key objectives: (i) improving the overall investment climate in the economy by focusing on a series of transversal issues (including in the areas of justice, taxes, infrastructure, and administrative barriers); and (ii) promoting the development of five cluster sectors with a presumed good export growth and job creation potential, including through measures to enhance sectoral competitiveness.⁷ In parallel, wealth creation will rely on the implementation of the national sectoral strategies for the agricultural and livestock sectors aimed at promoting activities in rural areas.

14. **In a welcome improvement compared to the PRSP-I, the PRSP-II discusses the large infrastructure projects that the government plans to realize over the next few years, including the industrial platform, the Dakar-Thiès Highway, and the new airport.** These projects will not only provide the necessary basis for private sector development, but will also help diversify economic activities away from the Dakar and its suburbs (which concentrate about 80 percent of GDP on less than 1 percent of the national territory).

15. **Raising economic growth to a higher sustained level will require fast progress on the AGS, infrastructure development and access to credit.** At the time the new PRSP was finalized, the AGS was not sufficiently advanced to fully incorporate its main recommendations in the document. Staffs recommend that the government finalize the AGS rapidly, notably by establishing concrete action plans, revise the PRSP-II accordingly—including an analysis of the sources of growth—and focus on rapid implementation of the new AGS. Staffs caution that the AGS should avoid focusing on specific clusters but rather help to address transversal issues. Further reforms are required to alleviate infrastructural bottlenecks, especially in the transport and electricity sector since the cost of energy is among the highest in the sub-region. The authorities should encourage private sector involvement in infrastructure projects as a way to alleviate a tight budget constraint. Attention should be given to facilitating procedures for the realization of collateral (mainly through measures in the justice and housing sectors) and enhancing bank soundness (notably through enhanced vigilance in detecting bank weaknesses). These measures will be key to foster the contribution of banks to private sector development, boost investment and exports, and help Senegal achieve its ambitious growth and poverty alleviation targets.

B. Access to Basic Social Services

16. **In recent years, encouraging progress has been achieved in expanding access to education and health services as well as to clean water.** There has been a significant

⁷ The five sectors include agro-industry, fisheries, electronic customer support services, tourism, and textiles.

increase in gross enrollment in primary schools from 70 percent in 2001 to 82.5 percent in 2005, well in line with the Millennium Development Goals (MDGs). Similarly, positive results were achieved, such as an increase in the Diphtheria Polio Tetanus 3 (DTC3) immunization coverage from 59 percent in 2003 to over 80 percent in 2005, in the utilization of Human Immuno-deficiency Virus (HIV) counseling and testing from 9900 in 2002 to more than 88000 in June 2006, and in the number of births assisted by trained personnel (from 54 percent in 2002 to 62 percent in 2005). These results were attained partly through an increased attention to these key indicators and partly through a greater allocation of funds towards these social sectors—the combined shares of education and health expenditures in total public expenditures increased from 30 percent in 2003 to 33 percent in 2005. Access to clean water improved significantly, especially in urban areas (up to 90 percent in 2005), as a result of the successful cooperation between the public and private sectors and coordinated involvement of donors.

17. **Staffs welcome the central role given to human resource development in the PRSP-II.** However, in light of the estimated decline of financial resources allocated to social sectors to 30 percent of total expenditure in 2006, the first priority should be to boost these resources so as to achieve the over 40 percent objective called for in the PRSP-II. This should be done within the budget envelope compatible with macroeconomic stability. There is also a need to improve the intrasectoral allocation and financial management of these funds. In the education sector, the challenge will also be to improve the quality and performance of primary and secondary education as well as to reduce inefficient expenditure policies (e.g., generalized scholarships to all university students). Staffs also encourage the authorities to give more attention to vocational training by developing new partnerships with the private sector. In the health sector, the government should continue to improve the access to and utilization of basic health services through the strengthening of outreach activities, the implementation of its infrastructure development plan, and the implementation of the regulatory and legal frameworks for private health service provision and funding. The authorities should also reinforce priority actions in the areas of the prevention of infectious diseases and the utilization of reproductive health services. In addition, staffs recommend to coordinate better cross-sectoral activities, such as access to drinking water and sanitation and to promote a better allocative efficiency of public spending across regions to reduce inequalities in the delivery of social goods and infrastructure.

C. Protection of Vulnerable Groups and Risk Management

18. **The PRSP-II emphasizes the need to improve the lives of vulnerable groups, an area which has been neglected so far, and prescribes actions to ensure that these groups benefit from wealth creation and have better access to social services.** Vulnerable groups are numerous and diverse in Senegal, including children, handicapped, elderly, and refugees. The recent finalization of the National Protection Strategy has helped build a consensus on a selected set of priorities, including the need to increase the coverage of existing safety nets, provide direct financial assistance to targeted groups, and improve the government's capacity

to respond to natural catastrophes and shocks. Such a concerted approach has helped improve coordination between various stakeholders.

19. Success in the implementation of the PRSP-II in the area of social protection will require greater allocation of budgetary resources to vulnerable groups, notably the handicapped and elderly, and toward development of infrastructure benefiting the poorest segments of the population. The government should also promote recent community-driven initiatives, and seek to maximize their synergies with central government as well as private sector programs. The core challenges for extending and improving safety nets and social assistance is to create mechanisms tied to programmatic objectives to reduce vulnerability. This involves the consolidation of the various transfers to vulnerable groups into a coherent set of interventions and a transition from the current “unconditional transfer” mode to a tighter focus on the truly vulnerable, use of improved targeting tools and more systematic monitoring of outputs and impacts. Therefore, evaluating the implementation of PRSP-II in this area will require new indicators, notably for monitoring progress in the access of vulnerable groups to safety nets (such as in the transport sector) and social security systems. There is also a need to improve policies toward small groundnut producers—who are among the poorest groups in Senegal—with a view to diversifying the agricultural production and reducing their vulnerability to external shocks.

D. Good Governance and Participatory Processes

20. Improvement in governance will be achieved through reforms in the areas of capacity building and financial management in the public sector. The government intends to pursue implementation of two action plans supporting public expenditure management reforms (following recommendations of the Country Financial Accountability Assessment (CFAA) and the Country Procurement Assessment Review (CPAR)). As part of their objective to improve the quality of public human resource management, the authorities have initiated civil service reforms. They will strengthen the civil service by providing training in education, health, justice, tax collection, and security. Concurrently, the government has initiated the implementation of a series of reforms in its remuneration policy aiming at: (i) improving the competitiveness of public wages with respect to the private sector provided productivity increases and compatibility with macroeconomic stability is ensured—particularly in light of the rapid increase of the wage bill in recent years; (ii) simplifying procedures; and (iii) introducing performance-based incentives. The PRSP-II also proposes an agenda of reforms for the justice sector, in line with the national sectoral strategy endorsed by key stakeholders in the country.

21. The Senegalese Government has initiated the decentralization of decision-making regarding the management of human and financial resources, including the strengthening of local governments’ capacities and the gradual transfer of a number of responsibilities to local communities, especially in the education and health sectors. It will pursue the gradual

decentralization of the execution of the Consolidated Investment Budget, and strengthening capacity building at the local level, which is a prerequisite for successful decentralization.

22. Staffs welcome the attention given by PRSP-II to this new pillar, but note that further efforts are needed, especially in the following areas:

- Public financial management and fiscal transparency need to be strengthened through better investment planning (notably in infrastructure), evaluation, (including thorough feasibility analysis for large projects), and monitoring to raise the productivity of investment. Better procurement practices (through the implementation of the recently enacted procurement code) and more transparency in the implementation of large infrastructure projects are necessary. There is a need for a significant upgrade of internal and external controls of budget execution—in particular timely ex post control by the audit court. The authorities should also limit the recourse to exceptional spending, extend the preparation of the budget on a programmatic basis to all ministries (i.e., Medium Term Expenditure Framework), introduce an economic classification of the Consolidated Investment Budget and the three-year investment program, and ensure full consistency between the table of government financial operations (TOFE) and the budget. The success of Public Financial Management reforms in Senegal would require a greater convergence of the following factors: broad based political support and strong government ownership in building and maintaining an adequate commitment for the program.
- The implementation of the decentralization strategy needs to be pushed ahead, as it is a main contributor to the delivery of basic public services in remote areas. However, the introduction of credible public financial management and control systems at the local level should be a prerequisite. The central government should increase the financial resources transferred to local governments, amounting to less than 2 percent of the central government budget, which is clearly insufficient to match increasing decentralized spending responsibilities. The authorities need to adopt clear and predictable allocation rules for these transfers.
- The reforms aimed at improving governance in the public sector should be accompanied by strengthening accounting and audit rules, as well as by favoring the dissemination of financial information to interested parties and the media to enhance governance in the private sector and public enterprises.

V. MONITORING AND EVALUATION

23. Building on the experience of the PRSP-I, the updated strategy aims at strengthening the national monitoring and evaluation system. The institutional framework is composed of four working groups (with representatives of main stakeholders in the county) coordinated by the PRSP unit, within the Ministry of Economy and Finance. This unit is in

turn under the authority of two steering committees, chaired respectively by the Minister of Economy and Finance and the Prime Minister. During the course of 2004, progress was realized with the finalization of a set of PRSP monitoring indicators through an intense dialogue with development partners operating in the country. These indicators will be used for monitoring and evaluation under the PRSP-II. The authorities also stressed the need to improve coordination with donors (with a preference for budgetary support), in line with the agenda of the Paris Declaration since Senegal has been chosen as a pilot country for its implementation.

24. **Senegal has a relatively well functioning monitoring mechanism but greater attention should be given to the following three areas:** (i) maintaining leadership by policymakers in the implementation phase to foster ownership and momentum which were lacking during the PRSP-I; (ii) strengthening coordination between sectoral and regional strategies, in particular the AGS; and (iii) revising the list of indicators to cover the four PRSP-II pillars since there is no specific indicator for monitoring progress in the living conditions of the most vulnerable groups and for evaluating overall governance both in the private and public sectors. A number of existing indicators also capture outcomes that are difficult to interpret (such as the share of the agricultural sector in total output) and include factors that are clearly out of control of government's actions. Staffs recommend that the PRSP-II be updated to include a section on statistical capacity building and to reflect the authorities' commitment to subscribe to the Standard Data Dissemination System (SDDS).

VI. CONCLUSION AND RECOMMENDATIONS

25. **Bank and Fund staffs believe that the PRSP-II provides an adequate framework for poverty reduction in Senegal, assuming that the shortcomings described above are corrected and implementation is vigorously pursued.** The strategy builds on experience gained during PRSP-I and the emphasis on accelerated growth with macroeconomic stability is appropriate. The inclusion of the fourth pillar on governance and participatory processes is also welcomed. Strengthened resolve in this area could lead to marked improvements in the efficiency of public spending and of private sector development. It is also encouraging that the PRSP-II reaffirms Senegal's commitment to a series of principles central to the poverty reduction strategy, including gender equity and regional development. These elements are consistent with the recommendations made by staffs in the preceding JSANs.

26. **Recent economic developments have confirmed that the main risks to the successful implementation of the PRSP-II are exogenous shocks—such as drought, the locust invasion, and the sharp increase in oil prices—and endogenous difficulties in implementing structural reforms, including delays in restructuring of the chemical company ICS.** The first risk could be mitigated through the authorities' continued efforts to diversify the economy and the financial assistance of donors, if needed. The second risk needs to be tackled through sustained efforts to strengthen public financial management, including in particular fiscal transparency and procurement practices, at the central and local

government levels, and complete reforms in the electricity sector as well as the groundnut sector.

27. In order to strengthen the implementation of the PRSP-II, staffs recommend that special attention be given to:

- the promotion of the private sector, through implementation of the transversal measures under the Accelerated Growth Strategy, and in particular, the alleviation of administrative barriers, measures to enhance credit availability and bank soundness, and to address other issues, such as corruption, the lack of infrastructure and skilled labor, and justice;
- the remedial actions to address weaknesses in public financial management and fiscal transparency, such as the implementation of the new procurement code, the strengthening of checks and balances by the Parliament and the General Audit Court, and the implementation of the new legal and institutional framework surrounding procurement procedures;
- the improvement in the efficiency of public investment spending and in the absorptive capacity of the public sector, notably through the preparation of investment budgets and programs using an economic classification of expenditures, better evaluation systems for priority projects (notably in energy and transports), and improved internal and external controls of public (and quasi public) enterprises and agencies;
- the alleviation of rural poverty by consolidating the decentralization of resources to local governments, developing a better articulation of measures aimed at improving the living conditions of vulnerable groups living in rural areas, and implementing the new National Social Protection program and the agricultural strategy aimed at promoting and diversifying new activities in the regions;
- better prioritizing public expenditure, involving the private sector in infrastructure projects, and improving effectiveness of public expenditure, especially in view of the tight budgetary conditions.

28. In considering the PRSP-II and associated JSAN, Executive Directors may wish to focus on the following issues:

- Do Directors agree with the staffs' view that the PRSP-II provides an adequate framework for poverty reduction?
- Do Directors concur with the areas identified by staffs as priorities for strengthening the PRSP-II implementation?