



## AFRICAN DEVELOPMENT FUND

### Economic Reform Support Programme (PARE) Country: Republic of Senegal

### APPRAISAL REPORT

May 2011

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**Currency Equivalents****May 2011**

UA 1	=	CFAF 732.048
EUR 1	=	CFAF 655.957
USD 1	=	CFAF 461.714

**Fiscal Year**

1 January to 31 December

## Acronyms and Abbreviations

<b>ADB</b>	: African Development Bank
<b>BCEAO</b>	: Central Bank of (French-Speaking) West African States
<b>ADF</b>	: African Development Fund
<b>EDF</b>	: European Development Fund
<b>FNCF</b>	: National Women’s Credit Fund
<b>GENIS</b>	: Management by Service Level
<b>GIZ</b>	: German International Cooperation Agency <i>(Deutsche Gesellschaft für Internationale Zusammenarbeit)</i>
<b>ANSD</b>	: National Statistics and Demography Agency
<b>APIX</b>	: National Investment Promotion and Major Projects Agency
<b>ASTER</b>	: Public Accounts Management Software
<b>MTEF</b>	: Medium- Term Expenditure Framework
<b>MTSEF</b>	: Medium- Term Sector Expenditure Framework
<b>CEDAF</b>	: Administrative and Financial Implementation Unit
<b>CFAA/CPAR</b>	: Country Financial Accountability Assessment/ Country Procurement Assessment Report
<b>CMP</b>	: Public Procurement Code
<b>CPI</b>	: Presidential Investment Council
<b>CSRP</b>	: Poverty Reduction Support Credit
<b>DCMP</b>	: Public Procurement Directorate
<b>DFP</b>	: Civil Service Directorate
<b>DGCPT</b>	: General Directorate for Public Accounts and Treasury
<b>DGD</b>	: General Directorate of Customs
<b>DGID</b>	: General Directorate of Tax and Government Estates
<b>DPES</b>	: Economic and Social Policy Paper
<b>DPS</b>	: Forecast and Statistics Directorate
<b>CSP</b>	: Country Strategy Paper
<b>EU</b>	: European Union
<b>GBS</b>	: General Budgetary Support
<b>ABSRP</b>	: Poverty Reduction Strategy Budgetary Support
<b>ACAB</b>	: Budgetary Support Framework Arrangement
<b>AFD</b>	: French Development Agency
<b>ARMP</b>	: Public Procurement Regulatory Agency
<b>ITC</b>	: Information and Communication Technology
<b>LOLF</b>	: Finance Act Organic Law
<b>LPS</b>	: Sector Policy Letter
<b>NBE</b>	: Government Budgetary Classification
<b>OECD</b>	: Organization for Economic Cooperation and Development
<b>MDG</b>	: Millennium Development Goal
<b>OHADA</b>	: Organization for Harmonization of Business Law in Africa
<b>PAASP</b>	: Private Sector Adjustment Support Programme
<b>PAMOCA</b>	: Project to Support Land Survey Modernization
<b>PARE</b>	: Economic Reform Support Programme
<b>PASRP</b>	: Poverty Reduction Strategy Support Programme
<b>PCE</b>	: Government Chart of Accounts
<b>PEF</b>	: Economic and Financial Programme

<b>PEFA</b>	: Public Expenditure and Financial Assessment
<b>GDP</b>	: Gross Domestic Product
<b>PCRBF</b>	: Budgetary and Financial Reform Coordination Project
<b>PLR</b>	: Budget Review Bill
<b>PPIP</b>	: Private Investment Promotion Project
<b>PPP</b>	: Public and Private Partnership
<b>PRBF</b>	: Budgetary and Financial Reform Plan
<b>PRTPC</b>	: Tertiary Reform and Competitiveness Promotion Programme
<b>RGCP</b>	: General Public Accounts Regulations
<b>PRSP</b>	: Poverty Reduction Strategy Paper
<b>SCA</b>	: Accelerated Growth Strategy
<b>SDSP</b>	: Private Sector Development Strategy
<b>SENELEC</b>	: National Electricity Company of Senegal
<b>SIGFIP</b>	: Integrated Public finance management System
<b>SNFO</b>	: ADB Regional Office in Dakar
<b>UA</b>	: Unit of Account
<b>WAEMU</b>	: West African Economic and Monetary Union
<b>UCSPE</b>	: Economic Policy Coordination and Monitoring Unit

**Financing Information Sheet**

<b>CLIENT INFORMATION</b>	
<b>BORROWER</b>	Republic of Senegal
<b>EXECUTING AGENCY</b>	Ministry of Economy and Finance (MEF)
<b>PROGRAMME NAME</b>	Economic Reform Support Programme (PARE)
<b>ADF KEY FINANCING INFORMATION</b>	
<b>TYPE OF LOAN</b>	Concessional Loan
<b>CURRENCY</b>	Unit of Account (UA)
<b>AMOUNT</b>	UA 27.0 million
<b>LENDING RATE</b>	N.A
<b>SERVICES</b>	0.75%
<b>MATURITY</b>	50 years
<b>GRACE PERIOD</b>	10 years
<b>NUMBER OF TRANCHES</b>	2 tranches: first tranche of UA 20.25 million to be disbursed end September 2011 and the second of UA 6.75 million to be disbursed mid-2012
<b>PARALLEL FINANCING TO PROGRAMME</b>	
<b>World Bank</b>	USD 42 million
<b>European Union</b>	CFAF 12.73 billion
<b>Netherlands</b>	CFAF 7.22 billion
<b>Spain</b>	CFAF 1.97 billion
<b>Canada</b>	CFAF 8.1 billion
<b>Indicative Timeframe – Main Milestones</b>	
Concept Note Approval by OPSCOM	March 2011
Appraisal Mission	March 2011
Country Team	April 2011
Programme Approval	July 2011
1 <sup>st</sup> Tranche Disbursement.	September 2011
2 <sup>nd</sup> Tranche Disbursement	June 2012
Completion	March 2013

## Executive Summary

<b>Programme Overview</b>	<ul style="list-style-type: none"> <li>▪ Programme Name: Economic Reform Support Programme (PARE) 2011-2013</li> <li>▪ Geographic Reach: Nationwide</li> <li>▪ Implementation Period: 24 months starting from September 2011</li> <li>▪ Programme Cost: UA 27 million loan</li> <li>▪ Programme Type: General Budgetary Support Programme</li> <li>▪ Disbursement: 2 tranches (2011 and 2012)</li> <li>▪ Two (2) components: (i) support to improving public finance management; and (ii) support to SME promotion</li> </ul>
<b>Context and Rationale</b>	<p>The context is marked by relative political stability and the presidential election scheduled for February 2012 is not expected to affect that stability. The context is also marked by a recovery of activities, despite a challenging business climate and the weak support to SMEs. The public finance situation remains fragile. On the social front, progress has been made, but under-employment and youth inactivity remain major issues. The medium-term outlook is good and the country is enjoying support from the major TFPs, including the IMF. PARE is justified in view of its alignment with the 2011-2015 Economic and Social Policy Paper (DPES) and the 2010-2015 CSP. Public finance is targeted in view of weaknesses in fiscal discipline, budget transparency and coverage and budget cycle management. Concerning the latter point, the adaptation of the WAEMU guidelines on harmonized public finance management framework to the national positive law constitutes an emergency. These inadequacies are an obstacle to the modernization of public finance management, sub-regional economic integration and effective and efficient public service delivery. The targeting of SMEs stems from the fact that SMEs constitute 90% of private enterprises, account for 20% of GDP and employ 40% of the work force. Support to SMEs will contribute to social stability and enhanced economic diversification to ensure resilience to exogenous shocks. The Bank's assistance is now necessary to support the priority reforms of the DPES, complement assistance from other partners and contribute to financing the budgetary gap in 2011 and 2012. The financing is crucial for the country's macroeconomic stability and achievement of its development objectives.</p>
<b>Beneficiaries</b>	<p>As impact, the programme is expected to improve financial governance and the business climate, translating into better fiscal management and contribution by SMEs to GDP. This will help to improve public service delivery, create employment and generate income. Consequently, the main programme beneficiary will be the Senegalese population. In terms of outputs and outcomes, PARE will directly strengthen institutions in charge of implementing reforms. Besides, local governments will have timely access to budgetary resources allocated to them. Lastly, SMEs will benefit from the programme since it will facilitate their access to finance, public contracts and improved governance in the electricity sector.</p>
<b>Needs Assessment and Relevance</b>	<p>PARE objectives are in line with the priorities of the 2011-2015 DPES and 2010-2015 CSP. They are also consistent with the Government's Fiscal and Financial Reform Plan as well as its priorities to develop the private sector and improve the business climate. A financing request was made for the programme in 2010. The support needs were assessed based on a relatively satisfactory participatory process.</p>
<b>Bank's Comparative Advantage and Value-Added</b>	<p>The Bank has acquired considerable experience in policy-based dialogue in public finance and private sector development in Senegal from its last operations (PRTPC, PAASP and PASRP) as well as in the sub-region. The lessons learned were incorporated in the programme design and implementation. The presence of the Regional Office for dialogue and monitoring of PARE's implementation also constitutes a comparative advantage. The Bank's value-added is at three levels: (i) complementarity of the reforms supported with those of other partners, including SME promotion; (ii) use of a holistic and integrated approach with the parallel implementation of PARE and an institutional support in the same complementary areas; and (iii) application of the recommendations of the Bank's study on the tax potential.</p>
<b>Institutional Development and Knowledge Building.</b>	<p>PARE will enhance the Bank and Government's knowledge in public finance reforms and SME promotion. This knowledge will be acquired through the following processes: activity reports prepared by the executing agency, supervision and mid-term review reports and the project completion report. The knowledge and lessons learned will be shared within the Bank and in the host country during seminars and in OPEV reports.</p>

<b>Risk Management</b>	<p>The general conditions precedent to budgetary support (political stability, Government's commitment and economic stability) are deemed satisfactory. With regard to technical conditions, two types of residual risks that could affect the attainment of the PARE outputs persist namely: (i) exposure of the economy to shocks; and (ii) unreliability of the financial management system. The first risk will be mitigated by the following measures: (i) energy and food forecasts from 2011 to 2013; (ii) the will of the TFPs to provide the country with financial assistance; and (iii) the experience acquired in risk management as was the case during the 2009 floods. The second risk relates to unplanned execution, transfer risk, non-registration, embezzlement and lack of auditing. The mitigative measures for these risks are as follows: (i) existence of a public finance reform plan supported by the TFPs and recent achievements and favourable prospects for the continued implementation of the reforms; and (ii) safeguards incorporated in the programme design.</p>
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Country : Senegal  
 Programme Name : Economic Reform Support Programme (PARE) 2011-2013  
 Programme Goal : Improve financial governance and business climate for SMEs

### Logical Framework Matrix

OUTCOMES CHAIN		PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATIVE MEASURES
		Indicators (including CSD)	Baseline Case	Target		
IMPACT	<b>1. Improved financial governance and business climate for SMEs</b>	1.1 CPIA Score D13: quality of fiscal and financial management	1.1. CPIA D13 2010 = 3.5	1.1 CPIA D13 2012 = 4.0	1.1 Bank CPIA Data  1.2 Economic and financial reports (MEF, BCEAO)	
		1.2. Contribution by SMEs to GDP	1.2. Rate = 20% in 2010	1.2. Rate = 21.4% in 2012		
<b>COMPONENT 1: SUPPORTING PUBLIC FINANCE MANAGEMENT IMPROVEMENT</b>						
OUTCOMES	<b>1. Improved budget credibility</b>  Revenue predictability improves and expenditure management streamlined	1.1 PEFA Indicator PI- Aggregate expenditure out-turn compared to original approved budget	1.1 PI-1 = B in 2010	1.1 PI-1 = B+ in 2013	MEF supervision and reports PEFA 2013 conducted early 2014 Bank's fiduciary review	<u><b>Risks:</b></u> 1. Exposure of the economy to exogenous shocks  2. Unreliability of the public finance management system  <u><b>Mitigative Measures</b></u>  1- Energy and food subsidy forecasts from 2011 to 2013; will of TFPs to provide financial assistance to countries; experience during flood management  2. (i) Existence of a public financial plan supported by TFPs and recent achievements and good prospects for implementing reforms; (ii) safeguards in programme design: (a) forecasts of measures precedent to Board presentation of PARE related to clearing of non-budgetary commitments; (b) conditions
		1.2 PEFA Indicator PI – Aggregate revenue compared to original approved budget	1.2 PI-3=A in 2010	1.2 PI-3= A At end 2013		
	<b>2. Enhanced budget coverage and transparency</b>  Government budgetary classification is compliant with NBE –WAEMU guidelines	2.1 PEFA Indicator PI – Budget classification	2.1 PI-5 = C in 2010	2.1 PI-5 = C+ at end 2013	MEF supervision and reports PEFA 2013 conducted early 2014 Bank's fiduciary review	
		2.2 PEFA Indicator PI – Comprehensiveness of information contained in the budget	2.2 PI-6 = B in 2010	2.2 PI-6 = B + at end 2013		
	Information on resources allocated to local governments and availability of such resources improves	2. PEFA Indicator PI – Transparency of inter-governmental fiscal relations	2.3 PI-8 = C in 2010	2.3 PI-8 = C+ in 2013	MEF supervision and reports PEFA 2013 conducted early 2014 Bank's fiduciary review	
Information on autonomous public entities expenditure improves	2.4 PEFA Indicator PI – monitoring of overall fiscal risk attributable to public entities	2.4 PI-9 = D+ in 2010	2.4 PI-9 = C in 2013	MEF supervision and reports PEFA 2013 conducted early 2014 Bank's fiduciary review		

OUTCOMES CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATIVE MEASURES
	Indicators (including CSD)	Baseline Case	Target		
<p><b>3. Improved budget cycle</b></p> <p>3.1 The public finance management framework is modernized and consistent with WAEMU 2009 guidelines (international standards)</p> <p>3.2 Backlog in auditing of public accountants' management accounts by the Court of Accounts is cleared</p> <p>3.3 Public procurement reform is consolidated (Compliance with WAEMU 2009 guidelines)</p>	31a. Conformity of new Organic Law of Finance Act with WAEMU guidelines (LOFL)	31a. Enforcement of law stemming from 1998 guidelines	31a. Conformity in 2011 of law from 2009 guidelines and enforcement of law starting 2012	Supervision, MEF Reports PEFA 2013 conducted early 2014	precedent to disbursement of loan, most of which are tied to public finance management, including adoption of WAEMU harmonized framework guidelines; (c) expected supervision missions; (d) special annual auditing by the Court of Accounts covering PARE resources and integration of PARE resources in the expenditure channel; (e) parallel implementation of an institutional support project geared towards public finance management
	3.1b Conformity of public and fiscal accounting, information recording with WAEMU guidelines (RGCP, PCE, TOFE),	3.1b Enforcement of law stemming from 1998 guidelines	3.1b Conformity in 2011 of rules from 2009 guidelines and enforcement of rules starting 2012		
	3.3 PEFA Indicator PI-19. Competition, value for money and controls in public procurement	3.3PI-19=B+ in 2010	3.3 PI-19= A at end 2013		
<b>COMPONENT 2: SME PROMOTION</b>					
<p><b>4. Improved SME access to credit</b></p> <p>4.1 Access to land title improves</p> <p>4.2 Tax environment of SMEs improves</p>	4.1a New land titles issued based on the new land act	4.1a No new title in 2010	4.1a 12 000 new titles in 2011 and 2013	Supervision, ADEPME Reports, MEF DGI Reports	
	4.1b Cost of registration of landed property	4.1b Costs = 20.6% property value in 2010	4.1b Costs = 16% property value in 2013		
	4.2a Operationalization of SME centre	4.2a Non-existence of tax centre in 2010	4.2a Order establishing the centre in 2011 4 activity reports in 2012		
	4.2b Existence of relevant measures for SMEs in new tax code (VAT, real simplified regime, preferential regimes)	4.2b No relevant measures in 2010	4.2. b Relevant measures in 2012		
<p><b>5 Improved access to electricity</b></p> <p><b>6. Improved SME access to public procurement</b></p>	5.1 Number of businesses out of 125 using stand-by generators in the city of Dakar	5.1 76% in 2010	5.1 65% in 2013	Supervision, MEF Report (Forecast Directorate)	
	6.1 % of public contracts awarded to SMEs	6.1 10% of public contract awarded to SMEs in 2010	6.1 14 % of public contracts awarded to SMEs in 2012 and 2013		

OUTCOMES CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATIVE MEASURES
	Indicators (including CSD)	Baseline Case	Target		
<b>COMPONENT 1: SUPPORT TO PUBLIC FINANCE MANAGEMENT IMPROVEMENT</b>					
<b>OUTPUTS</b>	<b>1. Measures to improve revenue predictability</b>				
	1.1 The SME Centre establishment action plan is adopted	1.1 Availability of adopted action plan	1.1 No action plan in 2010	1.1 Action plan available in 2011	Supervision. MEF Reports, PEFA 2014
	1.2. The SME Centre is created and operational at DGI	1.2 Availability of order establishing SME Centre Quarterly activity report available	1.2 No centre 1.2 No reports in 2010	1.2 Order issued in 2011 1.24 quarterly reports in 2012	Supervision. MEF Reports, PEFA 2014
	1.3. A single tax identifier common to DGI, DGD and DGTCP is created	1.3. Availability of identifier	1.3. No identifier in 2010	1.3 Identifier available in 2012	Supervision. MEF Reports, PEFA 2014
	1.4. Tax exemptions are reduced	1.4 Amount of shortfall	1.4 Shortfall = CFAF 9 billion in 2010	1.4 Below 9 billion in 2012 and 2013	Supervision. Rappports MEF. J.O.
	<b>2. Expenditure rationalization measures</b>				
	2.1 Differences in expenditure composition variations are limited (amending acts/LFI)	2.1 Maximum difference of 10% of total credits of financial act (2001 organic law)	2.1 Average difference 2008-2009-2010=12%	2.1 Average difference 2011-2012-2013 = 10%	Supervision. MEF Reports, PEFA 2014
	2.2 Expenditure monitoring committee in relation to Treasury is created and operational	2.2a Availability of Order establishing Committee 2.2b Availability of Committee's quarterly activity reports	2.2a No committee 2.2b No report in 2010	2.2a Order issued in 2011 2.2b 6 activity reports available in 2011 and 2012	Supervision. MEF Reports, PEFA 2014

OUTCOMES CHAIN		PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATIVE MEASURES
		Indicators (including CSD)	Baseline Case	Target		
	2.3 Clearing of non-budgetary commitments audited in 2006 and 2009 is pursued and sanctions applied for new commitments	2.3a Stock outstanding non-budgetary commitments	2.3a CFAF 3 billion in October 2010	2.3a CFAF 0 billion in 2012	Supervision, MEF Reports, PEFA 2014	
		2.3b Number of non-compliant ministries	2.3b 2 in 2010	2.3b 0 in 2012 and 2013		
	2.4 Centralization at Treasury of transfers from public establishments and executing agencies is restored	2.4 Number of deposit accounts opened at the Treasury by public establishments and executing agencies equal to number of public entities concerned (centralization)	2.4 Centralization not carried out in 2010	2.4 Centralization carried out in 2011, 2012 and 2013	Supervision. MEF Reports, SIGFIP, PEFA 2014	
	2.5 Monthly TOFEs are conducted regularly	2.5 Monthly TOFE available	2.5 Monthly production of TOFE stops in October 2010	2.5 Monthly TOFE published available in 2012 and 2013	Supervision. MEF Reports, PEFA 2014	
	<b>3. Measures to enhance budget transparency and coverage</b>				Supervision. J.O	
	3.1 Adaptation of NBE-WAEMU to national legislation is completed in 2011	3.1 Adaptation decree issued	3.1 NBE-WAEMU not adopted in 2010	3.1 Issuing of adaptation decree in 2011		
	3.2 All the ministerial orders on distribution of decentralization funds resulting from the 2012 Finance Act are signed by end March 2012 and the funds are released to local governments by end April 2012	3.2 Release of funds from 2012 Finance Act to local governments	3.2 Delays in release of funds in 2010	3.2 Release of funds before end April 2012 and 2013	Supervision. MEF, SIGFIP Reports	
	3.3 Expenditures of autonomous public entities are published in reports.	3.3 Availability of published reports	3.3 No report on the expenditures of these entities in 2010	3.3 3 half-yearly reports published in 2012 and 2013	Supervision. MEF Reports	

OUTCOMES CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATIVE MEASURES
	Indicators (including CSD)	Baseline Case	Target		
<p><b>4. Measures to support budget cycle improvement</b></p> <p>4.1 The bill on the Finance Act Organic Law (LOLF), harmonized with WAEMU guidelines, is adopted and forwarded to Parliament</p>	4.1 Availability of adopted bill and report on the transmission to Parliament	4.1 No bill in 2010	4.1 Bill adopted in CM in 2011 and transmission to Parliament	Supervision. MEF Reports	
4.2 Decrees for adaptation of RGCP, PCE and WAEMU TOFE issued	4.2 Availability of 3 adaptation decrees	4.2 No adaptation in 2010	Effective adoption in 2011	Supervision. MEF Reports	
4.3 Medium-term programme for auditing public accountants' management accounts is adopted and the Court of Accounts issues an opinion on these accounts	4.3 Availability of medium-terms programme adopted  4.3 Percentage of accounts audited and opinion issued	4.3 Significant delay in auditing of 2010 management account	4.3 Availability of a medium-term programme in 2011  4.3 Opinions available for 50% of audited accounts in 2011 and 2012	Supervision. MEF & CC Reports, PEFA 2014	
4.4 Texts on Court of Accounts reform are finalized	4.4 Availability of finalized texts	4.4 No reform text in 2010	4.4 Texts available in 2011	Supervision. MEF & CC Reports, PEFA 2014	
4.5 Signing of provisional decree governing and specifying defence and security procurement procedures requiring secrecy and those for which the protection of key interests of State is incompatible with publicity measures	4.5 Availability of provisional decree issued	4.5 Exemption guidelines governing these types of procurement in 2010	4.5 Decree issued in 2011	Supervision. MEF Reports	
4.6 Revision of Public Procurement Code	4.6 Availability of note on start of revision	4.6 Revision of code not started in 2010	4.6 Note available in 2011	Supervision. MEF Reports	

OUTCOMES CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATIVE MEASURES
	Indicators (including CSD)	Baseline Case	Target		
4.7 The relevant articles of Code are revised in accordance with WAEMU guidelines	4.7 Availability of revised code	4.7 Code not revised in 2010	4.7 Availability of revised code in 2012	Supervision. MEF Reports	
<b>COMPONENT 2: SUPPORT TO SME PROMOTION</b>					
<b>5. Measures to improve access by SMEs to credit</b>	5.1 Availability of decree issued		New decree, act passed in 2012	Supervision. MEF Reports	
5.1 Implementing decree of the new land act is issued		5.1 Former Land Act in 2010			
5.2 Bill on reform of the general tax code is adopted in CM and transmitted to Parliament	5.2 Availability of adopted bill  Availability of report on transmission to Parliament	5.2 Code not revised in 2010	5.2 Availability of bill and report on transmission to Parliament in 2012	Supervision. MEF Reports	
<b>6. Measures to improve SME performance</b>	6.1 Availability of decree passed	6.1 No law adopted in 2010	6.1 Decree adopted in 2011	Supervision. MEF Reports	
6.1 The SME framework law specifying the proportion of public contracts reserved for SMEs, relevant sectors and modalities for award is passed					
6.2 Road maintenance credits approved are executed	6.2 Percentage of executed credits	6.2 57% executed in 2010	6.2 100% executed in 2012	Supervision. MEF Reports	
6.3 SENELEC Electricity bills of official Government entities are paid regularly	6.3 Regularity of payment of bills of 39 ministries at the central level	6.3 Irregular payments in 2010	6.3 Payment of 2011, 2012 and 2013 bills	Supervision. MEF and SENELEC Reports	

OUTCOMES CHAIN		PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATIVE MEASURES
		Indicators (including CSD)	Baseline Case	Target		
	6.4 Electricity tariff regime in line with institutional changes in sector adopted	6.4 Order issued for tariff regime change	6.4 Tariff regime not changed in 2010	6.4 New tariff regime in 2012	Supervision. MEF and SENELEC Reports	
KEY FINANCING ACTIVITIES	<b>KEY ACTIVITIES: N.A.</b>			<b>FINANCING: UA 27 MILLION</b>		

**REPORT AND RECOMMENDATION OF ADB GROUP MANAGEMENT TO THE  
BOARD OF DIRECTORS ON A PROPOSED LOAN TO SENEGAL FOR THE  
ECONOMIC REFORM SUPPORT PROGRAMME**

## **1. PROPOSAL**

Management hereby submits this proposal on a loan amounting to UA 27 million to the Republic of Senegal to finance the Economic Reform Support Programme (PARE). It entails a general budgetary support to the Government to be implemented over a 24-month period starting from September 2011. It is a follow up to a request formulated by the Government in September 2010. The programme, which was appraised in March 2011, is in line with the priorities of the Government's Economic and Social Policy Paper (DPES) 2011-2015 and the Bank's Country Strategy Paper (CSP) 2010-2015. PARE's aim is to pursue the implementation of reforms initiated under the Poverty Reduction Strategy Support Programme (PASRP) 2008-2010 backed by the Bank. It seeks to improve public finance management and promote SMEs. The impact of PARE will be enhanced by the parallel implementation of an institutional support project.

## **2. COUNTRY AND PROGRAMME CONTEXT**

### ***2.1 Recent Socioeconomic Developments***

**2.1.1 The overall political situation is stable. The Senegalese democratic model is a work in progress. The political debate which intensified in recent months is now completely centred on the presidential election of February 2012.** President Wade has declared his intention to stand for a third term in 2012. This has fuelled the political debate on his performance in office, which has been hampered by the energy crisis. The opposition is gearing up for the elections. A coalition of opposition parties ("*Benno Siggil Sénégal*") has been formed. The constituents are the Alliance for the Republic (APR) of the former Prime Minister, Moustapha Niasse, and the former ruling Socialist Party (PS). This coalition is likely to present a single candidate. Several recent changes occurred in Government without modifying the broad orientations of the country's economic policy. Against this backdrop of election preparations, pressure on public finances is likely to mount. Hence, the political context will continue to be closely monitored.

**2.1.2 The implementation of the PRSP from 2007 to 2009 was beset by a difficult context. Preliminary data indicates a recovery in 2010 but the public finance situation remains fragile. Relations with the IMF are satisfactory.** The 2007-2009 period was marked by inadequate rainfall, exogenous shocks (oil and food price escalation, international economic and financial crisis and the Ivorian economic crisis<sup>1</sup>) and the energy crisis. This reduced economic activity and created financial tensions. In 2010, real growth was 4%, reflecting the increase in public spending and private investments. The inflation rate stood at 0.8%. Due to declining exports, increased imports related to infrastructure investments as well as the less-than-expected fall in remittances and foreign direct investments, the current external deficit rose to 8.2 % of GDP in 2010 from 7.7% in 2009. In view of revenue mobilization and rationalization of expenditure, the overall fiscal deficit (commitment basis, excluding grants) was maintained at 4.8% in 2010 compared with 4.9% in 2009. This was mainly financed through the regional financial market and issuance of Euro bonds. The external public debt remained viable over the period. The 2010 Public Expenditure and Financial Accountability (PEFA) assessment undertaken in March 2011 indicates progress in public finance management compared with 2007.

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<sup>1</sup> Cote d'Ivoire is WAEMU's largest economy. See Technical Annex VI on Impact of the Ivorian Crisis on WAEMU Countries.



Efforts are still needed, notably in fiscal discipline, budget credibility, comprehensiveness and transparency in budget cycle operations. Setbacks were noted in public procurement management and governance in the energy sector. The implementation of the 2008-2010 programme under the IMF's Policy Support Instrument (PSI) was deemed satisfactory overall. In 2010, the Government also benefited from IMF support under the Exogenous Shocks Facility. A second programme under the 2010-2013 PSI was concluded in December 2010. The first review of the programme conducted in March 2011 deemed the overall performance satisfactory (see Annex II).

**2.1.3 Private investments remained relatively weak in 2010 due to the unattractive business climate and weak SME development.** The low private investment rate (10% of GDP on average from 2007 to 2010) fell short of the level needed (16%) to achieve the 7% real GDP growth target set in the Accelerated Growth Strategy (SCA). This partly reflects the energy crisis and the continued unattractive business climate. Senegal saw a regression in ranking in the World Bank's "Doing Business" Index, dropping from 149<sup>th</sup> in 2008 to 152<sup>nd</sup> in 2010 out of 181 countries as a result of a performance decline in "Getting Credit", "Investor Protection" and "Trading Across Borders". The country also ranked 105<sup>th</sup> out of 178 (compared to 85<sup>th</sup> in 2008) countries on the Transparency International 2010 Index. Political parties are the institutions perceived to be the most affected by corruption. Furthermore, SMEs (90% of private enterprises) that account for 20% of GDP and create 40% jobs are facing several financial and non-financial constraints. Their mortality rate is 65% in the first year compared to 20% in South Africa and 10% in the United Kingdom. Moreover, SMEs are fragmented and largely informal. Thus, out of 250,000 SMEs registered in chambers of commerce, only 840 issue financial statements (see Technical Annex VII).

**2.1.4 Performance in macroeconomic convergence and compliance with WAEMU public finance management guidelines (CHGFP).** Out of the six convergence criteria, Senegal complied with those concerning inflation, the domestic and external debt stock and accumulated domestic and external debt (see Technical Annex VI). Furthermore, the adoption of the WAEMU-CHGFP guidelines in the national positive law has not yet occurred (see Technical Annex XI). Deadline for the adoption has been set for 31 December 2011.

**2.1.5 On the social front, progress was made but under-employment and youth inactivity remain major constraints to sustained poverty reduction<sup>2</sup>.** Between 1990 and 2010, the country made progress towards the MDGs. However, achieving the targets set by 2015 appears to be difficult. Recent surveys show that the fraction of the population living below the poverty line remained constant at 50% between 2005 and 2009. Lastly, underemployment, in particular that of the youth, remains a major challenge. The rate of economic inactivity is estimated at 49% and that of underemployment is 41%.<sup>3</sup>

**2.1.6** An analysis of the recent macroeconomic and social context indicates the following distinctive fact: progress is yet to be made in public finance management and private sector development, notably SMEs. Such progress is necessary if the country is to enhance macroeconomic stability and achieve its growth and poverty reduction objectives in the medium and long term.

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<sup>2</sup> Economic inactivity ratio is the ratio of the potential working population not in search of employment; and the underemployment ratio is the ratio of the working population that is unemployed or employed but is actively in search of better paid employment.

<sup>3</sup> Calculations based on the Senegal Poverty Monitoring Survey, 2005-2006.

## 2.2 *Government's Medium-Term Development Strategy and Priority Reforms*

**2.2.1 Government's medium-term development strategy.** To meet these challenges, the Government formulated the 2011-2015 Economic and Social Policy Paper, seen to be a third-generation PRSP. It hinges on the following strategic thrusts: (i) wealth creation for pro-poor growth, operationalized through the Accelerated Growth Strategy (SCA); (ii) stepping up the promotion of access to basic social services in conjunction with the MDGs to be achieved; (iii) social protection, risk and disaster prevention and management (drought, flooding, locust invasion, etc.); and (iv) good governance together with decentralized and participatory development. Under Pillar 1, the SCA entails two major thrusts: (i) development of high growth potential cluster groups (agro-industry and agriculture, tourism and cultural industries and handicraft, information technology and teleservices, textile and garments as well as marine seafood products and aquaculture) with ripple effects on the entire economy; and (ii) improvement of the business climate, including the legislative, regulatory and legal framework; access to financing; infrastructure development, including transport and energy; and human capital development. The fourth pillar relating to good governance highlights the need to consolidate the progress in public finance management.

**2.2.2 Priority medium-term reforms.** The implementation of this strategy is based on macroeconomic and sector reforms, and the 2011-2013 Public Investment Programme. For *priority public finance reforms*, the reference framework is the rolling Budget and Financial Reform Plan (PRBF) 2009-2012. It aims at three objectives: (i) enhance fiscal discipline; (ii) improve strategic resource allocation; and (iii) improve effective public service delivery. The PRBF is based on three budgetary dimensions of the Public Finance Management (PFM) Performance Measurement Framework, namely improving: (i) budget credibility; (ii) budget comprehensiveness and transparency; and (iii) the budget cycle. The adoption of CHGFP-WAEMU guidelines in the positive law by end 2011 is a PRBF objective. Indeed, the 1998 Guidelines revised in 2009 comprise the public finance management Transparency Code (public procurement code) and five new guidelines: the Finance Act Organic Law (No. 6) (LOLF); General Public Accounts Regulations (No.7) (RGCP); Government Budgetary Classification (No. 8) (NBE); Government Chart of Accounts (No. 9) (PCE); and Government Financial Operations Table (No. 10) (TOFE). These ambitious and innovative reforms aim at aligning public finance management with international standards, enhancing the effectiveness of public expenditure and assessing the performance of government action (see Section 4.2 and Technical Annex XI). Thus, following the status of implementation of the PRBF established in December 2010, the Government is giving special priority to the reforms indicated below:

- Completion of adaptation of community guidelines to the national positive law;
- Increased tax revenue to enable Government consolidate its financial capacity to execute its priority expenditure and budget credibility;
- Improving the composition and effectiveness of expenditures, realism of operating expenditure planning and close monitoring of payment entities;
- Consolidation of the key achievements in improving procurement practices while addressing concerns expressed by the Government;
- Improving cash management by planning commitments and monitoring the execution and liquidity plans of both public establishments and executing agencies, as well as the public debt;
- Adaptation and strengthening of the budgetary and accounting information system, and consolidation of efforts to ensure access by the public to budgetary information;
- Timeliness of budget and account closing and submission by public accountants of accounts and budget review bills to the accounts judge.

2.2.3 With regard to private sector development, the Presidential Investment Council (CPI) adopted in 2010 a range of key measures on the business climate to be implemented by 2015, including SME promotion (see Technical Annex VII). A sector policy letter for SMEs (LPS/SME), adopted in 2010, defines the priority reforms for the next five years. It comprises the following thrusts:

**Box 2**

**LPS/SME Priority Thrusts**

- ❑ Thrust 1: make the support system more effective
- ❑ Thrust 2: create an SME-friendly business climate for sustained growth and increased poverty reduction
- ❑ Thrust 3: improve the availability of non-financial services to enhance the performance and competitiveness of SMEs
- ❑ Thrust 4: promote the diversified and integrated financial sector providing a range of services tailored to the needs of SMEs and in accordance with their development cycle

2.2.4 **Prospects, major constraints and challenges.** The presidential election scheduled for February 2012 should not jeopardize the country's political stability. In a context of reduced international economic crisis, end of the Ivorian political crisis and improvement in the investment climate, notably with the easing of the energy crisis, the medium-term macroeconomic situation should be characterized by: (i) continued growth from 2011 to 2015 at an average real rate of 4.5% driven by tax stimulus for major infrastructure projects as well as increased private investments; and (ii) gradual narrowing of public finance deficit (commitment basis, excluding grants) and that of the external current account from 2012 to 2015. This would be in conjunction with the gradual reduction of infrastructure expenditure and imports following the peak level attained in 2011, progress in tax administration efficiency and tax reforms as well as inflow of remittances from the Diaspora. Senegal has a low external debt overhang risk despite the explicit assumption of high non-concessional borrowings to finance new infrastructure projects. Inflation is expected to stabilize around 2% between 2011 and 2015, below the community standard of 3%. The population below the poverty line is expected to fall from 50% to 30% (see Annex III). These macroeconomic prospects are realistic since the medium-term programme derived from the DPES is supported by the major technical and financial partners (TFPs) present in the country (see Section 3.2 and Technical Annex IV), including the IMF and the World Bank.

2.2.5 **Major constraints and challenges.** As indicated in the DPES, the CSP and the context analysis, achieving these medium-term objectives is, among others, predicated on the pursuit of good governance in public finance management and private sector development, notably the SMEs. *In the area of public finance management*, resource mobilization to finance the ambitious public investment programme over the medium term implies a strengthening of domestic revenue and a prudent internal and external debt level. Fiscal discipline, continued orientation of public expenditure policy toward development priorities as well as increase in the efficiency and effectiveness of expenditure management also constitutes a challenge.

2.2.6 Concerning *the private sector*, the SMEs are facing two major and inter-dependent constraints: difficult access to financing and their poor performance. Access to financing is limited by constraints related to both the business climate and credit supply. The cumbersome tax system and difficult access to land constitute the main challenges in the business climate. Indeed, whereas banks require certified accounts as a pre-requisite to any loan application, the high and complex tax system encourages the informality of SMEs. Furthermore, the virtual absence of land titles hampers mortgage loans, which represent the main guarantee available to SMEs. Also,

credit supply for SMEs is highly limited, albeit growing. Only 5% of SMEs benefit from credit for their financing<sup>4</sup>. The banks only target the small number of structured SMEs. The main reason given by the banks is sub-standard business plans. The potential of SME loans from decentralized financing companies (SFD) is not sufficiently harnessed in view of the incompatibility of their assessment tools with the risk profile management of SMEs and failure to upgrade the credit information system needed particularly to identify poor borrowers (a Micro-finance Credit Agency is being set up). Lastly, the performance of SMEs could improve by addressing four major constraints that increase their transaction costs: difficult access to electricity identified by them to be the main impediment to their development; weak business plans; difficult access to information on markets, weak professional networks; and difficult access to public procurement often structured for large enterprises (see Technical Annex VII).

### **2.3 Status of Bank Group Portfolio**

The Bank's active portfolio in Senegal had 9 operations as at March 2011, representing a total net commitment of UA 155.6 million, of which UA 70.3 million (45.2%) has been disbursed. The infrastructure sector is leading with 35.1% of commitments followed by the rural sector with 27.4%, water and sanitation sector with 20.7 % and the social sector with 16.8%. In general, the portfolio performance improved significantly in 2010 notably with: (i) the decrease in the number of projects-at-risk from 30% to 18% from 2009 to end 2010 (the Rural Electrification Project is the only project-at-risk in the country's portfolio); (ii) reduction in the period taken for entry into force of loans from 10.9 to 8.7 months of document processing (payment and disbursement requests), procurement of goods and services and financial execution; and (iii) more rapid resolution of project portfolio issues. The portfolio has also been rejuvenated to average 3.8 years in 2010 compared to 4.7 years in 2009. The private portfolio has 4 operations, mainly in the infrastructure sector (energy, port and transport) amounting to a net commitment of EUR 184.5 million. The last approved operation was the Blaise Diagne International Airport (17 December 2010) for EUR 70 million.

## **3. RATIONALE, MAIN DESIGN ELEMENTS AND SUSTAINABILITY**

### **3.1 Linkages with CSP and Country Strategy, Rationale and Underlying Elements**

**3.1.1 Linkage with CSP 2010-2015 and DPES 2011-2015.** The proposed programme is in keeping with the 2010-2015 CSP for Senegal and forms part of the targeted operations underpinning the implementation of the Bank's strategy in the country and the outcome framework. The two strategic pillars of the CSP are: (i) improving the business climate and economic diversification support framework; and (ii) contribution to strengthening national and regional infrastructure. Pillar 1 of the CSP indicates that implementing the PRBF is a priority for enhanced good governance. PARE supports the PRBF reforms and by highlighting private sector promotion, especially SMEs and good governance in infrastructure management, is also in line with Pillars 1 and 2 of the CSP. In addition, PARE is justified by Pillars 1 and 2 of DPES 2011-2015 relating respectively to wealth creation through the implementation of the SCA and good governance.

**3.1.2 Economic rationale and design.** PARE targets support to improved public finance management and SME promotion. The targeting of public finance is attributable to the fact that, despite notable progress in recent years, lapses in fiscal discipline, budget transparency and comprehensiveness and the budget cycle remain. In respect of the latter point, a major benchmark

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<sup>4</sup> Study on SME Financing Supply and Demand in Senegal (SME Directorate / KfW, 2010)

by the end of December 2011 is the adaptation of the revised CHGFO-WAEMU Guidelines to the national positive law. The application of the guidelines is scheduled to commence early January 2012. This framework introduces major innovations in public finance management in WAEMU (see Section 4.2.6 and Technical Annex XI). This situation constitutes an obstacle to the modernization of public finance management, sub-regional economic integration and provision of effective and efficient public services. The targeting of SMEs stems from the fact that SMEs constitute 90% of private enterprises, account for 20% of GDP and employ 40% of the working population. Their potential for growth and employment creation (and self-employment) is inadequately harnessed especially in the growth sectors identified in the Accelerated Growth Strategy (agro-industry and agriculture, tourism, cultural industries and handicraft, information technology and teleservices, textile and garments, seafood products and aquaculture). SMEs may be front line or subcontracting enterprises in some of these sectors. Support to SMEs will contribute to social stability and enhanced economic diversification to ensure resilience to exogenous shocks. The Bank's assistance is now necessary to support the priority reforms of the DPES whose implementation started in 2011, ensure the complementarity of the assistance with other partners as well as contribute to the financing of the budgetary gap in 2011 and 2012 (see Section 4.3). This financing is crucial for macroeconomic stability and the achievement of the country's development objectives. Furthermore, the programme design took into account lessons from implementing PASRP (realistic objectives and implementation schedule, continuity of some reforms and a concise number of measures). The programme design also took into account the principles of aid effectiveness (see Section 3.2), good practices in conditionalities (see Section 3.6 and Annex III) and the new arrangements for accumulated non-concessional debt (see Section 3.7). The Bank is combining this operation with an institutional support project to be implemented in a holistic and integrated manner (see Technical Annex IX).

**3.1.3 General and technical pre-requisites for general budgetary support.** The general and technical pre-requisites for implementing a general budgetary support programme have been met overall. *Generally*, available data on the February presidential election does not indicate any major risks. The medium-term macroeconomic situation, notwithstanding the recent disruption by external factors, is viable. This should improve in future with the assistance of Senegal's partners. Concerning Government's commitment, this appears to be effective and irreversible. Indeed, the Government sees in PARE an operation that would help to implement the 2011-2015 DPES. The formulation of PARE was based on a participatory approach and the programme, which achieved consensus in Government, stems from a policy letter addressed to the Bank (see Annex I). *Technically*, there is a well formulated development programme, through the DPES, based on a satisfactory participatory approach. The country's main partners are of the view that it is credible and relevant, and have undertaken to provide it with assistance in the medium term. Furthermore, the Ministry of Economy and Finance, executing agency of the programme, and the ministries involved in implementing PARE have competent human resources to execute and monitor the programme. In addition, PARE is receiving quality cooperation and collaboration between the partners through the Budgetary Support Framework Arrangement (ACAB). The status of the PRBF established in December 2010 and the financial management assessment conducted by the Bank early 2011 testify to the progress made in public finance management. However, fiduciary risks exist for which mitigative measures have been earmarked (see Section 7 and Technical Annexes II and X).

**3.1.4 Analytical work.** The programme design was based on a solid analytical foundation involving many recent studies by the Bank (covering the intervention strategies and various targeted areas of the programme), other partners and the Government (see details in Technical Annex V). This contributed to sound programme design and formulation.

### 3.2 Collaboration and Coordination with Other Technical and Financial Partners

3.2.1 During PARE preparation and appraisal and in line with the Paris Declaration on Aid Effectiveness, the Bank collaborated with the other TFPs meeting at the ADAB, notably the World Bank, the European Commission, Canada, the Netherlands and Spain. ADAB, which helped to improve TFP coordination and the predictability of financing related to budgetary support operations, is currently led by the Netherlands. Discussions are on-going to ensure that all ADAB partners have a common intervention programme. The Bank also collaborated with the IMF. At sector level, the Bank has held discussions with the private sector thematic group led by USAID and the SME thematic sub-group led by the German Cooperation Agency (GIZ). The coordination was characterized by the joint PARE preparation mission (with the World Bank), transmission of the aide-mémoire of the Bank's appraisal mission to the partners and sharing of information and analytical work (see Technical Annex V). This coordination was key to PARE design, notably the selection of intervention areas for the public finance management reforms and improvement of the business climate whose reference frameworks are the PRBF and priorities of the CPI programme, respectively. The tables below indicate the degree of alignment of the TFP principles with the priorities of the public finance reforms and the business climate<sup>5</sup>

**Table 1**  
**PRBF Themes and Areas Covered by Major Partners**

	Adaptation of WAEMU Guidelines (1)	Increased revenue and execution of expenditures; debt management (2)	Composition effectiveness, expenditure planning; monitoring of payment entities (3)	Accounting /budgetary information, and accountability (4)	Cash management (5)	Public procurement (6)	External control (7)
IMF							
World Bank							
EU							

Source: Authorities, IMF, World Bank, EU; Grey Area: Area covered by the TFPs

**Table 2**  
**CPI Priorities and Areas Covered by Major TFPs**

	Administrative Procedures (1)	Social Legislation (2)	Taxation (3)	SME Promotion (4)	PPP Strengthening (5)	Infrastructure Development (6)	Mining Sector Promotion (7)	Agricultural Development (8)
IMF								
World Bank								
EU								

Source: Government, IMF, World Bank, EU; Grey Area: Area covered by TFPs

3.2.2 Table 4 indicates a fair coverage of the PRBF areas by the major TFPs. The IMF and World Bank partially support the WAEMU Guidelines on public finance management. This support is essential especially now that the timeline for the adaptation has been set for 31 December 2011 (see Technical Annex VI). The continued support to the reforms relating to Themes 2, 3 and 5 will enhance fiscal discipline, budget credibility as well as budget transparency and comprehensiveness. Concerning public procurement, the set-backs noted in recent times had a negative impact on the perception of governance in Senegal. Policy dialogue in this area is necessary to enhance the predictability and internal control of budget execution. With regard to budget external control, progress made notably with the clearing of the backlog of budget review

<sup>5</sup> It is worth noting that these major TFPs also operate in these two areas through institutional and investment support projects.

laws must be sustained. Concerning the CPI priorities for the private sector, it is noted that none of these major donors supports the reforms on SME promotion - a key aspect of private sector development. As will be subsequently seen, PARE as well as the institutional support project consequently focuses on these key reforms (see Technical Annex VII for details of areas of concentration of the major TFPs).

### **3.3 *Results and Lessons from Similar Completed or On-going Operations***

3.3.1 **The Bank has already conducted several similar operations in Senegal.** The last one to date (PASRP 2008-2010), whose completion report has been prepared, comprised two components: (i) strengthening public finance management; and (ii) improving the business climate. The report indicates that major results were obtained. In the area of public finance management: (i) the stock of payment arrears to local suppliers fell from 3.75% of GDP end 2008 to 0.75% end 2009; (ii) non-budgetary expenditure decreased between 2008 and 2009 from 6 to 3% of total expenditure, and underwent external auditing for the MEF; (iii) budget documents, infra-annual and annual statements on budget execution by chapter and by ministry and institution, annual external scrutiny by the Audit Court and decisions of the APRM have been made public and disseminated; (iv) the gradual shift from resource-based budgeting to programme budgeting or multi-year expenditure programmes (MTEF/CDSMT) was accelerated and extended to 5 other ministries; and (v) the Government cleared the backlog of budget execution review bills up to 2008. With regard to private sector promotion, implementation of the PASRP resulted in: (i) the reduction from 58 day to 2 days the overall average NINA issuance time in Dakar and in 11 regional cities; and (ii) halving the property transfer time (118 days in 2007), thanks to the DGID performance contract.

3.3.2 **Three main lessons were drawn from implementing PASRP,** namely the need to: (i) set realistic objectives and implementation schedules tailored to the capacity and resources of the institutions concerned by the reforms; (ii) pursue reforms pertaining to public procurement, land and the business climate; and (iii) reduce the number of measures to the strict minimum. The design of PARE took into account these lessons. Indeed, the PARE objectives and the implementation schedule were discussed at length with the authorities and in consultation with other TFPs since programme preparation. PARE's objective is relatively clear and realistic. The programme under consideration will be implemented over a 24-month period. This schedule is realistic given the more concise number of measures (PARE: 28 measures compared with 53 for PASRP) and the high level of ownership of the programme by Government. The matrix of measures was the subject of consultation with the institutions involved in PARE's implementation. These institutions have the required capacity. Furthermore, as will be seen subsequently, PARE will consolidate the efforts initiated in public procurement, land and business climate reforms for SMEs.

### **3.4 *Linkage with On-going Bank Operations***

By contributing to improving fiscal discipline and budget credibility, budget comprehensiveness and transparency as well as management of the budget cycle, the proposed programme will facilitate the timely release of counterpart funds. This will have a direct positive impact on the implementation of on-going projects in the agriculture, water and sanitation infrastructure and the social sectors. By facilitating access by SMEs to finance, PARE will contribute to deepening the impact of other Bank operations under the private sector window (lines of credit for SMEs and SME loan guarantees). The primary recommendation of the 2006 report prepared by the Bank on Assessing the Effectiveness of Lines of Credit (LOC) is that LOCs should form part of an integrated approach in the financial development sector. In keeping

with this recommendation, PARE will contribute to improving the legal and institutional framework in which the LOCs and guarantees proposed by the Bank will be implemented. PARE, which aims at improving governance in the energy sector and road maintenance, should also have a direct positive impact on the private sector portfolio and on-going multinational operations in the infrastructure sector.

### **3.5 *Bank's Comparative Advantages and Value-Added***

The Bank has acquired considerable experience in policy-based dialogue in public finance and private sector development in Senegal from its last operations (PRTPC, PAASP and PASRP) and also in the sub-region. The lessons learned were incorporated in the programme design and implementation. The presence of the Regional Office for dialogue and monitoring PARE's implementation also constitutes a comparative advantage. The Bank's value-added is at three levels: (i) complementarity of the reforms supported with those of other partners, including SME promotion; (ii) use of a holistic and integrated approach with the parallel implementation of PARE and an institutional support to the same complementary areas; and (iii) application of the recommendations of the Bank's study on the tax potential.

### **3.6 *Application of Good Practices Principles on Conditionalities***

PARE's design took into consideration good practices principles on conditionalities (see Annex III). Indeed, the preceding sections have helped to justify the ownership and commitment of the Government of Senegal to the programme (also see the Policy Letter in Annex I). This is also true for the support modalities and programming which are consistent with national needs and achievement of DPES 2011-2015 objectives. Furthermore, the conditions precedent (presentation of PARE to the Board and loan disbursement) were adopted in agreement with the Government. They are relevant, precise, simple, achievable and consistent with the results framework agreed to with the Government. The agreed measures are adequate for the programme duration and capacity of the administration. The number of conditions precedent to the disbursement of ADF financing has been reduced to the strict minimum.

### **3.7 *Application of Bank Group Policy on Non-Concessional Lending.***

The Government is aware that any non-concessional financing must be linked to economically profitable projects (according to the assessment of an internationally reputable entity) and must not compromise the viability of the public debt. It undertook to consult the IMF services for borrowings whose 35% concessionality rate had not been achieved. The Government will inform the IMF services prior to contracting this type of debt and provide the prior information needed to verify the degree of concessionality of borrowings, a brief dossier of projects and their cost-effectiveness as well as an assessment of the Government or the lender. In keeping with the policy on accumulated non-concessional debt amended in 2011, the loan agreement includes a specific clause requiring the country to notify the Bank about new non-concessional borrowings and pursue a debt policy in line with the provisions agreed to with the IMF.

## **IV. PROPOSED PROGRAMME**

### **4.1 *Programme Goal and Objectives***

4.1.1 In relation to the constraints, challenges and the priority reforms outlined above, the goal of PARE is to contribute to improving financial governance and the business climate necessary



for achieving the DPES objectives. The specific objective of the programme is to improve public finance management and promote SMEs (wealth creation). These two areas are inter-related.

#### **4.2 Programme Operational Objectives and Expected Outcomes**

4.2.1 PARE entails two components: (i) support to public finance management improvement; and (ii) support to SME promotion.

#### **COMPONENT 1: SUPPORT TO PUBLIC FINANCE MANAGEMENT IMPROVEMENT**

4.2.2 This component has three operational objectives: (i) contribute to improving budget credibility, necessary for fiscal discipline; (ii) support to improved budget comprehensiveness and transparency; and (iii) support to the improvement of the budget cycle. The institutional support project that will be implemented alongside will support revenue mobilization as well as the strengthening of public procurement management and external control capacity.

#### **Operational Objective 1.1: Contribute to Improving Budget Credibility.**

4.2.3 *Context, challenges and recent actions:* Overall, the budget is credible to the extent that revenue matches forecasts, with the exception of 2009 due to the economic crisis. Expenditures remain within the limitations of the Finance Act. In terms of revenue, a Revenue Monitoring and Execution Committee was put in place and revenue mobilization improved. Efforts must be made in the area of rationalization of tax exemptions, improvement of the economic operators' identification system and widening of the tax base with the impending creation of the SMEs Tax Centre. With regard to expenditures, this credibility is marred by the significant gap between initial inter-sector distribution and actual distribution. Many amending decisions, including decrees on advances, are passed in the course of the year that substantially modify credit allocations. Significant improvements were made in the organization of expenditure procedures. This helped to partly eliminate non-budgetary commitments that constitute significant sources of accumulated arrears. However, the absence of a formal system for monitoring arrears of payment does not yet provide a guarantee against the risk of fresh arrears accumulation. Furthermore, the non-centralization of transfers in a single Treasury account and the irregular production of TOFE render cash management difficult. A treasury expenditure monitoring committee is necessary to enhance fiscal discipline. These measures are unavoidable if the budgetary deficit is to be contained (commitment basis, excluding grants below 4% of GDP).

4.2.4 *Programme measures:* To improve the predictability of revenue, the Government, in addition to setting up a Revenue Monitoring Committee, plans to: (i) widen the tax base by: (a) adopting in 2011 the action plan for establishing an SME Centre; and (b) establishing the Centre at DGID in 2011; (ii) repeal in 2011, 2012 and 2013 a number of overriding instruments on tax exemption pending the adoption of the new tax code that will rationalize these exemptions; (iii) introduce in 2012 a single tax identifier common to all financial administrations (DGDI, DGD, DGCPT). For expenditure rationalization, the programme will: (iv) limit to 10% in 2011, 2012 and 2013 the discrepancies in the variation of the expenditure composition (amending provisions to finance acts); (v) create in 2011 the Treasury Expenditure Monitoring Committee; (vi) restore in 2011 and 2012 the centralization of transfers in the single Treasury account to optimize management of the public treasury; (vii) regularly produce and publish in a timely manner the monthly TOFE in 2012 and 2013; (viii) pursue in 2011 and 2012 the clearing of non-budgetary commitments audited in 2006-2009; (vii) and apply in 2011 and 2012 sanctions in cases of recurring non-budgetary commitments. *Measures (i. a) and (viii) constitute conditions precedent to presentation of the programme to the Board, while measure (v) is a condition precedent to the disbursement of the first tranche.*

4.2.5 *Expected results (outcomes)*: The differences between revenue and expenditure forecasts and actuals will be reduced in 2011 and 2012. That will translate into an improvement in budget credibility (PEFA Indicators 1 and 3) (see the details relating to outputs and outcomes in the log-frame matrix and the matrix of measures).

### **Operational Objective 1.2: Support the Strengthening of Budget Transparency and Comprehensiveness**

4.2.6 *Context, challenges and recent actions*: Progress has been made in budget comprehensiveness and transparency, notably by improving the monitoring and execution of external financing, comprehensiveness of information contained in the budgetary documentation appended to the Finance Act and access by the public to budgetary information (budget, budget execution, Court of Accounts' annual external audit reports, public procurement audit findings, decisions by the Public Procurement Regulatory Agency, debt data, etc.). Current budgetary classifications are consistent with the 1997 WAEMU standards; they help to provide a detailed description of budgetary allocations based on economic and administrative classifications. The functional classification has not yet been established. Local communities also have difficult access to budgetary information and resource mobilization. This constitutes an impediment to decentralization and local development. Furthermore, the comprehensiveness and transparency of information on the expenditure of autonomous public entities are inadequate. Actions were initiated for the adoption of the revised guidelines of WAEMU on Government budget classification (NBE)<sup>6</sup> in the positive law through a decree by end December 2011. This will make it possible starting from 2012 to improve budget transparency and coverage in line with international standards.

4.2.7 *Programme measures*: The Government hopes to enhance budgetary coverage and transparency through the following measures: (i) pass in 2011 in Council of Ministers, the decree adapting the WAEMU Guideline on the NBE to the national legislation; (ii) sign by end March 2012 and 2013 all the decisions allocating the decentralization funds stemming from the 2012-2013 finance law; and (iii) publish in 2012 and 2013 a report on the expenditures of autonomous public entities. *Measure (i) is a condition precedent to the disbursement of the second tranche.*

4.2.8 *Expected results (outcomes)*. (i) The Government 2011 budget classification is in line with the CHGFP-WAEMU and international standards. This indicates an improvement in relation to 2010 and greater comprehensiveness of the information included in the budget documentation (PEFA Indicators 5 and 6); (ii) transparency of inter-governmental fiscal relations improves in 2012, given better access by local communities to information on their budgetary credits and the timely release of these resources (PEFA Indicator 8); and (iii) information on fiscal risks from public entities improves in 2012 and 2013 with the reporting of the expenditures of autonomous public entities (PEFA Indicator 9). All this translates into improved budgetary coverage and transparency (see details on outputs and outcomes in the log-frame matrix and the matrix of measures).

### **Operational Objective 1.3: Support Budget Cycle Improvement**

4.2.9 *Context, challenges and recent actions*. PEFA 2011 (base case 2010) indicates progress at the budget cycle level. However, this is not sufficient for the country to achieve its growth and poverty reduction objectives. Overall, in relation to 2007, progress was noted in policy-based

<sup>6</sup> The NBE: presentation, analytical and functional table on which the Government budget is codified and executed. Budgetary operations are classified into revenue by type and source and into expenditures by administrative classification, functional and economic programme.

budgeting and the entry and recording of financial operations and reports. Budget execution predictability and internal control performance has been mixed. Efforts must be made in external scrutiny and audit (see Technical Annex X). Concerning *external control*, the backlog of budget review laws was cleared up to 2009, but delays persist in the Court of Accounts' scrutiny of these projects (2006 and 2007 certificates of compliance not issued) and in the auditing of public accountants' accounts. The Court established a medium-term programme for these accounts. Furthermore, the regulatory instruments on the reform of the Court of Accounts aimed at simplifying control procedures, reforming and strengthening the public prosecutor's office have not yet been finalized.

4.2.10 **Concerning public procurement management**, which is essential for the predictability of budget execution and control, progress was made through the adoption in 2007 by decree of a public procurement code which is virtually compliant with the WAEMU Guidelines<sup>7</sup>. This enabled Senegal to have one of the most performing systems in Africa (score of 2.46 out of 3 on the OECD 2008 assessment) and be selected by the World Bank as a pilot country out of 4 countries in the use of country systems for international competitive bidding. Hence, the Government undertook to make adjustments to the code to make it fully compliant with international procurement standards, notably those defined by the OECD/DAC indicators, to enable the national procurement system to be effectively used for international competitive bidding. The adjustment exercise did not achieve the expected results to the extent that the Government signed a decree on 13 September 2010 exempting some procurement from competition. This was considered to be a set-back. Subsequently, the Government accepted to amend the decree with a new decree dated 6 January 2011. Although the latter amended the overriding articles, it failed to address some points of divergence with the private sector, civil society and the donor community. Revising the exemptions to make the code compliant with the WAEMU Guidelines and international standards on public procurement is key to the enhancement of the predictability and internal control of budget execution.

4.2.11 Notwithstanding the progress made in harmonizing the procurement code with WAEMU standards, the adaptation of the five other CHGFP-WAEMU Guidelines to the national legislation to be completed by end December 2011 must be accelerated. It is worth noting that Senegal's current public finance management system is governed by the 1998 guidelines adapted to the country's positive law early 2000. These guidelines were revised in 2009 following the assessment conducted in 2004 that revealed inconsistencies and shortcomings in those guidelines, their rigidity and lack of clarity in some of the provisions. Therefore, PARE's contribution to improving the budget cycle aims to support: (i) the harmonization of the provisions of the legal, accounting and statistical framework of public finance management in Senegal with the new CHGFP-WAEMU guidelines relating to the legal, (LOLF, RGCP), accounting (PCE and NBE<sup>8</sup>) and statistical (TOFE) framework; (ii) the consolidation of public procurement management reforms; and (iii) improvement of external control. The table below provides a summary of LOLF ambitions and innovations (see details in Technical Annex XI).

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<sup>7</sup> Public finance management transparency code

<sup>8</sup> The NBE was raised during the discussions on budget coverage and transparency.

**Table 3**  
**LOLF-WAEMU Ambitions and Innovations**

Fiscal Reform Ambitions	Fiscal Reform Innovations
<ul style="list-style-type: none"> <li>• Transition from a resource-based to a result-based logic (objectives, assessment and results)</li> <li>• Management method reform</li> <li>• Enhanced transparency</li> </ul>	<ul style="list-style-type: none"> <li>• The principle of budget reliability</li> <li>• Budget presentation based on budget policy and performance</li> <li>• Execution reform</li> <li>• New budgeting methods</li> <li>• Enhanced parliamentary and judicial control</li> </ul>

Source: WAEMU, 2009

4.2.12 Attempts were made to incorporate the guidelines in the national positive law. At the LOLF level, the guidelines will be adopted through a law. A bill was formulated and is in the process of being adopted by the Council of Ministers. The accounting and statistical aspects of the guidelines were adopted through decrees. The draft decrees on the RGCP, PCE and TOFE have been validated and will be forwarded to the National Validation Committee for communication to MEF. The decrees will be signed after Parliament passes the LOLF.

4.2.13 *Programme measures:* With regard to the adoption of WAEMU Guidelines, the Government hopes to step up legal and regulatory actions by end December 2011 as required by WAEMU. To do this, it intends to: (i) have the Council of Ministers endorse the bill adopting the LOLF-WAEMU in 2011 and transmit it to Parliament, as well as (ii) pass the decrees on the RGCP, PCE and TOFE. Concerning external control, the Court of Accounts undertakes to: (iii) adopt in 2011 a medium-term audit programme for public accountants' management accounts, select accounts to be audited and rule on 50% of these accounts in 2012 and 2013; and (iv) finalize in 2012 instruments to reform the Court of Accounts. With regard to public accounts, the Government undertakes, provisionally and until the passing of the new Code to: (v) sign in 2011 the decree governing and specifying defence and security contracts procedures requiring confidentiality and those for which the protection of the key interests of the State is incompatible with publicity requirements; (vi) launch in 2011 the public procurement code review exercise, especially articles related to: (a) national defence and security contracts requiring confidentiality; (b) contracts for petroleum products, accommodation and catering for official guests during the organization of seminars or workshops as well as operations relating to financial service delivery; (c) the GENIS type of contracts that could be concluded for a 7-year period and multi-year maintenance contracts; (d) rule governing participation by public enterprises; (e) directly negotiated and highly urgent contracts authorized by the Prime Minister; and (vii) revise in 2012 the aforementioned articles of the code to make them fully compliant with WAEMU guidelines and international standards. Measures i, ii, iv and vii are conditions precedent to the disbursement of the second tranche.

4.2.14 *Expected outcomes:* (i) rules and procedures for budget preparation, formulation, adoption, execution, entry and control are in line with the CHGFEP-WAEMU guidelines and international standards; (ii) backlog of audited public accountants management accounts (central and local government) and the opinion of the Court of Accounts on these accounts is cleared in 2012 and 2013; and (iii) in 2012, the public procurement reform is consolidated and the public procurement code made to conform with WAEMU guidelines and international standards (PEFA Indicator 19). This should translate, among others, into the systematic annual auditing of public procurement. The modernization of rules and procedures related to the finance law and improvement in competition, value for money and controls in public procurement will improve the budget cycle (see details on outputs and outcomes in the log-frame and measures matrices).

## **COMPONENT 2: SUPPORT TO SME PROMOTION**

4.2.15 This component has two operational objectives: (i) improve conditions of access by SMEs to credit through incentives for the formalization of SMEs by improving the tax environment and facilitating access to landed property; and (ii) improve the performance of SMEs by facilitating access to electricity and public procurement. The institutional support project to be implemented separately will support the adaptation of decentralized financing companies (SFD) to the central credit register to facilitate access by SMEs to finance. It will enhance the performance of SMEs by facilitating their access to non-financial services meant for SMEs through the chambers of commerce.

### **Operational Objective 2.1 Improving Access by SMEs to Credit**

#### **Operational Objective 2.1.1: Foster the Formalization of SMEs by Improving their Tax Environment**

4.2.16 *Context, recent actions and challenges:* The primary reason for SMEs having difficulty in accessing financing from banks is their informal nature. Banks do not consider applications by businesses without certified accounts. SMEs prefer to remain informal because of the weight and cumbersome nature of the tax system. Furthermore, tax rates are high as a result of the unduly narrow tax base stemming from the informal nature of SMEs. Hence, this is a vicious circle. Following, among others, the study on tax potential supported by the Bank, the Government intends to undertake a revision of the General Tax Code (see Technical Annex XII). One of the objectives of the reform is the segmentation of tax administration that in 2011 will result in the establishment of the SME Centre mentioned previously. This Centre will enable better management of the tax environment, particularly that of SMEs. The relevant reforms on SMEs indicated in the code are as follows: (i) simplification of the tax system; (ii) reduction of the single VAT for the tourist sector from 18% to 10%; (iii) a simplified tax system, notably a less complex tax and accounting obligation form; (iv) a preferential tax regime for registered private management centres providing technical assistance to SMEs; and (iv) a preferential tax system for financial lease.

4.2.17 *Programme measures:* For this, the Government plans to: (i) finalise in 2012 the bill on the reform of the General Tax Code; and (ii) establish the SME Centre at the DGI in 2011.

4.2.18 *Expected results (outcomes):* the tax environment of SMEs improves from 2011 to 2013 through better tax administration and relevant tax measures for these enterprises. This should reduce the computerization of the SMEs and improve their access to credit (see details on outputs and outcomes in the log-frame and measures matrices).

#### **Operational Objective 2.1.2 – Facilitate Access by SMEs to Landed Property**

4.2.19 *Context, recent actions and challenges:* SMEs account for 90% of private enterprises in Senegal. Only a small portion of land owners, including owners of SMEs, have land titles. In the vast majority of cases, the State is the owner and the occupants only hold a long occupancy right. Furthermore, although the PASRP contributed to cutting by half the landed property transfer period, the transaction costs for the latter are high compared with international and regional practices. The transfer tax corresponds to 15% of the value of the property compared to 8-10% in the sub-region. A new land law has been passed, but not the decree on the implementing instruments (see Technical Annex XIII). The new law will entail the free transformation of 12,000 occupancy rights into land titles. The transfer tax will be reduced to 10%. The absence of land title and the high transaction costs increase the risk for business owners and make borrowing through land mortgage impossible. Therefore, it is essential to facilitate access by businesses, particularly SMEs, to landed property.

4.2.20 *Programme measures*: The Government plans to facilitate access to landed property by passing a decree in 2012 on the implementing instruments of the new land act. *This measure is a condition precedent to the disbursement of the second tranche of the loan.*

4.2.21 *Expected results (outcomes)*: (i) 12,000 new land titles will be issued in 2011, 2012 and 2013; (ii) the cost of land registration will fall from 20.6% in 2010 to 16.0% of the value of the property in 2012 and 2013 (see details on outputs and outcomes in the log-frame and measures matrices).

## **Operational Objective 2.2: Improve SME Performance**

### **Operational Objective 2.2.1: Improve Access to Electricity**

4.2.22 *Context, recent actions and challenges*: The country has been facing electricity crisis for several years characterized by excess demand and frequent power cuts. The crisis originates in disruptions in fuel supply and SENELEC's cash flow problems, including Government arrears. According to business owners, the energy problem constitutes the main obstacle to investment and competitiveness. An end of energy crisis plan called "Takkal (2010-2014)" has been adopted. It entails an increase in the capacity to generate power, better manage demand, restructure SENELEC, secure its fuel supply and systematize the auditing of sector management. The Government will cater for power generation, distribution and transmission until 2014 through the creation of a holding company. This plan is supported by the major TFPs. Good governance in the sector fostered by the new public procurement code should be strengthened with the will of the Government to promote public-private partnership and find a lasting solution to the energy crisis.

4.2.23 *Programme measures*: To improve SENELEC cash flow and energy supply, the Government will: (i) regularly pay the electricity bills of central level official entities (39 ministries) in 2011, 2012 and 2013; and (ii) create in 2012 an electricity tariff regime commensurate with the institutional changes in the sector. *Measure (i) is a condition precedent to the disbursement of the second tranche of the loan.*

4.2.24 *Expected results (outcomes)*: Access by SMEs to the SENELEC power grid improves and the number of businesses using power generators reduces from 76% to 65% from 2010 to 2013.

### **Operational Objective 2.2.2: Facilitate Access by SMEs to Public Contracts.**

4.2.25 *Context, recent actions and challenges*: Senegalese SMEs are virtually excluded from both direct and sub-contracted public procurement. This is due to the selection criteria of competitive bids that favour large scale enterprises with international references. Concerning the construction sector where a number of SMEs operate, the unsatisfactory execution of road maintenance credits has made it difficult for SMEs to gain access to road maintenance contracts. This is an obstacle to the development of expertise by local contractors, their financial viability and the competitiveness of the economy. The SME charter promulgated in 2003 seeks to reserve 30% of public procurement to SMEs. The SME Framework law promulgated in 2008 makes it an obligation to reserve a portion of public contracts to SMEs. Other measures were passed to facilitate access by SMEs to public procurement and increase the rate of contracts allocated to them<sup>9</sup>.

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<sup>9</sup> The measures are as follows: (i) an implementing order signed on 7 April 2010, entails procedures simplified for the local communities concerning publicity formalities and terms of reference while facilitating access by SMEs to the local markets; and (ii) a Circular related to the application of qualification criteria especially for SMEs, approved by

4.2.26 *Programme measures*: The Government plans to: (i) pass an implementing decree in 2011 on the SME framework law, which will determine the proportion of public contracts to be reserved for SMEs, relevant sectors and the modalities for awarding contracts in conformity with the public procurement code. With regard to road maintenance, the Government is committed to: (ii) the satisfactory execution in 2012 and 2013 of credits allocated to road maintenance. *The measure is a condition precedent to the disbursement of the second tranche of the loan.*

4.2.27 *Expected results (outcomes)*: The proportion of public contracts awarded to SMEs increases from 10% in 2010 to 15% on average in 2012 and 2013.

**Box 3**  
**Conditions Precedent to Presentation of the Programme to the Board**

**It was agreed with the Government that the measures below would constitute pre-requisites to presentation of the programme to the Board. Therefore, these measures should be carried out before end June 2011.**

- Evidence that the action plan to put in place the SME Centre has been adopted in 2011; (§ 4.2.3)
- Evidence that the clearance of non-budgetary commitments audited in 2006-2009 was pursued in 2011 (§ 4.2.3)

### 4.3 *Programme Financing Needs and Arrangements*

The total financing needs during the programme implementation period amount to CFAF 3893 billion. The needs will be financed through internal and external borrowing. The 2011-2012 financing gap is eliminated after the financial support by the Bank and other ACAB partners. The UA 27 million loan will be disbursed in the following proportions: 75% (CFAF 14.8 billion) in 2011 and 25% (CFAF 4.9 billion) in 2012. The Bank's financing represents 42.5% of the programme loans in 2011 and 10.6% in 2012.

**Table: Financing Needs and Sources 2011-2012 (in CFAF Billion)**

	2011	2012	2011-2012
<b>Internal budgetary resources</b>	<b>1345.0</b>	<b>1456.0</b>	<b>2801.0</b>
<b>Net expenditure and financing needs and loans</b>	<b>1892.0</b>	<b>2001.0</b>	<b>3893.0</b>
<b>Overall budgetary balance excluding grants</b>	<b>-547.0</b>	<b>-545.0</b>	<b>-1092.0</b>
<b>Net financing (excluding ADB programme loan)</b>	<b>561.8</b>	<b>549.9</b>	<b>1111.7</b>
Internal financing	121.0	73.0	194.0
External financing (excluding ADB)	440.8	476.9	917.7
Programme loans (excluding ADB)	20.0	31.3	51.3
Other grants included	420.8	445.6	866.4
<b>Financing gap</b>	<b>14.8</b>	<b>4.9</b>	<b>19.7</b>
ADB programme loan	14.8	4.9	19.7
<b>Residual financing gap</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Source: IMF and Authorities

### 4.4 *Programme Beneficiaries*

PARE will translate into better budget management and contribution by SMEs to GDP. This will help to improve public service delivery, create employment and generate income. The main programme beneficiary will be the Senegalese population. In terms of outputs and

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the ARMP on 2 April 2010, aimed at facilitating access by local contractors to public procurement in pursuit of objectives of quality and effectiveness.

outcomes, PARE will directly strengthen institutions in charge of implementing reforms, notably those under the Ministry of Economy and Finance (DGCPT, DGID, DGD, DGCMP and ARMP), the Court of Accounts, APIX and the Ministry of SME-SMI Development (ADEPME), Ministry of Transport (FERA) and SENELEC. Besides, local governments will have timely access to budgetary resources allocated to them. Lastly, the programme will also benefit SMEs by facilitating their access to finance, public contracts and improved governance in the electricity sector.

#### **4.5 *Impact on Gender***

The programme will have an indirect positive impact on women who will benefit from the induced outcomes of PARE pertaining to improved public service delivery. Furthermore, the LPS/SME and the country's development strategy acknowledge the potential for the creation of women's businesses, and make the promotion of women's entrepreneurship a priority. For example, Article 33 of the SME Promotion Framework Law in reference to the Public Procurement Code, states that: "Fifteen per cent of the proportion of public procurement reserved to recognized SMEs shall be allocated to women". Furthermore, Pillar 2 of the LPS contains the following specific objective: "facilitate the speedy and sustainable set up of women and young entrepreneurs". Available data indicate that some high potential SMEs targeted by the SCA are run by women entrepreneurs and employ female staff. These pro-women policies must be pursued through several reforms contained in PARE, including improvement of the tax environment, access by SMEs to land and to public contracts.

#### **4.6 *Social Impact***

PARE will contribute to narrowing the financing gap of Government financial operations and improve fiscal discipline. This is crucial for macroeconomic stability. Furthermore, the mobilization of resources as well as increased public expenditure management efficiency and effectiveness promoted in PARE are key to improving basic public service delivery. The targeting of SMEs and their potential for growth (and self-employment) notably in the sectors identified in the SCA will contribute to enhancing living conditions and social stability through the creation of skilled and unskilled employment, and generation of income for the poor.

#### **4.7 *Impact on the Environmental and Climate Change***

The goal of PARE is to improve financial governance and the business climate. It is a general budgetary support programme. The facilitation of access by SMEs to the SENELEC power grid will help to reduce the use by these enterprises and the population of stand-by power generators. This will contribute to reducing greenhouse gas emissions and improving the quality of air. In addition, the facilitation of access to land titles will not have a marginal impact on the environment since this will relate only to already developed lands. Therefore, no significant impact on the environment and the climate is expected. Consequently, the programme is classified under Environmental Category III.

## **5. IMPLEMENTATION AND MONITORING/EVALUATION**

### **5.1 *Implementation Arrangements***

**5.1.1 *Implementation mechanisms:*** The Ministry of Economy and Finance (MEF) is the Programme Executing Agency. Programme implementation will be steered by a Budgetary Support Monitoring Committee (policy coordination, steering and decision-making) chaired by



the MEF Advisor. The Committee, which is already in place, will comprise the following institutions: (i) Fiscal and Financial Reform Coordination Project; (ii) General Directorate of Public Accounting and Treasury; (iii) General Directorate of Finance; (iv) Debt and Investment Directorate; (v) Economic and Financial Cooperation Directorate; (vi) Development Policy Studies Centre; (vii) National Statistics and Demography Agency; (ix) National Investment Promotion and Major Projects Agency (APIX); (x) Economic Forecast and Studies Directorate; and (xi) the Court of Accounts. This Committee which sits at the Office of the Minister of Finance has the requisite experience and capacity. It satisfactorily managed and coordinated previous programmes, including PASRP (the latest).

5.1.2 **Disbursements:** In view of the financing needs in 2011 and 2012, the loan amounting to UA 27 million will be disbursed in two tranches of UA 20.25 million (CFAF 14.8 billion) and UA 6.75 million (CFAF 4.9 billion), respectively, in 2011 and 2012, subject to the Borrower fulfilling the specific conditions of the disbursement of the two tranches. The funds will be disbursed into a special Treasury account under the ACAB lodged with the Country Branch of the BCEAO in Dakar. The references of this account will be communicated to the ADF.

5.1.3 **Procurement:** Since the programme is a general budgetary support, its implementation will not involve direct procurement issues.

5.1.4 **Financial management and audit:** Financial management: Since the programme is budgetary support, the resources allocated to it will use the public expenditure channel in its entirety (allocation of resources, expenditure chain and control). The Ministry of Economy and Finance will assume responsibility for administrative, financial and accounting management of the said resources. Based on the recent evaluation of the public finance management system, (PEFA Report 2007, PEFA Interim Report 2011), five fiduciary risks to PARE resources were highlighted: (i) transfer risk; (ii) unplanned implementation; (iii) non-registration; (iv) lack of value for money; and (v) lack of accountability. Mitigative measures were identified (see Section 7; details of this assessment and fiduciary risks identified appear in Technical Annex V). Audit: as part of a special mandate given by the Government to the Court of Accounts, it will conduct annual auditing of the cash flows of the Treasury ACAB Account at the Country Branch of the BCEAO, to ensure: (i) that PARE resources are covered in the budget; and (ii) the integration of PARE resources into the public expenditure channels. Its report should reach the Bank by 30 June of the year following the disbursement of resources.

## 5.2 **Monitoring/Evaluation Arrangements**

The matrix of measures and the log-frame are reference instruments for PARE monitoring/evaluation. PARE will be subjected to supervision and mid-term review, in keeping with Bank rules. The programme executing agency will prepare quarterly reports that it will submit to the Bank. The Bank's Regional Office in Dakar (SNFO) will undertake close supervision and monitoring of the programme. The programme measures will be included in the joint ACAB matrix. SNFO will update ACAB partners and the IMF on the programme status. The completion report, which will be shared with these partners, will be prepared in accordance with Bank rules. .

## 6. **LEGAL DOCUMENTS AND AUTHORITY**

### 6.1 **Legal Documents**

6.1.1 The programme will be financed with ADF resources and a Loan Agreement will be signed between ADF and the Republic of Senegal.

## **6.2 Conditions Precedent to ADF Intervention**

**6.2.1. Conditions precedent to Loan Agreement effectiveness:** Loan effectiveness will be subject to the fulfilment of conditions set forth in Section 12.01 of the General Conditions Applicable to Loan Agreements and the ADF loan and guarantee covenants.

### **6.2.2 Conditions Precedent to Disbursement of the First Tranche**

Disbursement of the first tranche of the loan amounting to UA 20.25 million will be subject to fulfilment to ADF's satisfaction of the following specific conditions:

- (i) Evidence of opening a Public Treasury special account at the BCEAO Dakar Branch to receive the loan resources (§ 5.1.2);
- (ii) Evidence of the creation and operation of the Expenditure Monitoring Committee in relation with the Treasury (§ 4.2.4).

### **6.2.3 Conditions Precedent to Disbursement of Second Tranche**

The disbursement of the second tranche of the loan amounting to UA 6.75 million will be subject to the satisfactory review by the ADF of the Programme and the satisfactory fulfilment of the specific conditions below:

- (i) Evidence of the complete adaptation in 2011 in the national legislation, of WAEMU guidelines on the Public Finance Organic Law, Public Procurement (revised code), Government Budget Classification, General Regulations on Public Accounts, Government Chart of Accounts and the Government Financial Operations Table (§ 4.2.7 and 4.2.13);
- (ii) Evidence that the electricity bills of Central Government (39 ministries) have been regularly paid to SENELEC in 2011 (§ 4.2.23);
- (iii) Evidence that the implementing decree of the SME framework law has been passed (§ 4.2.26);
- (iv) Evidence that the implementing decree of the new land act has been passed (§ 4.2.20); and
- (v) Evidence that instruments relating to the reform of the Court of Accounts has been finalized (§ 4.2.12).

### **6.2.4 Commitment**

The Government undertakes to inform the ADF of new non-concessional borrowing it may contract and pursue a debt policy consistent with covenants with the IMF (§ 3.7.2).

## **6.3 Compliance with Bank Group Policies**

All policies and guidelines applicable to the budgetary support were complied with. No waiver is requested under the programme.

## **7. RISK MANAGEMENT**

The general conditions precedent to budgetary support (political stability, Government's commitment and economic stability) are deemed satisfactory (see § 3.1.3). The political context will be closely monitored by the Bank through SNFO. With regard to technical conditions, two types of residual risks persist that could affect the attainment of the PARE outputs: (i) exposure of the economy to shocks; and (ii) unreliability of the financial management system. The first risk will be mitigated by the following measures: (i) energy and food forecasts from 2011 to 2013; (ii) the will of the TFPs to provide the country with financial assistance; and (iii) the experience acquired in managing risks such as the 2009 floods. The second risk relates to unplanned execution, transfer, non-registration, embezzlement and lack of auditing. The mitigative measures for these risks are as follows: (i) existence of a public finance reform plan supported by the TFPs and recent achievements and favourable prospects for the continued implementation of the reforms; (ii) safeguards in the programme design with: (a) measures precedent to presentation of PARE to the Board, related to the clearing of non-budgetary commitments; (b) conditions precedent to the loan disbursement, most of which relate to public finance management, including the adoption of the harmonized WAEMU guideline framework; (c) planned supervision missions; (d) special annual auditing by the Court of Accounts covering PARE resources and integration of PARE resources in the expenditure chain; and (e) parallel implementation of an institutional support geared toward public finance management (see Technical Annex IX).

## **8. RECOMMENDATIONS**

It is recommended that the Board of Directors approve a loan of UA 27 million to the Government of Senegal to finance the Economic Reform Support Programme (PARE), subject to the fulfilment of conditions set forth in this report.

## ANNEX

## GOVERNMENT LETTER OF DEVELOPMENT POLICY

Republic of Senegal  
One People-One Goal-One Faith

N°

MEF/CAB/CT A. Nd

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**MINISTRY OF ECONOMY  
AND FINANCE**  
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***MINISTER OF STATE***

**Mr. Donald Kaberuka  
President of African Development Bank  
Temporary Relocated Agency (TRA) –  
Tunis – Tunisia**

**SUBJECT: ADB Budgetary Support 2011-2012**

**Mr. President,**

As part of the budgetary support framework that the African Development Bank has made available to our country in two tranches (2011 and 2012), I hereby forward to you the Letter of Economic and Social Development. This document outlines recent economic and social developments and the major thrusts of our Economic and Social Policy Paper 2011-2015. I would also like to take this opportunity to thank the authorities of the African Development Bank for the unflinching support it has given our country. Please accept the assurances of my highest consideration.

### **I. Introduction**

The Government of Senegal is determined to pursue the implementation of the necessary reforms to create conditions for sustained economic growth geared towards achieving the MDGs by 2015. To this end, it will continue to implement prudent macroeconomic policies while modernizing the business climate, with a view to enhancing the competitiveness of its economy and improving the living conditions of the population. In implementing its reforms, the Government is supported by the IMF under a three-year Policy Support Instrument (PSI) agreement.

### **II. Recent Macroeconomic Trend**

The recent period has been marred by a difficult international environment fraught with a succession of shocks (escalation of petroleum and food prices, and the financial crisis) that has negatively affected the Senegalese economy. Real GDP growth was estimated at 2.2% in 2009. However, the economy is steadily recovering and GDP increased by 4.2% in 2010 thanks mainly to a recovery of exports, accelerated public investments notably in the infrastructure sector and the pursuit of the regularization of non-budgetary commitments to improve the financial situation

of private sector enterprises. The primary and tertiary sectors grew by 4.5% and 4.9%, respectively, in 2010 whereas the secondary sector slowed down to 2.9% compared to 4.8% in 2009 as a result of electricity supply challenges that worsened in the second half of the year. Indeed, the increase in unmet energy demand translated into a 1.4% loss in growth. However, the negative impact of power outages on production was offset by the procurement by formal sector enterprises of 76.6% of power generators. Similarly, in the informal sector, only 30% of enterprises are without adequate electricity back-up. With respect to budgetary and structural reforms, significant achievements were made under the previous PSI programme. Overall, the budget deficit stood at 5.2% of GDP in 2010, reflecting the considerable support to economic activity through accelerated public investments. Fiscal revenue rose to 18.8% of GDP in 2010 from 18% in 2009, indicating an improvement in the effectiveness of revenue collection services and the widening of the taxable base. Total expenditure and net lending in 2010 are estimated at 27.2% of GDP compared to 26.7% in 2009, as a result of major investment spending, estimated at 7.6% of GDP as against 10.1% in the previous year. The current external deficit (excluding grants) was reduced to about 6.5% of GDP compared to 7.5% in 2009. The impact of the global financial crisis on remittances from the Diaspora and foreign direct investments (FDIs) was less than originally expected. Structural reforms have generally progressed in line with the programme despite some delay in incorporating wage spending in SIGFIP and in regularizing non-budgetary commitment.

### **III. Macroeconomic Policy for 2011-2013**

Growth is expected to continue accelerating as the effects of external shocks diminish. The Government programme targets a 4.5% to 4.8% growth range in 2012. Inflation is expected to stay below the 3% threshold fixed by the WAEMU convergence pact. The current transaction deficit (excluding official transfers) should widen slightly to 9% of GDP but would be financed through public borrowings and private external capital, including a modest rise in foreign direct investments. The overall balance of payments should be positive and contribute to consolidating the WAEMU foreign exchange reserve. As part of the overarching objective of accelerated economic growth, the main objectives of Government's programme are as follows: (i) undertake a prudent public finance and debt policy and improve the quality of expenditure to safeguard the macroeconomic stability; (ii) increase revenue in order to enhance fiscal space to finance priority expenditures, including supplementary investments in infrastructure; (iii) pursue the strengthening of public finance management and governance to improve the transparency of public finances and budgetary planning and execution, raise the productivity of public expenditures and reduce budgetary risks; and (iv) foster private sector development by undertaking structural reforms, notably in the energy and finance sectors as well as other reforms related to the business climate.

#### ***Pursuing a Prudent Policy in Public Finance, Infrastructure Needs and Debt***

The pursuit of a prudent public finance and debt policy constitutes the main tool for ensuring macroeconomic stability geared towards maintaining low inflation and a viable public debt. In the context of limited financing, a budget deficit below 4% of GDP in the medium term and 3% in the long term will help the authorities to achieve the objectives they have set. This will also help to balance the basic budgetary deficit, in keeping with the WAEMU convergence criteria. A prudent fiscal policy in the context of Senegal's adherence to the WAEMU monetary and exchange policies will contribute to bringing inflation under control.

The Government will strive to improve the composition and efficiency of expenditure. It will adjust the composition of expenditure by reducing current expenditure to free budgetary resources for increased investment spending. The Government will reduce current expenditure by at least 1 GDP percentage point between 2009 and 2013. It will also undertake a detailed analysis of the composition of expenditure so as to increase investment spending. Furthermore, it will better track poverty reduction spending by improving data collection, definition and targeting of expenditure in coordination with the World Bank and under the DPES 2011-2015. The Government intends to finance its investment programme by combining various sources of financing and pursuing a sound borrowing policy in order to safeguard the viability of public debt. To this end, it will continue to focus on concessional financing, and in general, will neither contract nor guarantee external borrowings under non-concessional conditions. The Government is aware that any non-concessional financing must be tied to economically profitable projects (according to an assessment by a reputable international entity) and must not compromise the viability of the public debt. It will consult the IMF services well in advance with regard to possible exceptions.

### ***Increasing Revenue to Create Greater Fiscal Space to Finance Priority Expenditure***

The Government intends to increase revenue as a percentage of GDP. This is already high compared to other countries in the region, but has suffered the effects of the external shocks of 2008 and 2009. The main areas of the reform relate to: (i) rationalization of tax expenditure; (ii) improving tax and customs administration; and (iii) improving the general tax system with the support of the IMF technical support assistance mission responsible for undertaking a diagnostic study of the tax system. Following this mission, the Government will update its reform plan. A new strategy will specify the areas and schedules of the reforms, where possible, and undertake an initial estimate of their impact on revenue.

The Government will lay emphasis on the reduction of tax spending in order to enhance revenue, as well as the transparency and efficiency of the tax system. In this regard, it analysed the cost and benefits of tax expenditure in consultation with national and international partners, and is beginning to reduce them in the 2011 budget. It will also modernize tax administration based on the strategic plan established by the GDID, as well as customs administration based on the GDD strategic plan.

### ***Strengthening Public Finance Management and Governance***

The Government is determined to continue improving public finance management and governance by taking into account the new WAEMU Guidelines. The reforms will be based on the Fiscal and Financial Reforms (PRBF) of September 2009 decided by the Government and development partners, and partly based on the 2007 PEFA report as well as more recent technical assistance from the IMF (March 2010). The Government is determined to sustain the progress achieved hitherto in the formulation, modification and execution of the budget, and improving the quality of accounting and auditing of management accounts.

The process of planning, appraising and selecting public investment projects will improve with a view to increasing expenditure productivity. Current and future practices are as follows: (a) sector ministries and other public and para-public entities receive on annual basis, programme authorizations consistent with the macroeconomic framework formulated in consultation with the

IMF and the priorities outlined in the DPES; (b) in the Education, Health, Environment, and Agriculture sectors, planning structures were established; (c) to harmonize the assessment and facilitate the process, the Planning Directorate, in collaboration with the actors concerned, will prepare “a project preparation guide” and a “project appraisal guide” that are directly productive; (d) in addition to the 4 test sectors mentioned, the Government will put in place specialized planning units in six other sectors, including those in the transport and internal security by 2012; (e) beginning 2011, the Ministry of Finance will start to review, at the technical level, the analysis of completed projects and will determine whether the projects exceeded a minimum threshold of economic and social outputs.

### ***Private Sector Development***

The Government is determined to pursue the reforms quickly in order to support private sector development, particularly by focusing on the energy and financial as well as water and sanitation sectors, the business climate and governance.

### **Energy Sector**

In January 2011 the Government formulated an emergency plan for the electricity sector covering the 2011 – 2014 period called “TAKKAL Plan”, based on the following 5 strategic areas: (i) in the short term, rapid upgrading of the declining electric energy mix in the form of the rental of generation capacity, procurement of barges and containerized units, rehabilitation of existing plants and, in the medium and long term, through the completion of the coal power plant project; (ii) management of electricity demand; (iii) financial support mechanism through the creation of a special energy sector support fund; (iv) restructuring of SENELEC; and (v) governance of the reform and communication process.

### **Water and Sanitation Sector**

The Government is committed to taking steps aimed at maintaining the financial balance of the water and sanitation sector. Specifically this entails: (i) establishing cross-debt settlement agreements; (ii) negotiating a payment moratorium for the arrears; (iii) pay any current water consumption bill of the Administration; and (iv) undertake a review of water tariffs and tariff adjustment simulations to generate budgetary saving of CFAF 7 billion in 2011. These simulations will inform the decision to increase tariffs expected in 2011.

### **Other Factors for Improving Business Factors and Governance**

The objective for the coming years is to improve the business climate by implementing decisions taken by the Presidential Investment Council that will also help to improve the Senegal ranking in “*Doing Business*.” Focus will also be given to the dematerialization of procedures. The following reforms will be undertaken as a priority in the next three years: (a) setting up of a single window in city halls to examine building permit applications and computerization of the building permit issuance process; (b) acceleration of the dematerialization of the land register in favour of an online procedure to ensure the posting, in real time, of real estate rights, including the sale of government lands; (c) introduction of a combined land registration and publication procedure; (d) passing of instruments amending the land legislation (law on landed property regime and its implementing decree); (e) reduction of property transfer cost. The Government will facilitate access to property by reducing registration fees; (f) undertake, as early as possible,



the recruitment of cadastral agents, notably surveyors; (g) dematerialization of the trade register and movable credit (RCCM), in conjunction with development partners; and (h) compliance with OHADA provisions on the operation of RCCM and putting in place of judicial statistics.

Regarding economic governance, the Government will strive to take the following measures: (a) undertake a reform of the Court of Account by enabling it to pass annual judgment on public accounts and an opinion on the budget execution review bills in accordance with the terms of the organic law; (b) the Government passed a decree amending the public procurement code so as to remedy, from the viewpoint of the authorities, some lapses in the existing regulations, and particularly for security reasons. However, the authorities are keeping their commitment to limit the share of public contracts signed by negotiation to 20% and guarantee the availability of appropriate resources for the autonomous functioning of the Public Procurement Regulatory Authority (ARMP); (c) measures to ensure that the National Commission Against Non-Transparency, Corruption, and Misappropriation has the necessary resources; (d) application of the new corporate governance code; and (e) in the land sector, undertaking of reforms leading to transparency in land transactions and publication of the transfer of the Government's private estate. An inventory will be taken of Government's public and private estate in 2011 and updated regularly. All Government land transfer operations will comply with the current laws and regulations, and the proceeds from sales will be entered into the budget.

### ***Private Sector Support***

It is worth recalling that Senegal has put in place since November 2002, a Presidential Investment Council (CPI) to establish direct, frank, and in-depth dialogue between the Government, national and foreign investors. The CPI served as a special framework for identifying obstacles to the development of private investment and constraints to the competitiveness of Senegal. It also helped to rank them, propose reforms and monitor enforcement. Most of the measures stemming from the CPI were implemented satisfactorily during the 2009 – 2010 period. Significant progress was made in adopting reforms related to the timeline for transferring property, obtaining a building permit and simplifying administrative procedures for tax payment. Furthermore, the achievements in the facilitation of cross-border trade and formalities for starting a business were consolidated.

Despite the financial constraints of 2010, in February 2011 the Government made a substantial cut in the tourist sector VAT from 18% to 10%, thereby addressing an age-old grievance of the private sector.

The legal and judicial environment is changing with implementation of a vast Justice Modernization Programme supported by development partners. The reform of economic and commercial disputes is far advanced.

Furthermore, thanks to investments by Dubai Port World in procuring new equipment and management tools, the average turnaround time for vessels berthing at the Dakar Port was reduced significantly from 15 hours to 1 hour 42 minutes, which represents the best record on the entire African coast.

Currently, Senegal is one of the rare non-OECD member countries to have a single window for external trade, a flagship reform which was cited in the 2011 "Doing Business" Report, and which has helped to significantly reduce export timelines from the Dakar Port. To

meet land securitization needs in the shortest possible time and enhance the value of state-owned lands, the Government adopted 4 instruments on updating the rates for the lease and transfer of lands in its public or private estate, a law on transforming occupancy permits and similar deeds into land titles and a law on organizing landed property. This arrangement will enable the securitization and promotion of private investment by providing solutions to problems of adequacy of the land and state-owned land regime with the challenges of socio-economic development.

Thus, the Government will implement, alongside the emergency measures, structural reforms to guarantee the sustained competitiveness of the Senegalese economy. These concern notably the facilitation of access to land, improvement of access by SMEs to financing and public procurement. In short, efforts to sustain the improvement of the business climate, essentially made up of SMEs, have become a strong commitment.

A. Diop  
Minister of State, Ministry of Economy and Finance

## RELATIONS BETWEEN IMF AND SENEGAL

### **2008-2010 and 2010-2013 Programmes under PSI**

The PSI framework put in place by the IMF is designed for low income countries that do not need - or that do not wish to receive - IMF financial assistance but intend to benefit from its advice, monitoring and support for their policies. Request for PSI is optional and is at the initiative of the interested member country. Programmes supported by the PSI are based on the National Poverty Reduction Strategy adopted under a participatory process involving civil society and development partners, and hinging on the Poverty Reduction Strategy Paper (PRSP). This process aims to insure that the programme supported by the PSI is in keeping with a comprehensive macroeconomic, structural, and social policy framework capable of fostering growth and reducing poverty. The results obtained by the member countries under a PSI are reviewed independently of the status of the programme.

The International Monetary Fund (IMF) Executive Board approved PSI 1 for Senegal on 2 November 2007 for the 2008-2010 period. The programme aims to consolidate macroeconomic stability, enhance the country's growth potential and alleviate poverty. It was initially scheduled to expire on 1 November 2010 but was extended to 22 December 2010. The six programme reviews were satisfactorily conducted. Overall, the outcomes of the implementation are satisfactory: all the quantitative assessment criteria were met. The structural reforms have remained on track, despite the delay on two components. Having made significant progress, the authorities largely communicated on the modalities for carrying non-budgetary expenditures and began to pay the relevant amounts in October in relation to the benchmark set for end September. The integration of the wage bill into the Public Finance Management System (SIGFIP) must be completed. All the other benchmarks were adhered to on schedule. Furthermore, the last consultations under Article IV were completed in May 2010.

Senegal's second three-year PSI programme with the IMF covers the 2010-2013 period. It aims to strengthen growth, contain vulnerabilities, and reduce poverty by: (i) maintaining macroeconomic stability backed by a sound fiscal policy and stringent debt management; (ii) increasing public revenue to finance the rising investments in infrastructure, combined with better planning of such investment and improvement of the expenditure quality; (iii) consolidating progress in public finance management (PFS) by improving budget credibility and execution, and avoiding the accumulation of new arrears; and (iv) pursuing large scale structural reforms to improve the business climate and governance, and enhance the efficiency of the energy and financial sectors. The first review of the programme was scheduled for 24 March to 6 April 2010.

**IMF Mission in Senegal – Press Release No 11/120- 7 April 2011**

An International Monetary Fund (IMF) mission, led by Norbert Funke, visited Senegal during March 24–April 6, 2011 to conduct the first review under the new three-year Policy Support Instrument (PSI) approved in December 2010. The mission met with the ministers in charge of economy and finance, international cooperation, infrastructure and energy, the National Director of the BCEAO, other government officials, and representatives of the private sector and development partners.

At the conclusion of the visit, the mission issued the following statement:

“The economic recovery is continuing but energy sector supply bottlenecks and the surge in international food and fuel prices pose risks. Growth is estimated to have reached 4.2 percent in 2010, mainly driven by telecommunications, transport, and the financial sector. Year-on-year inflation picked up in the second half of the year and reached 3.7 per cent in February, driven by higher food and fuel prices. Based on recent economic activity indicators and an ambitious infrastructure investment agenda, growth is projected to edge up to about 4½ per cent in 2011 and annual average inflation to some 3.8 per cent. However, in a pre-election context it will be important to avoid economic policy changes that could endanger the achievement of the program objectives. Downside risks include persistent electricity supply problems, higher oil prices and a weaker global recovery. On the upside, a faster global recovery, significant progress with the resolution of electricity problems, a rapid resolution of the crisis in Côte d’Ivoire, and continued structural reforms could support growth.

“Program performance under the current PSI-supported program has been mixed. At end-December, the program target for the fiscal deficit was exceeded by a small margin, partly due to lower than projected oil-related revenues. On the structural side, reforms in the energy sector, tax and customs administration, and debt management are progressing broadly in line with program commitments, albeit in some areas slower than expected.

“Since the start of the program, new financing needs have emerged, in particular in the energy sector. The authorities, assisted by a reputable international consulting firm and development partners, have prepared a restructuring plan for the energy sector that includes short-term emergency measures and medium term investments (Plan Takkal). To partially finance the energy emergency plan, the authorities have adopted some new tax measures and reallocated budgetary resources from lower priority spending.

“The mission sees scope for a somewhat higher than programmed fiscal deficit in 2011 to accommodate additional expenditure related to the energy sector. However, to preserve Senegal’s track record of macroeconomic stability and limit risks of debt distress, a prudent approach to borrowing is needed, in particular in accessing external non-concessional borrowing to finance infrastructure investment.

“The mission stressed the importance of maintaining fiscal transparency and improving the quality of spending. Spending reallocations very early in the year point to some weaknesses in public finance management. All energy sector-related revenues, expenditures, and financing should be transparently reported and monitorable. These operations will need to be fully reflected in the program target for the overall fiscal deficit. The execution of energy investments should be based on realistic plans that take into account existing absorptive capacity. Sizeable investment needs in energy will require difficult budgetary trade-offs and the postponement of lower priority spending.

“Against the backdrop of higher food and fuel prices, the mission discussed with the authorities appropriate policy responses, stressing the importance of well targeted measures. Generalized price subsidies or temporary reductions in customs duties or taxes are typically not very well targeted. With limited fiscal space, any measure with budgetary implications will need to be offset by reducing lower priority spending to maintain the 2011 budget deficit target.

“In terms of other structural reforms, preparatory work on tax policy reform and improving debt management, including the setting-up of a debt management unit are on-going. On tax policy, the mission urged the authorities to integrate all relevant measures in a comprehensive reform package and to refrain from a piecemeal approach.

“Policy discussions will continue at the margins of the Spring Meetings in Washington, DC. It is expected that the IMF’s Executive Board will discuss the review of the PSI in June 2011.”

Sources: IMF

## Main Economic and Financial Indicators of Senegal

	2007	2008	2009	2010		2011	2012	2013	2014	2015
			Est.	Progr.	Proj.		Projections			
(Variations annuelles en pourcentage)										
Revenu national et prix										
PIB en prix constants	5.0	3.2	2.2	3.4	4.0	4.4	4.7	4.8	4.9	5.0
<i>dont</i> : PIB non agricole	6.5	1.4	1.2	3.4	4.0	4.4	4.8	4.9	5.0	5.1
Déflateur du PIB	5.3	6.6	-0.9	2.1	1.4	2.0	2.0	2.0	2.1	2.1
Prix à la consommation										
Moyenne annuelle	5.9	5.8	-1.7	1.6	0.8	2.1	2.1	2.1	2.1	2.1
Fin de période	6.2	4.3	-3.4	2.1	1.8	2.1	2.1	2.1	2.1	2.1
Secteur extérieur										
Exportations, f.à.b. (en francs CFA)	-3.7	23.0	-9.6	17.6	9.9	12.6	8.4	8.3	7.8	7.8
Importations, f.à.b. (en francs CFA)	19.5	25.8	-18.2	10.3	6.3	9.6	7.8	5.2	6.7	6.2
Exportations en volume	6.7	-12.7	16.1	5.2	6.8	6.0	6.1	6.4	6.2	6.2
Importations en volume	22.0	19.9	-2.6	4.6	4.6	7.5	8.6	2.0	4.9	5.7
Termes de l'échange (détérioration (-))	-3.0	18.1	2.2	4.8	1.7	2.7	2.8	-1.0	0.0	0.1
Taux de change effectif nominal	1.9	2.9	-0.2	...	...	...	...	...	...	...
Taux de change effectif réel	5.3	4.4	-1.7	...	...	...	...	...	...	...
(Variation en % de la masse monétaire au sens large en début de période)										
Masse monétaire et crédit										
Avoirs intérieurs nets	8.6	6.2	6.1	10.1	11.8	9.3	7.5	7.8	5.4	5.5
Crédit intérieur	11.5	7.3	6.8	10.0	11.0	9.5	7.7	8.0	5.6	5.7
Crédit à l'État (net)	4.9	-3.5	4.2	4.7	6.4	4.7	2.6	2.8	0.0	0.0
Crédit à l'économie (croissance en pourcentage)	10.5	17.2	3.6	7.8	6.9	7.5	8.3	8.8	9.3	9.6
(Pourcentage du PIB sauf indication contraire)										
Opérations financières de l'État										
Recettes	21.1	19.4	18.6	19.4	19.7	19.9	20.2	20.3	20.6	20.8
Dons	2.6	2.3	3.0	2.4	2.4	2.3	2.3	2.3	2.3	2.3
Dépenses totales et prêts nets	27.6	26.5	26.7	26.3	26.9	28.0	27.7	26.5	26.6	26.8
Excédent (+) ou déficit (-) budgétaire global										
Base ordonnancements, hors dons	-6.2	-6.9	-7.9	-6.9	-7.1	-8.1	-7.6	-6.2	-6.0	-6.0
Base ordonnancements, dons inclus	-3.7	-4.6	-4.9	-4.5	-4.8	-5.8	-5.3	-3.9	-3.7	-3.7
Solde budgétaire primaire 1/	-3.0	-3.9	-4.1	-4.1	-3.7	-4.7	-3.9	-2.5	-2.2	-2.3
Solde budgétaire de base 2/	-1.0	-0.8	-2.9	-1.5	-1.9	-1.4	-0.8	-0.8	-0.7	-0.7
Investissement intérieur brut	34.0	34.1	27.9	29.1	29.1	30.3	31.2	30.9	31.4	31.6
Public	11.2	10.0	10.1	10.7	10.8	11.8	11.9	11.0	11.1	11.5
Non public	22.8	24.1	17.8	18.5	18.2	18.5	19.2	19.9	20.4	20.2
Épargne intérieure brute	11.6	7.6	7.9	9.6	9.5	10.8	11.8	12.5	13.3	14.1
Publique	7.9	5.8	5.8	7.2	7.0	7.2	8.1	8.5	8.9	9.2
Non publique	3.7	1.8	2.1	2.5	2.5	3.5	3.7	4.0	4.4	4.8
Épargne nationale brute	22.2	19.8	20.2	20.4	20.8	21.3	21.7	21.9	22.4	23.0
Déficit extérieur courant (-)										
Transferts officiels courants inclus	-11.8	-14.3	-7.7	-8.7	-8.2	-9.0	-9.5	-9.1	-9.0	-8.7
Hors transferts officiels courants	-13.2	-15.3	-8.8	-9.8	-9.1	-9.8	-10.3	-9.9	-9.9	-9.5
Dettes										
Dettes intérieure publique 3/	6.6	5.3	7.6	8.6	8.4	10.3	11.0	11.8	11.1	10.6
Dettes extérieure publique (nominale) 3/ 4/	17.9	19.7	27.0	27.1	31.6	33.1	34.9	35.0	36.3	37.4
Service de la dette extérieure publique (en % des exportations) 4/	5.7	4.3	5.0	4.8	4.8	7.1	7.4	7.1	11.4	6.5
Service de la dette extérieure publique (en % des recettes publ.) 4/	6.9	5.9	6.5	6.2	6.0	9.0	9.3	8.8	14.1	8.0
PIB (milliards de francs CFA)	5,408	5,950	6,023	6,345	6,350	6,765	7,221	7,723	8,273	8,875

Sources : autorités sénégalaises ; estimations et projections des services du FMI.

1/ Recettes totales et dons moins dépenses totales et prêts nets, hors charges d'intérêts.

2/ Recettes totales moins dépenses totales et prêts nets, hors dépenses d'investissement financées sur ressources extérieures, prêts rétrocédés bruts, dépenses financées par les initiatives PPTE et IADM, et apurement des dépenses extrabudgétaires et de la dette des agences publiques

3/ Encours de la dette à la fin de l'exercice.

4/ Après allègement de dette au titre des initiatives PPTE et IADM (à compter de 2006).