

INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL MONETARY FUND

SENEGAL

**Poverty Reduction Strategy Paper
Joint Staff Assessment**

Prepared by the Staffs of the International Development Association (IDA) and the
International Monetary Fund (IMF)

Approved by Callisto Madavo and Gobin T. Nankani (IDA),
Amor Tahari and Mark Allen (IMF)

December 2, 2002

I. OVERVIEW

1. **The Poverty Reduction Strategy Paper (PRSP) prepared by the Government of Senegal builds on the strategy laid out in the interim Poverty Reduction Strategy Paper (I-PRSP) presented to the Boards of the International Development Agency (IDA) and the International Monetary Fund (IMF) in June 2000.**¹ The document is the result of broad-based participatory consultations at all stages of its development. The PRSP describes these consultations, profiles the nature of poverty in Senegal, and presents the government's objectives and priority measures for reducing poverty over the next three years.

2. **The staffs find that Senegal's PRSP provides an adequate framework for guiding the implementation of a credible poverty reduction strategy.** The main strengths of the PRSP are: (i) the extensive public participation in the development of the strategy, which is well reflected in the document; (ii) the use of thematic working groups who not only prepared the various modules of the text but were also engaged in reconciling views and integrating contributions so as to arrive at a consensus on the strategy; (iii) the detailed and revealing poverty profile; (iv) and the willingness to take on essential issues such as the need to improve the equity and efficiency of public spending, as well as the quality of social services. The PRSP also lists the major risks affecting the implementation of the strategy, including exogenous shocks affecting macroeconomic objectives. The impact of adverse import price shocks on growth and low-income households is examined, and the donor community is called upon to help mitigate the impact of such exogenous shocks. Endogenous policy risks are perceived to arise from insufficient capacity to absorb efficiently the envelope of resources. The staffs consider these risks to be substantial given the past weak reform program implementation

¹ The report was distributed to the World Bank and IMF Boards on October 22, 2002.

in several sectors. The staffs agree with the document's assertion that government and society can contain these endogenous risks by strengthening both the judicial system and governance; giving members of society a dynamic role in policy formulation, implementation, and control; nurturing a partnership between the State and the society; and promoting the effective involvement of the beneficiaries of the reforms.

3. **The PRSP suffers from some shortcomings**, which the authorities will need to address so as to sharpen the focus and make the strategy fully operational within a sound macroeconomic framework. Specifically, the government's plans to implement the poverty reduction strategy are not spelled out in sufficient detail, notably as regards a fiscal decentralization strategy that would assure better public services. Furthermore, the poverty diagnosis did not benefit from a complete analysis of new household survey data, and the impact of the specific measures on the well-being of the poor has not been analyzed. Finally, the PRSP emphasizes a "high-spending-case" macroeconomic scenario (alongside two more moderate scenarios) that makes overly optimistic assumptions about the availability of foreign financing as well as the absorption capacity of the economy, and implies projected growth rates and inroads into poverty that cannot realistically be achieved. The authorities have begun to work on these issues, both by detailing their implementation plans and improving the poverty analysis; and discussions are under way with development partners on gauging the dimensions of a demanding but realistic macroeconomic path.

4. **The PRSP provides the operational framework and plan for implementing key measures, yet the authorities recognize that further elaboration of the strategy is needed and they plan to again pursue participatory processes similar to those that produced the original document.** The *concluding section of the PRSP* outlines the guiding principles for the implementation of the strategy and describes the instruments and procedures that will be employed for the implementation of the strategy. *Annex II of the PRSP*, which presents the priority measures of the strategy, concludes with a section on "implementation and monitoring/evaluation." In addition to specific actions, the section lists several documents to be prepared to aid its implementation. Most of these documents are already in draft, and some have been adopted by the Cabinet and discussed at a validation seminar in October 2002. One major theme of these documents is the need to improve budgeting procedures and execution. In this regard, the government has launched expenditure tracking surveys and public expenditure reviews in health and education, which should inform the further development of the government's budget reform plans. In addition, government officials will participate in drafting chapters on budget reforms and poverty monitoring for the World Bank's Senegal Country Economic Memorandum. These chapters should both analyze problems and shortcomings of existing systems and outline government plans for launching new approaches, which should support implementation of the PRSP.

II. THE PARTICIPATORY PROCESS

5. **The range and depth of participation in the preparation of the PRSP was substantial.** In the process, the authorities have built upon the considerable experience in

consultations with civil society that they had acquired when developing an earlier plan to fight poverty in 1997.

6. **The PRSP is based on an extensive participatory process at the national, regional, and local levels involving diverse groups, including households, NGOs, regional administrations, parliamentarians, and independent experts.** The preparatory phase of the PRSP benefited from a comprehensive census of NGOs which, through direct contacts, were made aware of the objectives and procedures of the PRSP and the importance of their participation in the process. The National Launching Seminar held in June 2001 was well attended, with participants representing NGOs, trade unions, religious associations, the media, research and educational institutions, independent experts, and the private sector. Five thematic groups were established and consultations were launched at the regional and local levels. Regional consultations led by the governors were conducted with NGOs representing, inter alia, farmers, youth, women, and the handicapped; presidents of rural councils; mayors; and technical teams of local administrative divisions. At the local level, Perceptions of Poverty Surveys and village-level workshops provided an opportunity for the poor to speak out. These surveys built upon the experience of the 1997 Poverty Reduction Plan, but were more detailed in coverage, and led to the compilation of a “List of Actions and Priorities Desired by the People.”

7. A preliminary priority action plan, which incorporated and harmonized various contributions and priorities that had emerged thus far, was discussed at the National Validation Seminar held in December 2001 in Dakar. About 250 participants attended the seminar with strong representation from the NGOs and other partners. The authorities and Bank and Fund staffs discussed the draft PRSP in February 2002 in Dakar and in April 2002 in Washington, D.C.

III. POVERTY DIAGNOSIS

8. **The PRSP relies on a broad range of quantitative and qualitative indicators of poverty.** During the course of PRSP preparation, three surveys were conducted to improve poverty data. These include a new two-round household consumption survey, which updates the 1994-95 household survey, a Core Welfare Indicators Questionnaire (CWIQ), focusing on the health, education, and environmental dimensions of poverty across regions, and a Perceptions of Poverty Survey (PPS). Both the CWIQ and PPS were used to complement quantitative data with qualitative information. The 2001 poverty level derived from the household survey bears a consistent statistical relation with results from the Perceptions of Poverty survey. Survey results have been made broadly available and will soon be made public on a government website.

9. **The data provide a good basis for an analysis of the causes of poverty in Senegal and were used extensively to inform the preparation of the PRSP.** The key result from the CWIQ survey is the predominance of rural populations among the poor and those with low human development indicators. This rural dimension of poverty figured prominently in the development of the government’s PRSP. As regards the low use of health and education services by the poor, the CWIQ and PPS surveys were used

to distinguish the relative importance of constraints of access to the services and weaknesses in quality. These results were exploited to guide the strategy and design priority actions. The surveys also helped in defining vulnerable groups and identifying measures to provide assistance to them. Finally, the surveys were used to identify gender dimensions of both poverty and lack of access to assets, with a view to better integrate gender issues into the various sectoral strategies.

10. **Based upon a rich set of poverty data available from the first round of the poverty survey, the document offers a good discussion of the characteristics of poverty.** The overall poverty level indicated by the first round of the 2001 survey is high, given the 1994-95 level and the rate of economic growth between the two periods, and could indicate an uneven distribution of growth between rural and urban areas over the whole period. This conclusion may however be affected by seasonal variations in consumption, the impact of which on the results will be reduced when the second round of the household survey is processed. The PRSP describes the government's plans to use these detailed results to further develop its poverty-fighting agenda over the next few years and to design a poverty monitoring system to be used in tracking progress on poverty reduction. Results from the second round from the household survey will be available in early 2003.

11. **Overall, the PRSP presents a candid and detailed poverty profile which makes clear the shortcomings of development policy on a number of dimensions.** The PRSP discusses patterns of economic growth over the last several years and the nature of its impact on poverty. These conclusions inform the discussion on strategies to increase private sector growth that will help the poor. Furthermore, while the PRSP does not explicitly evaluate the distributional impact of past macroeconomic or sectoral policies, sectoral components of the strategy address the need for greater equity and efficiency of public spending, especially in the social sectors. In addition, the need to improve equity and efficiency of public expenditures is also highlighted in sections on governance, and fiscal and budgetary reforms. Looking ahead, Fund and Bank staffs hold the view that improvements in the monitoring and the evaluation of anti-poverty programs will clearly be needed to maximize the PRSP-strategy's chances for success.

IV. TARGETS, INDICATORS, AND MONITORING

12. **The PRSP establishes clear medium and long-term goals for poverty reduction outcomes for education, health, nutrition, access to drinking water, gender disparities and rural/urban income gaps, as well as indicators of economic growth.** These targets are consistent with progress toward the Millennium Development Goals and with those of sectoral programs that the government has undertaken with support from the Bank and other donors. They take account of vulnerable groups, including women, as identified in the poverty profile. However, the lack of some outcome indicators for the period before 2005 will make it difficult to evaluate progress in the early phases of implementation. Staffs recommend that indicators be developed against which short-term progress can be assessed, and that these targets be included in the authorities' implementation progress report.

13. While the sectoral goals appear largely achievable, **the staffs consider that the overall goal of reducing poverty by more than half between 2001 and 2015 is ambitious even under the most optimistic growth scenario.** This ambitious target would require, in addition to high growth, a strong shift in public services toward the poor and sustained implementation of the PRSP's priority actions to enhance the growth effects of new investments as well as the effectiveness of services for the poor.

14. **The inclusion of annual indicators of progress in the allocation of public resources, including allocations toward the poor, for education, health, sanitation, water, and agriculture, is appropriate.** While the latter are almost exclusively input indicators, this is appropriate in view of the importance of improving the equity of public spending and the quality of public services. However, the recent slow progress with sectoral programs highlights the need for a clear medium-term budget framework for planning and execution. In follow-up documents, the government has described how it has begun budget reforms, including as regards the monitoring and evaluation of spending.

15. **A gap in the PRSP is the lack of a detailed plan for better public service delivery through effective fiscal decentralization.** Staffs would encourage the government to expand current pilot operations in fiscal decentralization, but urges the authorities to take the envisaged steps to assure that decentralization would not pose a risk to expenditure execution and monitoring.

16. **Principles and modalities of implementation and monitoring are adequately addressed in the PRSP.** An implementation committee has already drafted a blueprint for its plan of operation. The government's Statistics Division has set up the Live Data Base system (second generation), as a means of organizing poverty data in a web-based environment that will ensure broad access to timely data. One key focus of the implementation committee and the Statistics Division is the need for broad participation in progress monitoring. The staffs recognize the need for better coordination of efforts within the government and among donors as regards monitoring and project evaluation.

17. **Implementing a system to monitor and assess progress in government programs on the scale called for in PRSP documents constitutes a significant challenge and will require further reforms in addition to a concerted effort by the government.** Assistance is envisioned for organizing a complete data management system that will ensure that relevant data are available to decision-makers. Decisive implementation of planned reforms of the budget system is crucial to reinforce monitoring and evaluation, as these are key components for program-based budgeting. The authorities have not been able in the past to generate timely data on budget execution, or to organize expenditure data according to planned programs. Another issue that needs to be addressed is the lack of data on the informal sector, given that informal sector activity plays an important role in the authorities' growth strategy.

V. MACROECONOMIC FRAMEWORK

18. **The PRSP considers adherence to sound macroeconomic policies as key for the sustainability of the poverty reduction strategy.** It confirms the authorities' commitment to respect the convergence criteria of the West African Economic and Monetary Union (UEMOA). Moreover, the authorities support the pursuit of a monetary policy by the Central Bank of West African States (BCEAO) that aims primarily at low inflation, so as to underpin the maintenance of the fixed exchange rate with the Euro. With the caveat that the amount of external financing envisaged in the high macroeconomic scenario appears excessively large (see paragraph 20 below), the PRSP's macroeconomic framework builds on generally prudent fiscal policy, which (i) generates a basic fiscal surplus, (ii) aims at eliminating the recurrent fiscal burden from financial difficulties of parastatal companies, and (iii) establishes a long-term balance in the finances of the civil service pension scheme.

19. **Three macroeconomic scenarios are presented in the PRSP.** They differ with respect to (i) the anticipated level of external financing, (ii) the degree to which domestic resources will be mobilized to fund priority investments, and (iii) the assumed capacity of the government to implement the poverty reduction strategy. The low case scenario envisages that only those investments will be carried out that are inscribed in the government's standard three-year investment plan (which includes projects equivalent to 2/5 of the priority investment plan). The high case scenario assumes that in addition, all projects listed in the Priority Action Plan will be realized, which, in turn, requires seamless implementation capacity on the part of the authorities and substantial extra financing from donors. The medium case scenario assumes that half of the projects listed in the Priority Action Plan as still unfunded will be realized.

20. **The high and intermediate case scenarios target an average real GDP growth rates of 7.2 percent and 6.5 percent a year, respectively, over the 2003-05 period.** The Bank and Fund staffs find the high scenario's growth target too optimistic, as it exceeds Senegal's historical average (5 to 5½ percent since the CFA franc devaluation in 1994) by a wide margin. In particular, the necessary immediate acceleration in private sector investment appears overly large, and the assumed implementation rate for public sector investment projects would imply a jump in the public administration's absorptive capacity. On the production side, the growth rates accorded to the primary sectors are especially high. The intermediate case scenario, however, while still demanding, appears more achievable. Moreover, the high case scenario targets an average GDP deflator increase of 1.3 percent over 2002-05, in spite of possible inflationary pressures that would stem from the envisaged additional investments. Staffs recommend that the authorities provide an in-depth analysis of the feasibility of their macroeconomic scenarios in the PRSP implementation progress report.

21. **Enhancing growth during 2003-05 requires more and better targeted public and private investment.** The PRSP recognizes that other preconditions for promoting growth and reducing poverty need to be satisfied through policy reforms that, in particular, help increase productivity in the economy, lower costs in the energy sector, and achieve more transparency and effectiveness in the judicial system. According to the

PRSP, additional investments are to be financed primarily through higher private sector savings, coupled with an increase in external financing. Given the envisaged large amounts of external support, it would be crucial that the authorities strengthen their debt management capacity. The ratio of public savings to GDP would remain constant throughout the PRSP period.

22. **Establishing a business climate and a legal and regulatory framework conducive to saving and investing is crucial to achieve these objectives.** At the same time, however, the government should refrain from eroding its revenue base through tax concessions for investments beyond those permitted in the context of an agreed WAEMU investment code, as such an approach would induce distortions in the tax system and in the economy. Also, in the event of a shortfall in external donor assistance or private savings, the government would need to take appropriate offsetting measures, while protecting public savings.

23. The authorities recognize that **the absorptive capacity of the economy needs to be strengthened** so as to maximize the effectiveness of donor support. Indeed, the mobilization of external financing for the proposed priority investment projects depends on improvements in implementing current sectoral programs.

24. **The main risks associated with the macroeconomic framework are large terms of trade shocks and political risks,** including failure to maintain a prudent fiscal stance and delays in implementing structural reforms aimed at enhancing economic efficiency. Also, a depressed investment climate as a result of political instability in the wider region could obstruct the achievement of the PRSP's objectives. Bank and Fund staffs believe that in the absence of major disturbances, the PRSP's medium level scenario can be achieved while safeguarding macroeconomic stability.

VI. STRUCTURAL AND SECTORAL POLICIES

25. **The sectoral and structural measures were developed by the five thematic groups in charge of sector strategies.** The themes were discussed at a participative launching seminar in June 2001 and include: wealth creation, capacity building and access to social services, living conditions for vulnerable groups, PRSP implementation, and macroeconomic framework. The issues raised by these groups and the proposed reforms cover a comprehensive agenda of measures suited to boost growth by targeting the private sector, as well as programs addressing the delivery of social sector services, especially to the poor.

26. **The PRSP contains a long list of priority actions organized along the aforementioned themes.** The document emphasizes that the priority actions and the investment projects are derived from the assessment of development needs, although the strategic links are not always apparent. Staffs believe that the authorities' agenda largely addresses the major issues in the sectors relevant for poverty reduction, even though some longstanding projects of likely low effectiveness in reducing poverty continue to be included. However, the strategy reflects the kind of political compromises that are necessary to produce a comprehensive document with broad participation.

27. **The medium-term budgets for the investment projects are based on fairly standard assumptions about unit costs and the extent of project coverage,** and are consistent with the macroeconomic scenarios discussed above. Over the three years, the PRSP allocates about 44 percent of the government investment spending contained in the Priority Action Plan to both wealth creation—which includes rural development, support infrastructures and electrification as the most important sub-categories—and social sector projects. The remaining 12 percent are directed towards improving the living conditions of vulnerable groups. A weakness of the PRSP, however, is that it often presents projects separately from the institutional reforms needed to make the investment strategy successful. For example, the investment program lists the construction of new classrooms. It does not specify, however, the need to orient this construction toward completing unfinished elementary school buildings, so as to increase the number of primary school finishers and to enhance literacy skills. Staffs urge the authorities to work out integrated sector strategies that link institutional reforms to investment programs. Staffs further recommend that the government adopts a more comprehensive costing approach that encompasses all anti-poverty spending in its first annual progress report.

28. **The PRSP does not include a discussion of presidential plans for large infrastructure projects (*les grands travaux du chef d'état*),** which have featured prominently in public presentations of the government's medium-term plans. While the government intends to promote these projects mostly through private partnerships, little specific information is available, including on the potential fiscal implications. Significant financial involvement of the public sector could pose risks to fiscal and debt sustainability, and, more generally, might not be in line with the poverty focus of the government's medium-term investment plans.

29. **The document's strategy for enhancing wealth creation appropriately targets institutional reforms to improve the investment climate.** As mentioned in the previous section, economic growth will depend on cultivating and attracting new investment; in the past, investment has been discouraged by shortcomings in the economic and legal environment. The strategy also targets the completion of the authorities' privatization program, one of the structural reforms designated as a Completion Point trigger. The document does not discuss the government's policy regarding the privatization of SONACOS, the public groundnut company, which dominates the groundnut sector and whose recurrent deficits have repeatedly posed a burden for the public finances. Otherwise, the rural sector policy outlined in the PRSP captures the key issues in the sector. The main risks with regard to this component of the strategy are institutional weaknesses and expenditure management problems, which have previously slowed implementation of rural sector policies. Another obstacle is that natural resource constraints to rural sector expansion limit the contribution of this sector to increases in overall economic growth.

30. **While the proposed policies in the social sectors are designed to support poverty reduction, they may not always suffice to achieve this objective.** The health strategy, for example, proposes allocating resources toward (i) the acquisition of "social medicines" to meet the needs of poor people; (ii) enhancing accessibility of the poorest groups to health services; (iii) contractualisation of health services to reopen health posts

closed due to lack of personnel; (iv) referral of emergency cases from poor areas; (v) reinforcement of community-based health services; and (vi) malaria control. Recent experience in Senegal suggests, however, that successfully implementing such a program is a significant challenge. Similarly, while the PRSP's measures in education are desirable, they may not be sufficient to achieve the targeted improvements in equity. For example, the PRSP does not reconcile the equity objective with the fact that a large part of the education budget is spent on higher education, including scholarships for the relatively few university students.

31. **The list of priority measures addresses the range of problems whose resolution is essential for reducing poverty in Senegal.** However, some of these constitute broad objectives rather than specific actions in the area of public expenditure management (see paragraph 33) and certain sectoral policy areas (for example, "promotion of agro-industrial units producing import substitutes" or "expansion of rural electrification"). While in certain key areas, such as governance, budget reform, and fiscal decentralization, specific measures are spelled out, the complexity and deep-seated nature of the problems indicate that further elaboration of the strategy will be needed. The staffs find the government's approach appropriate in stating the main goals regarding governance and budget reforms and asking working groups to further develop the strategy through participatory processes. The PRSP launches an official agenda with defined objectives in these areas, coupled with the commitment to revisit the issue through future, more detailed proposals.

32. **The PRSP does not provide a systematic analysis of the impact of proposed measures on the poor.** Early on in the PRSP process, the government investigated different methods for evaluating the impact of macro and structural measures on the income distribution. To this end, a simulation model was constructed to estimate the potential impact of world oil price increases on GDP. The next steps would be to incorporate additional income distribution data from the household survey into the model to simulate the distributional consequences of specific structural measures. The government should also complete expenditure tracking and facilities surveys in health and education services, so as to learn more about inefficiencies that prevent programs targeted at poor populations from being more effective. These surveys should also provide new and valuable information on the benefit incidence of social sector programs.

33. **The PRSP rightly identifies public expenditure management as a key area of reform,** as it is instrumental to the successful implementation of many other aspects of the poverty reduction strategy. For example, poor expenditure management has contributed to the slow and incomplete execution of investment projects in the past, which, in turn, has reduced their effectiveness in reducing poverty. While the PRSP does not provide many details on public expenditure reform, subsequent documents that specify the government's PRSP implementation plans underscore the importance of enhancing the quality and transparency of public expenditure management.

VII. CONCLUSION

34. **Bank and Fund staffs find that Senegal's PRSP provides an adequate framework for the country's objective to fight poverty.** The authorities will need to address the identified shortcomings, however, in order to make the strategy fully operational and assure its effectiveness. Importantly, the poverty reduction strategy needs to be embedded within a credible macroeconomic framework suited to enhance confidence of external and domestic investors. In this regard, Bank and Fund staffs would caution against basing the poverty reduction strategy on the PRSP's "high case" macroeconomic scenario. Implementation of the PRSP is poised to draw broad support, as the document was produced by locally organized thematic groups based on an extensive participatory process. The strategy is consistently organized around themes of wealth creation, human development, macroeconomic stability, and plans for implementation. The priority actions and measures proposed in the strategy address the main issues facing the various sectors. Further, the strategy marks the government's commitment to reforms in public expenditure management. Successful implementation will require mastering the organizational challenges of monitoring and maintaining progress in structural reforms, especially cross-cutting reforms such as governance and public financial management. The strategy is also subject to substantial risks outside of the control of government, especially shocks affecting the rate of economic growth.

35. The staffs of the IMF and the World Bank consider this PRSP a credible poverty reduction strategy that provides a sound basis for Fund and IDA concessional assistance and debt relief under the HIPC Initiative. The staffs recommend that the respective Executive Directors of the IMF and the World Bank reach the same conclusion.