



# SENEGAL

## POVERTY REDUCTION STRATEGY PAPER—JOINT STAFF ADVISORY NOTE ON THE NATIONAL STRATEGY FOR ECONOMIC AND SOCIAL DEVELOPMENT

The attached Joint Staff Advisory Note (JSAN) on the Poverty Reduction Strategy Paper for Senegal, prepared jointly by the staffs of the World Bank and the IMF, was distributed with the member country's Poverty Reduction Strategy Paper (PRSP) to the Executive Board of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

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### OVERVIEW

1. **Senegal's third Poverty Reduction Strategy for 2013–17, renamed the National Strategy for Economic and Social Development (NSES), builds on lessons from the second Poverty Reduction Strategy (PRSP-II 2006–2010).** The NSES devises policies and strategies required to push forward the authorities' agenda for high, sustained and inclusive growth and poverty reduction. It aims at raising the economic growth rate to an average of 6.6 percent over the next five years, a level that would allow making significant progress in poverty reduction.
2. **The NSES is articulated around three strategic pillars:** (i) economic growth, productivity, and wealth creation; (ii) human capital, social protection and sustainable development; and (iii) governance, institutions, peace and security. This represents a continuation of the second PRSP. The first pillar is similar to the first pillar of the previous strategy, while the second pillar corresponds to a merger of the second and third pillars of PRSP-II. The third pillar expands on the governance theme of the previous strategy, capturing the high priority of the new government for peace in the Casamance.
3. **The NSES was prepared in a participatory manner.** It builds on extensive consultations which took place for the previous draft strategy before the presidential elections of February/March

2012. The new government decided that it would be important to revise the strategy to reflect their priorities, which were informed by the election campaign. Further consultations were then held at the national and district levels, with participation of stakeholders from the parliament, central and local governments, donors, private sector, think tanks, trade unions, and civil society organizations. In early November 2012, the NSESD was validated by representatives from the various stakeholders and the donor community. It was officially endorsed by the Council of Ministers on November 7, 2012. This process helped build the consensus needed for the implementation of the strategy.

4. **This Joint Staff Advisory Note (JSAN) reviews the NSESD and provides advice on key priorities for strengthening the strategy and promoting its effective implementation.** It discusses poverty trends, macroeconomic policies, and the NSESD strategic pillars. The last section presents staffs' main conclusions and recommendations.

## POVERTY TRENDS

5. **New data indicate that progress in poverty reduction has stagnated.** The recent poverty estimates, based on a household survey conducted in 2011, showed that 46.7 percent of the population lives in households with income below the national poverty line. This is only slightly lower than the 48.3 percent estimated in 2005, and the difference is not statistically significant. Since 2005, repeated shocks and a deceleration of reforms have contributed to a slowing of real output average growth to 3.3 percent, scarcely above the rate of population growth (2.5 percent). The number of poor has actually increased. Poverty remains particularly high in rural areas (57.3 percent) but is also significant in urban areas (33.1 percent). Poverty is highest in the southeastern region of the country and in the Casamance, which has suffered from a long-standing low-intensity armed conflict. The government recognizes that this rate of poverty reduction will make it difficult to achieve the first Millennium Development Goal (MDG).

6. **Staffs concur with the assessment of poverty trends in the NSESD and urge government to further improve its poverty monitoring capacity.** The targeted rate of poverty incidence of 37.9 percent in 2017 appears ambitious but realistic if the external environment improves. The government needs to indicate how it intends to improve its capacity to monitor and analyze poverty determinants and outcomes on a more regular basis. Gaining a better understanding of linkages between the policy actions identified in the NSESD, the policy instruments at government disposal, including the budget, and poverty outcomes should be on top of the

authorities' agenda. This applies, in particular, to the expected impact of structural reforms in the electricity and agricultural sectors.

## MACROECONOMIC POLICIES

7. **The NSESD underscores the importance of achieving development objectives in the context of a stable macroeconomic environment.** This translates into policies and reforms aimed at (i) raising the economy's growth performance; (ii) reducing substantially the fiscal and current account deficits by the end of the period covered by the strategy; and (iii) stabilizing public debt at less than 30 percent of GDP.

8. **The NSESD includes three macroeconomic scenarios and their costing, which provide a useful framework for resource mobilization and expenditure prioritization.** Under the baseline scenario, growth is expected to pick up moderately in 2012–2013, and in the medium term would return to levels recorded before the global financial crisis; this scenario is broadly in line with the one underpinning the IMF-supported program and with identified financing. In the optimistic scenario, which is the one the authorities would like to achieve, GDP growth averages 6.8 percent. In the pessimistic scenario, growth averages 3.2 percent a year. These scenarios' assumptions differ with respect to the anticipated level of financing, the absorption capacity of the economy, and progress in implementing key reforms. In the optimistic scenario, additional public investment and reform measures particularly in agriculture, energy and infrastructure would boost growth. The pessimistic scenario assumes that the economy continues to be affected by an unfavorable external environment (a sluggish global economic recovery, rising oil and food prices and continued crisis in Mali) and that implementation of power sector reforms is slow. In this scenario, only public expenditures with the highest priority are implemented. Priority is established in the NSESD according to a number of criteria which are converted into a numerical score. The three scenarios in the NSESD are useful to assess risks and will help the authorities adjust their strategies and policies in light of economic developments.

9. **Higher growth will require ambitious structural reforms.** The growth path in the baseline scenario implicitly assumes that total factor productivity (TFP), which decreased from 2006–2011, returns to a steady growth path similar to that observed in 1995–2005, although the external environment then was arguably more favorable than what can be expected in the next five years. The resulting rise in per capita income would help reduce poverty significantly. The optimistic

scenario assumes even higher GDP (and TFP) growth, and therefore would mark a radical break from the past and leads to substantial poverty reduction. This would likely require fast and sustained implementation of deep reforms to improve the efficiency of the state, the business environment, and infrastructure.

10. **The NSESD emphasizes the need to ensure long-term debt sustainability and strict respect of regional fiscal rules.** This objective is welcome given that the fiscal deficit is high and needs to be reduced to sustainable levels. Under the baseline scenario, the authorities intend to keep the fiscal deficit under 5 percent of GDP in 2013 and gradually reduce it to 3.5 percent of GDP by 2017. Achieving this objective while protecting NSESD priorities assumes full and sustained implementation of reform efforts to reduce the cost of running government, rationalize expenditure in key sectors, improve the efficiency of public spending, and phase out the costly and poorly targeted price subsidies while strengthening social safety nets. While GDP and revenue would grow faster in the optimistic scenario, preserving debt sustainability and restoring space for counter-cyclical policy should remain a key consideration. Staffs urge the authorities to maintain fiscal prudence under this scenario. In the pessimistic scenario, pressures on the budget would increase, due to lower revenue. It would make the phasing out of untargeted measures (such as general price subsidies to energy) even more paramount to protect more critical expenditure. Continued reliance on concessional external resources and grants for the bulk of financing and strengthened debt management will also help preserve debt sustainability.

11. **Given financing and sustainability constraints, it will be essential to maintain a strong link between budget preparation and execution and the NSESD list of priority expenditures.** Based on preliminary estimates, the cost of the NSESD (under the authorities' preferred optimistic scenario) amounts to CFAF 5,139 billion (about 11 percent of the cumulative GDP for 2013–2017). About a third would be financed by the government's own resources. At the time the NSESD was finalized, there was a financing gap equivalent to about 3 percent of the cumulative GDP for the period in question. The strategy projects that half of the financing gap would require additional revenue collection efforts while the other half could be mobilized as additional support, particularly from non-traditional donors. This could however prove difficult in view of the fiscal efforts already assumed under the baseline and a likely tight external aid environment. Further work would therefore be useful to realistically assess the availability of financing for the NSESD and its potential sources. In light of this, staffs stress the need for realism, sequencing, and better prioritization of

planned interventions in particular in the immediate future. In this regard, more systematic use of cost-benefit analysis is recommended in the selection of projects (as well as reform programs). Staffs emphasize the importance of a medium-term expenditure framework and budgetary planning. The central government could also explore the scope for further burden-sharing with local governments, and private sector participation in the execution of selected projects (e.g., in the energy sector).

## STRATEGIC PILLARS

### A. Economic growth, productivity and wealth creation

12. **Effective implementation of the Accelerated Growth Strategy (AGS) is identified as key for the success of the NSESD.** The AGS is based on two key objectives: (i) improving the overall investment climate in the economy by focusing on a series of transversal issues constraining the private sector development; and (ii) promoting the development of five cluster sectors with potential niches and competitive advantage for export growth and job creation. Staffs welcome the recognition of the AGS' central role by the authorities and their on-going work to update this strategy. This will be important in order to clarify how the ambitious export objectives of the NSESD will be achieved. While agriculture and agro-industry, tourism and telecommunications/ICT clusters remain promising sources of growth, fisheries and clothing/textiles may face serious challenges in the short and medium term.

13. **Staffs are pleased to note that the private sector is recognized as the main engine of growth in the Senegalese economy.** The strategy is clearly focused on several key areas: improving the investment climate and fostering entrepreneurship, facilitating access to financial services for SMEs and consolidating support institutions. In this regard, the authorities are encouraged to further streamline the functioning of public administration for an effective provision of business-friendly services. Reform efforts to enhance the contribution of the financial sector should give particular attention to SME access to credit, the adoption of a credit registry, facilitating the use of collaterals (mainly through reforms in the justice, land and housing sectors), and improving the soundness of the banking system. These measures, which were extensively discussed during the National Consultation on Access to Credit and detailed under the implementation action plan, will be essential to foster the contribution of the financial system to private sector development, and boost investment and exports while guarding against financial sector vulnerabilities. Public-private partnerships (PPP) could be particularly important in promoting investments, particularly in the

infrastructure sector. However, they will need to be structured carefully so that: (i) there is a proper allocation of risks between the private and public sectors, and (ii) projects bring value for money. With help from donors, the government can help ensure the latter by preparing transactions using experienced advisors and insisting on competition and transparency in the awarding of projects. PPP would generally create some contingent liabilities for the public sector and it is important that these are estimated during transaction preparation and monitored over time.

14. **To reap the full benefits of an improved investment climate, and create more jobs, the authorities are encouraged to tackle deep labor market reforms.** The promotion of youth employment through public works is a temporary, albeit welcome, solution; reducing asymmetries of information, improving labor market institutions and promoting skills development are also necessary but not sufficient to reduce structural imbalances. Improving the functioning of the labor market to help it match private sector needs and promote competitiveness will require simplifying and improving labor regulations, at the national and OHADA levels.

15. **Staffs acknowledge the emphasis placed on rural development as a key to reducing poverty.** The NSESD is firmly anchored on the Agro-Sylvo-Pastoral Organic Law and the National Program for Agricultural Investment, which envisages annual growth in agricultural GDP of 6 percent, and public investment equivalent to 10 percent of the national budget. Since national investment in agriculture is already close to or at this target, while growth is much lower, it will be important to improve the efficiency of public spending. The central role to be played by irrigation will require improvements in maintenance, including greater participation by beneficiaries. The authorities are also encouraged to review the system of input subsidies which have grown steadily in size, and where significant efficiency gains are possible.

16. **The important role of the energy sector is acknowledged in the NSESD.** The strategy emphasizes increased generation capacity, with a focus on renewable energy sources, greater access in rural areas, energy conservation, and reform of the national electricity company. These and other measures are well-covered in the authorities' new energy sector development policy. The challenge now is one of implementation. Large projects already in the pipeline, to increase generation capacity in more cost-effective technologies, will need to move forward without further delay. Increased private sector involvement could help improve service delivery and reduce costs to the state. The restructuring of the national electricity company, including actions to improve the quality of its services, while reducing tariff gaps and the ensuing fiscal costs, are urgent priorities.

17. **The importance of other infrastructure projects is acknowledged but more details would be welcome.** Several major infrastructure projects were launched by the previous regime and it would be useful to have greater clarity on the policy of the new government. These include the Blaise-Diagne International Airport (AIBD), the Dakar-AIBD- Mbour/Thiès Highway, and the Dakar Integrated Special Economic Zone (DISEZ). These projects could play an important role in moving economic activities out of the immediate Dakar area, while promoting tourism, new export-oriented enterprises, and links to the rest of the country and the region. Senegal will need a growth model which supports regional development beyond Dakar.

## B. Human capital, social protection and sustainable development

18. **Encouraging progress has been achieved in recent years in expanding access to education and health services.** Access to schooling has improved at all levels, although there is some uncertainty about the percentage of school-age children who remain out of school. The gender parity index in primary school was 1.1 in 2012 in favor of girls, versus 0.97 in 2005. The transition rate between primary and lower secondary improved, raising the gross enrollment rate (GER) in lower secondary from 33 percent in 2006 to 53 percent in 2011. In the health sector, positive results were also achieved, such as a significant decline in under-five mortality. This decrease is mostly explained by the reduction in malaria-related deaths, which has been made possible thanks to massive distribution of impregnated bednets. The prevalence of the HIV-AIDS epidemic was also contained at below one percent. Conversely, no significant progress has been made regarding maternal and neonatal mortality. Regional disparities in access and overall low quality of basic social services remain a serious concern. Without a strong and targeted intervention, Senegal may not meet the MDG relative to primary school enrollment, and it is unlikely to reach the MDG relative to the primary school completion rate.

19. **Staffs welcome the new focus on efficiency and equity improvement in social spending.** The critical questions for public expenditure in Senegal are those of efficiency and effectiveness. There is a need to improve the intra-sectoral allocation and financial management of public funds and to improve the accountability of service providers. In the education sector, the challenge will be to improve learning outcomes for all children and the quality of teaching and performance of primary, secondary and higher education, and to reduce inefficient expenditures (e.g., generalized scholarships to all public university students). The ongoing audit of education staff is an important step to clean up the government payroll and to improve education budget



efficiency. Staffs encourage the Government to complete the process rapidly, as well as the ongoing work to rationalize university scholarships, and take the necessary follow-up actions. Development of vocational training, particularly in partnership with the private sector, would be critical to skills development and employment.

20. **In the health sector, the government should strengthen the efficiency and quality of its supply of health services.** This could be achieved through the following policies: (i) designing and implementing hospital reform to achieve better control of hospital expenditures (and thus generate fiscal space), (ii) reintroducing some accountability for service providers (through a scale-up of the existing pilot for Performance Based Financing), (iii) prioritizing public investments more in favor of primary health care centers than hospitals, and (iv) setting up a policy for attracting qualified health workers in rural areas. On the demand-side, staffs welcome the Government's plans to design a national system for health risk pooling (*Couverture Maladie Universelle*). In general, the Government will need to improve the quality and reliability of its statistical information, building on the results of the up-coming census. This will help improve the planning of social services and their targeting in favor of the poor.

21. **Staffs encourage the government to build on achievements of the past decade in improving malnutrition.** Senegal has been at the forefront of proactive nutrition policy development in sub-Saharan Africa, treating malnutrition not just as a crisis problem but also for its direct and dramatic impact on maternal health, child survival, brain development, and adult productivity. Staffs recommend that the government continue to view malnutrition in its broadest sense, going beyond the problems of acute and chronic malnutrition, which are recognized in the NSESD, to include: (i) the devastating consequences of nutrition deficiencies (including mild and hidden forms of malnutrition) on human development, poverty and economic growth; and (ii) the full spectrum of nutritional deficiencies and excesses (e.g., iodine deficiency disorders, iron deficiency anemia, vitamin A deficiency, maternal underweight, and adult overweight), which are already affecting a significant part of the Senegalese population .

22. **The NSESD emphasizes the need to improve the lives of vulnerable groups.** This is an area which received insufficient attention in the past. The strategy prescribes actions to ensure that these groups benefit from wealth creation and have better access to social services. The appointment of a General Delegate for social protection in the Office of the President and the allocation of CFAF10 billion in the 2013 budget for pilot schemes of cash transfers and health

insurance are promising first steps. The core challenge for extending and improving safety nets and social assistance is to create targeting mechanisms tied to programmatic objectives to reduce vulnerability. This will involve the consolidation of the various transfers to vulnerable groups into a coherent set of interventions and a transition from the often universal and unconditional current transfer mode, to a better targeted and conditional transfer to the truly vulnerable. There is also a need to improve policies toward small groundnut and crop producers—who are among the poorest groups in Senegal—to increase farm gate prices, while reinforcing food security, diversifying agricultural production and reducing their vulnerability to external shocks.

23. **Senegal’s water and sanitation sector is one of the most developed in sub-Saharan Africa.** The urban water MDG has been achieved, with access for 98 percent of the urban population, and the goal for rural water access (82 percent) is within reach. In contrast, the challenge remains high in the sanitation sub-sector where the objective is to increase access from 47 percent in 2011 to 70 percent of the rural population. The sector faces three main challenges: (i) addressing disparities in access to and use of services between urban and rural areas and between water and sanitation, (ii) improving the sustainability of rural water services and, (iii) consolidating ongoing reforms and the financial viability of the urban water sub-sector. The public-private partnership that created a favorable environment for urban water services is open to adjustment and deepening with the end of the lease contract in December 2013. The next generation of reforms could also include urban sanitation which requires an improved institutional framework.

### C. Governance, institutions, peace and security

24. **The NSESD governance and human rights pillar is appropriately built on five key principles and rules:** (i) strengthening democracy and protecting human rights; (ii) reinforcing public finance management and controlling state transactions; (iii) aligning public spending on development priorities; (iv) promoting ethics, transparency, and accountability and efficiency on public spending; and (v) promoting dialogue on public policies and participation in their implementation. Compliance with these five rules requires faith in shared values to generate and maintain mutual trust between the different stakeholders including: the government, local authorities, parliament, private sector, civil society, and donor partners.

25. **The NSESD emphasizes the need to improve the efficiency of public spending.** The NSESD rightly identifies the following constraints: (i) institutional instability and weak leadership and

coordination; (ii) increased outsourcing of administrative functions to autonomous agencies without well-established performance frameworks; (iii) insufficient monitoring and evaluation of public policies; and (iv) burdensome administrative procedures. Staffs welcome the recent improvement in public financial management (PFM) following the 2008 fiscal crisis. The 2011 Public Expenditure and Financial Accountability (PEFA) assessment noted progress in budget comprehensiveness and transparency, budget alignment with policy priorities, and public procurement. The momentum of reforms in PFM should continue. With the transposition of the WAEMU, PFM directives now completed, staffs urge the authorities to ensure their full implementation under the envisaged calendar. There is also a need to improve the evaluation and management of fiscal risks stemming from public-private partnership operations, public projects such as the envisaged establishment of economic special zones, and activities of public enterprises and agencies. Finally, the competence and independence of the Audit Court (*Cour des Comptes*) recently strengthened in the context of the amended organic law needs to be supported by a proper mechanism for the follow-up of audit conclusions.

26. **The authorities' intention to reinforce the judiciary, decentralization and the role of Parliament is welcome.** In the area of justice, the NSESD focuses on improving access by decentralizing authority to local courts and providing legal assistance to population and vulnerable groups. In recent years, there has been a significant increase in the recruitment of judges and clerks, and improvement in the material conditions of judges. The government should now target accelerating the treatment of cases in courts and reducing the existing backlog, particularly for the commercial cases. More generally, implementation of the decentralization strategy needs to be pushed ahead, as it could greatly contribute to improving the delivery of basic public services in remote areas. However, as recognized in the NSESD, this should be accompanied by significant capacity building and improved transparency and accountability. The NSESD also targets a modernization of the parliament to improve the effectiveness of its oversight and control of the executive through capacity building.

27. **Staffs welcome the attention paid to the issue of gender as a cross-cutting theme.** Its importance is appropriately highlighted in many areas, including agriculture, education, health, social protection, justice and local government. There are also three gender-specific outcome indicators in the education sector. Staffs suggest that gender could also figure prominently in

strategies for rural water and land reform, and that additional gender-specific indicators would be useful.

## MONITORING AND EVALUATION

28. **Building on the experience of previous PRSPs, the new strategy aims at strengthening the national monitoring and evaluation system.** The institutional framework includes: (i) a political level composed of a Presidential Council, an Orientation Council (chaired by the Prime Minister and attended by all stakeholders), and a Parliamentary Council; and (ii) an operational level composed of ministerial committees and regional committees that meet on a quarterly basis. The committees regroup representatives of all stakeholders in the country and are coordinated by the NSESD unit, within the Ministry of Economy and Finance. The Ministry of Economy and Finance is also responsible for producing and submitting implementation reports to the Councils based on inputs provided by the committees. While this organizational structure may increase participation at both sector and regional levels, the NSESD unit's coordination work will be challenging. Therefore staffs recommend a reinforcement of the NSESD unit's capacity.
29. **The NSESD includes an appropriate and selective set of performance indicators.** Staffs suggest that these be further refined to make them more realistic and fully consistent with the strategy. The targets for agricultural growth are considerably higher than current sector strategies, and appear infeasible in light of past experience. The same would seem to be true of the targets for export growth.
30. **While Senegal has a relatively well functioning monitoring mechanism, greater attention should be given to the following areas:** (i) maintaining leadership by policymakers in the implementation phase to foster ownership and momentum which were lacking during the previous PRSPs; (ii) strengthening coordination between sectoral and regional strategies, in particular the AGS; (iii) establishing a household survey schedule consistent with the NSESD review calendar; and (iv) developing labor market statistics to monitor employment creation. Staffs welcome the central role given to the Statistical Master Plan, which includes a section on statistical capacity building, reflecting the authorities' commitment to subscribe to the Special Data Dissemination Standard (SDDS).

## CONCLUSION AND RECOMMENDATION

31. **Staffs believe that the NSESD provides an adequate framework for poverty reduction in Senegal.** The strategy builds on the experience gained with the previous PRSPs. While the emphasis on accelerated growth with macroeconomic stability is appropriate, it will require forceful and sustained implementation of the reforms laid out in the NSESD. It is also encouraging that the NSESD reaffirms the authorities' commitment to a number of principles central to the poverty reduction strategy, including gender equity, civil society participation, and regional development. These elements are consistent with the recommendations made by staffs in previous JSANs.

32. **Risks to successful implementation of the NSESD are exogenous shocks and resistance to structural reforms.** Exogenous shocks include events such as droughts, sharp increases in oil and/or food prices, a weakening global economic environment, and continued political instability in the region (e.g., in Mali). The impact of such shocks could be mitigated through continued efforts to diversify the economy and increase its resilience. Maintaining sound macroeconomic policies will help build policy buffers that could be used in the event of negative shocks, together with highly concessional financial assistance from donors. The second category of risks needs to be tackled through a forceful implementation of reforms to improve the investment climate. Sustained efforts to strengthen ownership of the reforms by all stakeholders will therefore be critical.

33. **To strengthen the NSESD , staffs recommend that the authorities give priority attention to:**

- *Maintaining fiscal and debt sustainability.* To preserve debt sustainability, the fiscal deficit should be reduced significantly, and the authorities should continue to rely mostly on concessional external financing.
- *The implementation of energy sector reform.* It is paramount to strengthen growth and competitiveness. The authorities are urged to accelerate the implementation of investments in the sector and reforms of SENELEC, and consider options to reduce energy subsidies.
- *Acceleration of other structural reforms.* In addition to public financial management, tax and customs administration, reforms in agriculture and other measures aimed at improving the business climate and governance would be beneficial to economic growth, private sector development, and poverty reduction.

- *The distributional aspects of growth and poverty reduction.* Recent social turmoil in different parts of the world has heightened awareness of the potential impact of rising inequality on economic and social stability and the need to build sustainable social safety nets.
- *Better prioritizing and sequencing of key actions.* Particular attention should be given to the realism, cost and financing of the measures to be undertaken in the immediate future while taking full advantage of the potential contribution from development partners and the private sector.