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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED CREDIT

IN THE AMOUNT OF SDR 36 MILLION EQUIVALENT TO US\$50 MILLION

TO THE

REPUBLIC OF SENEGAL

FOR THE

THIRD GOVERNANCE AND GROWTH SUPPORT CREDIT

June 25, 2015

**Macroeconomics and Fiscal Management GMFDR
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SENEGAL GOVERNMENT FISCAL YEAR

JANUARY 1 – DECEMBER 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of May 31, 2015)

Currency Unit	=	CFAF
US\$1.00	=	CFAF 600
US\$1.00	=	SDR 0.719

ABBREVIATIONS AND ACRONYMS

ACAB	Framework Agreement on Budget Support
ADIE	<i>Agence de l'Informatique de l'Etat</i> (Agency for Computerisation of the State)
AFD	<i>Agence Française de Développement</i> (French Development Agency)
AfDB	African Development Bank
AGERROUTE	<i>Agence des Travaux et de Gestion des Routes</i> (Agency for Road Works and Management)
ANAM	<i>Agence Nationale des Affaires Maritimes</i> (National Agency for Maritime Affairs)
ANSD	<i>Agence Nationale pour les Statistiques et la Démographie</i> (National Agency for Statistics and Demography)
APIX	<i>Agence pour la Pomotion de l'Investissement et des Grands Travaux</i> (Agency for Investment Promotion and Major Works)
ASER	<i>Agence Sénégalaise pour l'Electrification Rurale</i> (Senegalese Agency for Rural Electrification)
BCEAO	<i>Banque Centrale des Etats de l'Afrique de l'Ouest</i> (Central Bank of West African States)
BOM	<i>Bureau Organisation et Méthodes</i> (Office of Organization and Method)
CFAF	CFA Franc
CPS	Country Partnership Strategy
DPO	Development Policy Operation
DPL	Development Policy Loan
EU	European Union
ECOWAS	Economic Commission for West African States
EIB	European Investment Bank
FERA	<i>Fonds d'Entretien Routier Autonome</i> (Autonomous Road Maintenance Fund)
GGSC	Governance and Growth Support Credit
GER	Gross Enrollment Rate
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries Initiative
IDA	International Development Association
IDB	Islamic Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund

IPF	Investment Project Financing
JICA	Japanese International Cooperation Agency
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MEF	Ministry of Economy and Finance
MTDS	Medium-Term Debt Strategy
OFNAC	<i>Office nationale pour la lutte contre la fraude et la corruption</i> (National Office for the Fight Against Fraud and Corruption)
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PRSP	Poverty Reduction Strategy Paper
PSE	<i>Plan Sénégal Emergent</i> (Plan for an Emerging Senegal)
PSI	Policy Support Instrument of the IMF
SAED	<i>Société nationale d'Aménagement et d'Exploitation des Terres du Delta du Fleuve Sénégal</i> (Company for the Development of the Senegal River delta.)
SENELEC	<i>Société Nationale d'Electricité</i> (National Power Utility of Senegal)
SIGFIP	<i>Système Intégré de Gestion des Finances Publiques</i> (Integrated Public Finance Management System)
SNDES	<i>Stratégie Nationale de Développement Economique et Social</i> (National Strategy for Economic and Social Development)
TA	Technical Assistance
USAID	United States Agency for International Development
WAEMU	West African Economic and Monetary Union
WBG	World Bank Group

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REPUBLIC OF SENEGAL
THIRD GOVERNANCE AND GROWTH SUPPORT CREDIT
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SUMMARY OF PROPOSED CREDIT AND PROGRAM

REPUBLIC OF SENEGAL

THIRD GOVERNANCE AND GROWTH SUPPORT CREDIT

Borrower	Republic of Senegal.		
Implementing Agency	Ministry of Economy, Finance and Planning.		
Financing data	Credit on standard IDA terms (38-year maturity and 6-year grace period); US\$50million equivalent.		
Operation type	Third of three programmatic Development Policy Operations, single tranche		
Pillars of the Operation and Program Development Objective(s)	The proposed PDO is to support the Government's efforts to improve economic governance, and promote growth through private sector development. The first pillar focuses on the management of public resources and has two parts: government accountability and public sector performance. The second pillar concerns growth and private sector development.		
Key Results Indicators	<u>Indicator (see Annex 1a for the full list)</u>	<u>Baseline (2012)</u>	<u>Target (2016)</u>
	Percentage of holders of public office defined in the asset declaration law who have made a declaration of assets	3 persons	100
	Delay in the publication of the Audit Court annual report after the year of the report	34 months	12 months
	Budget credibility: ratio of executed university spending to approved budget	133	<105
	Hospital efficiency index (%)	79.5	85
	Subsidized agriculture inputs allocated through new e-platform (%)	0	90
	Functioning agencies with a performance contract (%)	0	90
	Government subsidies to the electricity sector for tariff compensation (billions of CFAF)	105	50
	Number of arrivals by air	855,602 (2014)	875,000
Overall Risk Rating	Moderate		
Climate and Disaster Risks	<i>(i) Are there short and long term climate and disaster risks relevant to the operation (as identified as part of the SORT environmental and social risk rating)?</i> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <i>If yes, (ii) summarize briefly these risks in the risk section and what resilience measures may help address them?</i>		
Operation ID	P150976		

IDA PROGRAM DOCUMENT FOR A PROPOSED CREDIT TO THE REPUBLIC OF SENEGAL

1. INTRODUCTION AND COUNTRY CONTEXT INCLUDING POVERTY DEVELOPMENTS

1.1 **This program document proposes a Third Governance and Growth Support Credit for the Republic of Senegal in the amount of SDR 36 million (US\$50 million equivalent).** This operation is the third in a series of three. The proposed operation supports the government's efforts to improve economic governance, and promote growth through private sector development. Policies and reforms supported by this operation are well aligned with the country's new Plan for an Emerging Senegal (PSE). The proposed operation is also fully consistent with the objectives of the Bank's FY13-17 Country Partnership Strategy, discussed by the Executive Directors in January 2013.

1.2 **Senegal is now a lower-middle income country but its economic growth was sluggish between 2006 and 2013.** Income per capita in 2013 was US\$1070 (Atlas method). The economy has shown little structural change, with a dependence on remittances to fuel domestic demand, a growing reliance on capital-intensive exports while labor-intensive sectors faltered, and thus little job creation. The effects of the global slowdown, erratic rainfall, instability in neighboring countries, and the recent outbreak of Ebola in the sub-region have been exacerbated by the weakness of the domestic reform agenda.

1.3 **Public sector inefficiency remains widespread; investment levels have been fairly high but not reflected in economic growth; public spending has been high but not reflected in human development indicators.** Private investment needs to shift from residential construction and real estate to more productive, permanent job-creating enterprises, but that will require a better investment climate, starting with more reliable, lower-cost electricity supply. The expansion of public finances has been accompanied by large deficits, and rising debt. The State needs to shift its emphasis from spending more to spending better. Public investment needs to be more efficient, but since much of it is domestically-financed, through independent agencies, this will require better planning and monitoring of domestic projects. Current spending can be made more efficient by reducing and better targeting energy and agriculture subsidies, controlling hospital spending, and improving the composition of education spending. Stronger governance institutions will help control the general level of public spending.

1.4 **Both the economy and economic management have improved with the arrival of the new government in 2012.** GDP growth has increased steadily from 2.1 percent in 2011 to 4.7 percent in 2014, with a further increase projected for 2015. The fiscal deficit has steadily declined from 6.7 percent in 2012 to 4.9 percent in 2014, while the 2015 budget aims for a deficit of 4.6 percent. The risk of debt distress remains low and if GDP growth does exceed the fiscal deficit in 2015 and beyond, then debt to GDP will start to decline. The government has a new more credible growth and poverty reduction strategy, the PSE, which enjoys strong support at the highest level. Senegal's ranking in both the Doing Business report and the Corruption Perception index has improved recently. Higher education reform has made important progress and a fairly well-targeted cash transfer program is up and running.

1.5 **The proposed operation supports the implementation of reforms begun earlier in the series, as well as introducing important new reforms, notably in agriculture and tourism.**

Agriculture and tourism are at the heart of the new PSE strategy and are critical to poverty reduction. However, the former suffers from erratic rainfall while the latter has been badly hit by the fear of Ebola. Thus, the amount of this operation has been increased by the equivalent of US\$20 million, while the policy matrix has been expanded to include reforms designed to help the tourism sector cope with this external shock.

1.6 Ebola has had a negative impact on the economy but its full effect remains to be quantified. The epidemic was already creating collateral damage across the continent before an isolated case was detected in Senegal in mid-2014. This sent shock waves through the economy and prompted emergency measures in the health sector. Fortunately, a timely and effective response resolved the one case and has so far prevented a recurrence. However, numerous conferences have been cancelled, and tourist arrivals are down: the booking cancellation rate reached 75 percent by end 2014. Cross-border trade with Guinea ground to a halt when the border was closed, and mining exploration, which is concentrated in the nearby southeast region, has slowed. Some horticulture exporters had trouble securing maritime transport for their product. The estimated impact of Ebola in 2014 is a downward revision of GDP growth by 0.2 percentage points, and 0.3 percentage points in 2015, reflecting the fact that the majority of the 2014/15 tourism season falls in 2015.

1.7 Senegal remains a stable and democratic country in a fragile, turbulent neighborhood. Local elections were delayed by a few months but finally held in late June, 2014; they were widely contested but without incident. The government continues to hold cabinet meetings in different regions of the country, accompanied by promises of funding for various local priorities, in order to underline its commitment to an equitable distribution of development programs. Negotiations to resolve the problem of insecurity in the Casamance have moved more slowly than hoped, but the President launched a new development strategy for the troubled region in April 2014, building on the new World Bank-funded project, Casamance Development Pole.¹

1.8 The latest poverty estimate puts the incidence of poverty at 46.7 percent of the population in 2011. After the CFAF devaluation of 1994, GDP per capita started to rise consistently and poverty rates fell significantly, from 68 percent to 48.5 percent in 2005. However, since 2006, repeated shocks have contributed to reducing per capita income growth to little more than the rate of population growth. The 2011 household survey indicates that poverty has declined by only 1.8 percentage points to 46.7 percent, which is in fact not significant in statistical terms. The well-being of the extreme poor and the bottom 40 percent did improve somewhat during the 2008-10 period due to three good harvests in a row. However, the drought of 2011 and the erratic rains of 2013 and 2014 have probably slowed any further progress in poverty reduction.

1.9 Inequality remains moderate and has not worsened recently, but geographical disparities are pronounced and remain broadly unchanged. More than two-thirds of poor households live in rural areas. The Gini coefficient of inequality is estimated at 38 which is lower than the average of 42 in sub-Saharan Africa. About a quarter of all people live in a household that is headed by a woman. These are on average less poor, partly explained by the fact that female-headed households are more likely to be in urban areas, and receive somewhat larger transfers.

1.10 Despite clear progress over the past decade, most MDGs will be difficult to achieve. Achievement of the first MDG on halving poverty will not be possible. The recent census suggests

¹ A separatist movement of 30 years ago has evolved into a low-intensity conflict dominated by banditry and smuggling. Rebels control relatively small areas particularly after dark, and land mines remain a problem in selected areas of the region such as cashew fields and the Lower Casamance Park.

that the primary Gross Enrollment Rate (GER) is only about 80 percent at the national level. It will be very difficult to reach the MDG on the primary school completion rate, given the high level of repetition and dropout rates. According to recent Demographic and Health Surveys, Senegal has registered a significant reduction in under-five-year child mortality which put it back on track for that MDG, but the country will likely miss the MDG relative to maternal mortality.

1.11 **Shared prosperity should be promoted if the government's new strategy (PSE) is effectively implemented, and extreme poverty reduced if the new cash transfer program remains well-targeted and is expanded.** Improvements in consumption were achieved fairly uniformly across the different income levels over the 2001-2011 period, in spite of the overall economic slowdown in the latter half of this time frame. Thus there has been a slight drop in extreme poverty and some progress on shared prosperity. This would appear to be due to better agricultural performance. The government's emphasis on agricultural development will help continue progress in this regard, but the unreliability of rainfall requires greater emphasis on irrigation, and subsidized inputs must be better targeted. The cash transfer program reached 100,000 of the poorest households in 2014 and is set to triple in size over the next two years. Urban job creation will be essential for a population that will soon be more urban than rural, hence the need for a more conducive business climate. The proposed operation contributes to these objectives.

2. MACROECONOMIC POLICY FRAMEWORK

A. RECENT ECONOMIC DEVELOPMENTS

2.1 **Economic growth rebounded in 2012 after the slump of 2011, slowed in 2013, and accelerated again in 2014 reaching 4.7 percent, largely due to service sector growth.** Real GDP grew by 4.4 percent in 2012, and 3.6 percent in 2013, better than the average of 2006-2011 of 3.3 percent. Erratic rainfall once again led to a disappointing harvest in 2013, with cereal production falling by 12 percent. However, GDP is estimated to have grown by 4.7 percent in 2014, and this is in spite of another poor harvest and the decline in the tourism sector activity. Services continued to drive the economy, notably telecommunications, transport and financial services, growing at 5.6 percent. Increased competition in mobile phones and internet provision appears to have contributed to the dynamism in telecommunications. The secondary sector was the most improved, rebounding from its poor performance in 2013 to post an increase of 4.9 percent. The construction subsector led once more with a gain of 10.3 percent driven by continued growth in office and residential construction in Dakar, the renewal of work on the new airport, and several road projects. In the primary sector, irrigated crops, notably horticulture and rice, did well, compensating for a fall in rain fed production due to late rains.

2.2 **Several traditional sectors suffered setbacks in 2014 and are weighing on growth.** Extractive activities declined in 2014 due in particular to problems in the phosphate subsector (ICS), which now accounts for a large share of non-performing loans in the banking sector. However, a new foreign investor has taken over the operation with promises of major investment. Artisanal fishing continues to suffer from excessive pressure on the coastal stocks, although industrial fishing appears to be benefiting from better management of off-shore resources. The largest groundnut oil processor (Suneor) is in serious financial difficulty, as is the petroleum refinery (Société Africaine de Raffinage). The tourism sector, already hampered by beach erosion, high taxation, and a difficult visa process, suffered a further setback due to Ebola. Public enterprises such as Senegal Airlines and the bus company also face serious problems.

Table 2.1: Selected Economic and Financial Indicators, 2013-2020

	2013	2014	2015	2016	2017	2018	2019	2020
	Act.	Est.	Proj.	Projections				
	(Annual percentage change)							
National income and prices								
GDP at constant prices	3.6	4.7	5.1	5.9	6.5	7.0	7.3	7.3
<i>Of which:</i> nonagriculture GDP	3.9	4.7	5.0	5.8	6.5	7.0	7.3	7.3
GDP deflator	-1.9	0.1	1.4	2.3	2.3	2.3	2.3	2.3
Consumer prices								
Annual average	0.7	-1.1	-0.9	1.5	1.3	1.3	1.3	1.3
End of period	-0.1	-0.8	0.8	1.4	1.3	1.3	1.3	1.3
External sector								
Exports, f.o.b. (CFA francs)	1.5	1.8	3.8	5.3	7.4	6.9	8.3	7.2
Imports, f.o.b. (CFA francs)	0.8	-1.1	4.1	5.6	8.2	7.8	7.1	3.6
Export volume	11.1	3.3	6.0	7.3	2.6	4.0	6.3	5.4
Import volume	1.9	3.8	6.8	5.7	6.6	6.2	5.7	2.0
Terms of trade ("–" = deterioration)	-7.7	3.4	0.5	-1.8	3.1	1.3	0.5	0.1
Nominal effective exchange rate	4.1	2.5	...	...	...	...	...	...
Real effective exchange rate	2.2	-0.7	...	...	...	...	...	...
	(Changes in percent of beginning-of-year broad money, unless otherwise indicated)							
Broad money	8.0	11.4	7.7	7.7	...	...	...	...
Net domestic assets	8.8	6.1	6.2	10.4	...	...	...	...
Domestic credit	11.3	2.8	9.3	7.7	...	...	...	...
Credit to the government (net)	2.0	-2.6	0.4	-1.1	...	...	...	...
Credit to the economy (net) (percentage growth)	12.6	6.4	9.0	9.3	...	...	...	...
	(Percent of GDP, unless otherwise indicated) ¹							
Government financial operations								
Revenue	22.5	24.2	24.3	24.2	24.0	24.0	24.1	23.9
Grants	2.5	3.3	2.9	2.9	2.8	2.7	2.6	2.6
Total expenditure	27.9	29.2	29.0	28.4	27.6	27.0	26.8	26.5
Net lending/borrowing (Overall Balance)								
excluding grants	-8.0	-8.2	-7.6	-7.2	-6.5	-5.6	-5.4	-5.1
including grants	-5.5	-4.9	-4.7	-4.2	-3.6	-3.0	-2.8	-2.6
Primary fiscal balance	-3.9	-3.2	-2.9	-2.4	-1.9	-1.3	-1.3	-1.1
Savings and investment								
Current account balance (official transfers included)	-10.4	-8.8	-8.0	-7.2	-6.8	-6.7	-6.4	-6.4
Current account balance (official transfers excluded)	-11.1	-9.7	-9.1	-8.4	-8.1	-7.9	-7.6	-7.3
Gross domestic investment	27.9	27.9	26.9	27.1	27.3	27.5	26.7	27.4
Government ¹	6.1	7.4	6.8	7.3	7.5	7.4	7.3	6.3
Nongovernment	21.8	20.5	20.1	19.8	19.7	20.1	19.4	21.1
Gross national savings	17.5	19.1	18.8	19.9	20.5	20.8	20.3	21.0
Government	0.6	1.7	2.4	2.8	3.4	4.0	4.1	4.2
Nongovernment	16.9	17.4	16.5	17.1	17.1	16.8	16.2	16.8
Total public debt								
Domestic public debt ²	14.3	13.9	16.4	16.2	13.6	9.6	3.9	3.5
External public debt	32.4	39.4	39.5	41.4	43.0	43.9	45.8	45.8
External public debt service								
Percent of exports	6.5	7.5	9.7	10.0	9.8	10.4	10.5	10.8
Percent of government revenue	9.2	10.4	12.8	12.8	12.2	12.7	12.5	-112.5
Memorandum item:								
Gross domestic product (CFAF billions) ²	7,387	7,742	8,251	8,946	9,751	10,667	11,709	12,854

Sources: Senegal authorities; and IMF staff estimates and projections.

¹ Reflects reclassification of public investment.² Domestic debt includes government securities issued in local currency and held by WAEMU residents.

2.3 Senegal's exports only rose by 2.4 percent in value terms in 2014 compared to the previous year. Refined petroleum products remained the largest merchandise export, and enjoyed growth of 4.5 percent by value in 2014. However, these exports are entirely dependent on imported crude oil, so were largely offset by larger imports. The value of gold, phosphoric acid and groundnut product exports continued to fall. Gold suffered from lower world prices while internal management problems continued to plague phosphate and groundnut oil operations. On the other hand, fish products did enjoy impressive growth, and cement exports recovered from the previous year's decline as the situation in Mali stabilized.

2.4 The large current account deficit declined slightly, and was fully covered by the capital account. Imports remain twice as large as exports by value, but the 2014 current account deficit including official grants declined from 10.4 percent to 8.8 percent of GDP, helped by the fall in oil prices. Remittance inflows continue to be substantial, equivalent to 11.6 percent of GDP. The issuance of a Eurobond equal to 3.3 percent of GDP enabled the authorities to cover all financing needs without drawing on foreign reserves. West Africa Economic and Monetary Union (WAEMU) reserves at the regional central bank amount to 4.5 months of merchandise imports.

2.5 A revised budget law for 2014 was approved in October 2014 in order to remain on track for a projected fiscal deficit of 5.2 percent of GDP. Revenues underperformed in the first quarter, and projections were revised downward by 0.4 percentage points of GDP. In addition, the authorities wished to reallocate funds to support the new PSE. Both current and capital spending were reduced, and further spending equivalent to 0.7 percent of GDP was reprogrammed for high priority projects under the new strategy. These included rice production, rural electrification, and flood control. Much of the saving in capital expenditures was to be achieved by more stringent spending controls. Many agencies had accumulated significant resources in their dedicated accounts and did not need the additional transfers allowed for in the initial budget law. The revised budget law required the utilization of existing funds before additional capital funding would be provided.

2.6 The final fiscal deficit for 2014 was better than projected, falling to 4.9 percent of GDP for the first time since 2009. Revenues remained at the same level as in 2013, at 19.2 percent of GDP, but grants increased by 0.5 percent of GDP. This allowed spending to remain basically unchanged compared to 2013 while reducing the deficit by 0.5 percent to 4.9 percent.

2.7 The budget law for 2015 projects a further reduction in the fiscal deficit to 4.6 percent, since revised to 4.7 percent in the IMF program. Although the budget envisaged GDP growth of 5.4 percent, the fiscal projections are based on more conservative numbers which seem realistic. The IMF has since revised upward its GDP projection to 5.1 percent in agreement with the authorities. At the suggestion of the IMF, the budget introduces a new innovation whereby a set of 10 projects is held in reserve with a total allocation equivalent to 0.6 percent of GDP. Disbursement on these projects only begins once satisfactory feasibility studies have been completed and providing adequate resources are available. Early indications are that most of this spending will not take place in 2015, providing some fiscal space for overruns elsewhere, including in the wage bill. As usual, the budget also included substantial funds for electricity tariff compensation. With the dramatic fall in world oil prices, savings of up to 0.5 percent of GDP are possible. Given these two factors, it seems likely that the authorities will be able to continue the fiscal consolidation begun in 2013.

Table 2.2: Fiscal Developments and Projections, 2014-2019

	2014	2015		2016	2017	2018	2019
	Est.	Budget	Proj.	Projections			
	(Percent of GDP, unless otherwise indicated)						
Revenue	24.2	24.0	24.3	24.2	24.0	24.0	24.1
Taxes	19.2	19.5	19.3	19.5	19.6	19.8	20.0
Taxes on income, profits, and capital gains	5.2	5.4	5.3	5.6	5.8	6.1	6.4
Taxes on payroll and workforce	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on property	0.4	0.3	0.3	0.3	0.3	0.2	0.2
Taxes on goods and services	10.2	10.3	10.1	10.0	10.1	10.1	10.0
Taxes on international trade and transactions	2.8	3.0	2.7	2.8	2.8	2.7	2.6
Other taxes	0.4	0.3	0.6	0.6	0.5	0.5	0.5
Grants	3.3	2.8	2.9	2.9	2.8	2.7	2.6
Budget	0.5	0.4	0.5	0.6	0.6	0.6	0.6
Projects	2.8	2.4	2.4	2.3	2.2	2.1	2.0
Other revenue	1.8	1.8	2.0	1.7	1.5	1.5	1.5
Expenditure	29.2	28.6	29.0	28.4	27.6	27.0	26.8
Expense	18.1	16.9	17.2	16.7	15.9	15.4	15.4
Compensation of employees	6.3	6.2	6.4	6.2	6.2	6.1	6.1
Use of goods and services	4.7	4.5	4.5	4.2	4.3	4.3	4.3
Interest	1.7	1.8	1.8	1.8	1.7	1.6	1.5
Foreign	0.8	0.9	0.9	1.0	0.8	0.8	0.7
Domestic	0.9	0.9	0.9	0.9	0.9	0.9	0.8
Subsidies	0.8	1.0	0.5	0.2	0.0	0.0	0.0
of which: subsidies to SENELEC financed by FSE	0.3	0.6	0.2	0.0	0.0	0.0	0.0
of which: SENELEC from budget	0.0	0.2	0.3	0.2	0.0	0.0	0.0
of which: Fuel subsidies	0.2	0.2	0.0	0.0	0.0	0.0	0.0
of which: Food subsidies	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Grants (current excl. FSE)	2.3	2.1	2.1	2.4	1.7	1.6	1.4
Social benefits	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Other expense	2.0	1.0	1.5	1.5	1.7	1.5	1.9
Net acquisition of nonfinancial assets	11.1	11.7	11.8	11.7	11.7	11.6	11.4
Domestically financed	1.3	2.3	2.5	2.5	2.3	2.5	2.5
Government's grants financed	4.8	4.4	4.4	4.4	5.0	4.5	4.2
Externally financed	5.0	4.9	4.9	4.9	4.5	4.6	4.6
Net lending/borrowing (Overall balance)	-4.9	-4.6	-4.7	-4.2	-3.6	-3.0	-2.8
Transactions in financial assets and liabilities (Financing)	-4.9	-4.6	-4.7	-4.2	-3.6	-3.0	-2.8
Net acquisition of financial assets	1.6	-0.8	-1.1	0.0	0.1	0.1	0.1
Domestic	1.6	-0.8	-1.1	0.0	0.1	0.1	0.1
Currency and deposits	1.2	-0.9	-1.1	0.1	0.1	0.1	0.1
Debt securities	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.1	0.0	0.0	-0.1	0.0	0.0	0.0
Foreign	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	6.5	3.8	3.7	4.3	3.8	3.0	2.8
Domestic	-1.4	-0.1	-1.4	-0.2	-0.3	0.1	-0.8
Foreign	7.9	3.9	5.0	4.4	4.0	3.0	3.6
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in net worth: Transactions	6.2	7.1	7.1	7.5	8.1	8.6	8.7
Net lending /borrowing (excluding grants)	6.2	7.1	7.1	7.5	8.1	8.6	8.7
Nominal GDP	7,742	8,229	8,251	8,946	9,751	10,667	11,709

Sources: Ministry of Finance; and IMF staff estimates and projections.

1/ Government Finance Statistics Manual (<http://www.imf.org/external/pubs/ft/gfs/manual/>).

B. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

2.8 **GDP growth for 2015 is projected to rise above 5 percent.** This reflects higher public investment, and the attraction of further private investment as a result of the improved business climate. The economy should also benefit from a rebound in the agricultural sector after two seasons of poor rainfall, and the fall in oil prices. Savings resulting from the latter could boost GDP growth by 0.5 percent or more. On the other hand, the tourism sector will continue to suffer from the effect of Ebola until at least the middle of the year. The new tourism season, which starts in November 2015, may return to normal if tourists are confident that Senegal is no longer threatened by the Ebola epidemic in the sub-region.

2.9 **Over the medium term, Senegal will need higher growth rates as envisaged in the PSE if it is to achieve significant poverty reduction.** The authorities recognize that they need to accelerate growth and do so in a more sustainable way - reducing the fiscal deficit, improving the quality of public investment, and promoting the private sector, notably export development. While external shocks have played an important role in holding back the economy, much can be done to improve the investment climate, starting with electricity supply. Agriculture's vulnerability to weather shocks must be reduced through greater reliance on irrigation and drought-resistant seeds. The groundnut sector requires greater use of certified seeds and a restructuring of the oil processing component of the value chain. Further liberalization of the telecommunications sector could stimulate innovation and enterprise creation. Senegal Airlines requires major restructuring if Dakar's role as a regional hub is to be strengthened. The proposed special economic zone at the new airport could kickstart manufactured exports, if carefully designed to draw on global experience. And public investment management will need to improve to ensure sound project selection and smooth implementation.

2.10 **Current efforts to improve the investment climate should help regain economic momentum and the authorities are committed to expanding public investment.** Some improvements in the quality of electricity supply have been achieved, and progress is being made to change the energy mix away from expensive oil-based thermal generation. Implementation of an ambitious program of reforms in the business environment began in 2013, and Senegal's Doing Business ranking improved to 161 in 2014 from 171 in 2013. The toll road leading out of Dakar has dramatically improved the flow of goods and services between the capital and its port, and the rest of the country. The new airport is scheduled to open in 2016, which should help tourism and Dakar's role as a regional hub. The response by the public and private sectors was very positive during the Consultative Group meeting in Paris in February 2014, and should boost investments. The authorities are pushing hard to launch key projects identified in the PSE, while allocating resources to ensure that they are properly prepared and appraised.

2.11 **The authorities have renewed their commitment to maintain a prudent fiscal stance over the medium term.** The government's objective remains to bring the fiscal deficit below 4 percent by 2017. The gradual decline in the overall fiscal deficit will reflect a decline in recurrent expenditure together with improvements in the quality of spending and, to a lesser extent, further gains in tax administration. Critical areas for reduced spending are higher education scholarships, hospitals, energy and agriculture subsidies, and transfers to autonomous agencies, all of which are targeted in this DPO series. The authorities are applying controls on the government's utility bill and housing privileges for senior officials, and plan to freeze indemnities at current levels. They also accept the conclusions of a recent IMF-World Bank review of the wage bill which concluded

that the true size of this bill is substantially higher than official numbers suggest, and needs to be brought down over time.

2.12 **The external current account deficit remains high but should narrow in the medium term.** The external current account deficit is expected to improve further in 2015, thanks largely to the fall in oil prices. It should continue decreasing in the medium term as exports grow slightly faster than imports. However, it will likely remain above 7.0 percent of GDP until 2017. Financing of the current account deficit is not expected to pose a problem, as FDI grows and aid flows are sustained.

2.13 **Risks, external and domestic, remain important.** Risks to growth remain weighted on the downside, particularly for the Euro zone—Senegal’s main economic partner—though the fall in the euro will help improve Senegal’s competitiveness. The crises in Guinea Bissau and Mali have eased, but the situation in the latter remains unstable. Ebola has had serious, negative short-term implications for the tourism sector, which could persist if the epidemic is not stopped definitively in the region. All neighboring countries are vulnerable to political instability which could impact the industrial and transport sectors. However, the short term trend in oil prices has been one of significantly lower oil prices, which will lead to savings in energy subsidies and provide a temporary boost to the economy.

2.14 **The most recent Debt Sustainability Analysis² shows that the risk of debt distress in Senegal remains low.** Gross public debt did increase substantially in 2014 to 53.1 percent of GDP, from 46.6 percent in 2013. However, this was partly due to over-financing of the deficit. Actual investment spending did not require all these funds, so the equivalent of US\$550 million has been built up in government accounts at the Central Bank. Netting out this amount, public debt would remain at 49.6 percent of GDP. The baseline scenario includes the issuance of a new ten-year US\$500 million Eurobond in June 2014, and a gradual increase in semi-concessional and non-concessional borrowing over time. The Eurobond, with a yield of 6.25 percent, is consistent with debt sustainability as it will extend the maturity of debt by substituting for short-term domestic debt, without significantly increasing the cost or exchange rate risk. Public debt has risen quickly, from 25 percent of GDP in 2008. However, if the rate of GDP growth begins to exceed the level of the fiscal deficit as a percentage of GDP, as forecast for 2015 and beyond, then this ratio will start to decline.

2.15 **Under the baseline scenario, public debt indicators remain comfortably below the thresholds.** Total public debt is expected to peak at 57.6 percent of GDP in 2016. The present value of total public debt to GDP decreases over the projection period and, at 43.8 percent of GDP, remains well below the benchmark level of 74 percent associated with public debt vulnerabilities for strong performers. Stress tests result in one spike in debt service to revenue ratio, corresponding to the repayment of the Eurobond, but this will not lead to a breach of the threshold.

2.16 **The authorities acknowledge that fiscal consolidation and a cautious approach to non-concessional borrowing are critical for safeguarding debt sustainability.** They will need to further improve debt management capacity. In place of the 2013 Eurobond issue, a loan was negotiated with a regional bank with an effective interest rate slightly above 7 percent; 60 percent was denominated in CFAF with a 7-year term, but eventually 40 percent had to be sourced externally in Euros with a one-year maturity. A US\$500 million Eurobond was successfully

² Senegal, Joint IDA/IMF Debt Sustainability Analysis, May 2015.

launched in June 2014 as well as their first Sukuk Islamic bond. The authorities are updating their medium-term debt management strategy. An IDA credit with the Ministry of Economy, Finance and Planning, the Public Financial Management Technical Assistance Project, includes a component to build debt management capacity.

2.17 Overall, Senegal’s macroeconomic framework for 2015 and the medium term outlook provide an adequate basis for the proposed operation. Economic policy makers are aware of the need to remain cautious and monitor ongoing developments domestically and abroad. Short-term adjustments to the authorities’ policy stance, if needed, would focus mainly on fiscal policy—the sole macroeconomic policy instrument under their direct control. The authorities have consistently adopted revised budgets when confronted with underperforming revenues.

C. IMF RELATIONS

2.18 The IMF and the World Bank maintain a close working relationship, especially with respect to reforms in public financial management and structural measures in sectors such as electricity and education which have a systemic impact on public finances and macroeconomic stability. There is close coordination to ensure that consistent advice is provided to the authorities.

2.19 The IMF Board approved a new three-year Policy Support Instrument (PSI) for Senegal on June 24, 2015. The eighth and final review of the previous PSI was concluded in December 2014. Performance under the program was considered broadly satisfactory, with all quantitative assessment criteria met, but progress on structural benchmarks was mixed. Staff encouraged the authorities to place a set of projects in reserve, with spending to begin only once the necessary feasibility studies had been completed.

3. THE GOVERNMENT PROGRAM

3.1 The Plan for an Emerging Senegal (PSE) now presents the authorities’ medium-term vision. The PSE aims to make Senegal an emerging economy by 2035 and provides a detailed set of programs and projects for the next ten years. It represents an update of the previous National Strategy for Economic and Social Development which was approved in 2012 but which was subsequently judged by the authorities to have an inadequate growth strategy. The PSE focuses on the same three pillars: (i) growth, productivity, and wealth creation; (ii) human capital, social protection and sustainable development and; (iii) governance, institutions, peace, and security. The last two remain essentially unchanged. However, the first one has been significantly enhanced with the identification of 27 high priority programs and projects, and 17 key reform areas. The projects include high-value agriculture and electricity generation, and the reforms include the investment climate. The Priority Action Plan has been revised to remove low-priority projects and make room for PSE programs.

3.2 The authorities have made slow but steady progress on economic growth, service delivery and governance. GDP growth in 2014 was twice as high as in 2011. A comprehensive program of reforms in the investment climate is well underway and starting to bear fruit. Electricity supply is more reliable, though expensive, and occasional cuts persist due to distribution problems. Rural electrification is expanding. Service delivery is improving, notably in the sensitive education sector where significant changes are being pursued. The authorities are actively engaged with stakeholders in both basic and higher education, allowing for the university year to proceed

relatively smoothly in spite of reforms. Performance contracts have now been signed with all universities and 15 hospitals. Free health care is offered for children under 5 years of age, and a system of universal health insurance is being developed. Social protection is now a priority, with an expanding cash transfer program reaching 100,000 of the poorest households, and aiming for 300,000 in the next three years. If successful, it should cover all the extreme poor. Governance also shows some encouraging signs, with the adoption of a code of transparency, creation of an anti-corruption agency, and initiation of an asset declaration system. The annual report of the Court of Accounts is now released on a timely basis and receives good coverage; however, public access to its audits could be improved.

3.3 **The PSE has set ambitious growth and service delivery targets.** GDP growth was expected to exceed 6 percent in 2015 and average 8 percent over the next three years. The authorities have since moderated their goals, but remain committed to achieving growth rates in excess of 7 percent by 2017. Ambitious targets have also been set for rural electrification, social housing, health care, university education, and cash transfers. The nomination of a Minister for the monitoring of the PSE in the Presidency promises to improve the pace of project implementation. However, the response of the private sector will be even more important, and that will depend on a much improved business environment. Greater efficiency in public spending will be needed to make room for social programs. The challenge of implementing the full PSE across all three pillars will require a comprehensive monitoring and evaluation framework, with a clear division of roles and responsibilities, based on outcome indicators and action plans at the level of sector ministries.

4. THE PROPOSED OPERATION

A. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

4.1 **The GGSC III supports all three pillars of the PSE.** The Program Development Objective is to support the Government's efforts to improve economic governance, and promote growth through private sector development. The first PDO pillar focuses on the management of public resources and has two parts: government accountability and public sector performance. The second PDO pillar concerns growth and private sector development. More specifically, the PDO pillars are: 1a) to improve economic governance by strengthening accountability systems; 1b) to promote better governance and efficiency in the education, health and agriculture sectors, and within agencies, and strengthen monitoring and evaluation; and 2) to enhance private sector development through energy sector reforms, and improvements in the investment climate, including in the tourism sector. PDO pillar 1a responds to the governance component of the third PSE pillar. PDO pillar 1b addresses the human capital dimension of the second PSE pillar, and PDO pillar 2 supports the emphasis on growth, productivity and wealth creation in the first PSE pillar.

4.2 **The GGSC series builds on past Poverty Reduction Support Credits (PRSCs) while focusing on the government's new priorities.** It highlights difficult reforms in the governance, education, and energy sectors, which the Macky Sall government is prepared to tackle. The series began with the adoption of new laws and decrees. The current operation deepens the initial reforms, with an emphasis on implementation, while expanding to include agriculture and tourism. Policies and reforms supported by this series are well aligned with the PSE and are fully consistent with the objectives of the CPS. By ensuring more efficient use of public resources, service delivery will be enhanced and fiscal space created for growth-enhancing and pro-poor spending. Jobs and wealth

creation will benefit from an improved investment climate, as well as lower fiscal deficits, which will reduce pressure on interest rates and avoid crowding out credit to the private sector.

4.3 The implementation of previous DPOs, including in the energy sector, has led to six key lessons. (i) Budget support can be an effective tool to mobilize the government on key reforms, as evidenced by past reforms promoted in the road maintenance fund, the sustainable management of fisheries, and public financial management; (ii) a combination of several instruments is advisable, including analytical work and sector IPF/TA operations; (iii) a harmonized approach among donors is important, notably in the case of PFM reform, where a common action plan was adopted, and in the case of the procurement code, where donor coordination helped to correct slippage; (iv) ministries and agencies participating in budget support operations have a tendency to focus on the completion of prior actions, so systematic follow-up actions are needed; and attention should also be paid to outcome indicators; (v) difficult sector reforms take time, as with the two-part 2008 Energy Sector DPL which underestimated the time required for major sector reforms resulting in the cancellation of the second tranche; and, (vi) more attention should be paid to political leadership and the commitment at the highest level.

B. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

4.4 The proposed operation builds on the first two operations in the GGSC series and deepens the reform agenda in the same two components. The first pillar focuses on the management of public resources and has two parts: government accountability and public sector performance. The second pillar concerns growth and private sector development.

4.5 Since the previous operation, the reform agenda remains broadly the same. There has been no slippage on the actions taken under GGSC II. There has been sub-optimal performance in higher education, where university budgets continue to be under-funded. However, the broader reform program in higher education has been moving ahead in spite of strong resistance. With reporting by the Court of Accounts fairly up-to-date, further action was dropped in favor of greater attention to monitoring and evaluation. The ambitious 3-year program of reforms in the investment climate has progressed well, but with less emphasis on trade where Senegal already scores relatively well. Hence the prior action has been revised to focus on facilitating enterprise creation along with construction permits. The interface of HR and payroll systems between education, finance, and civil service was pushed back to the current operation, due to revisions in the payroll software which were completed with delays. It is now technically feasible, but not yet operational due to the need for regulatory changes and other organizational issues. An action plan has now been adopted and the project will be more closely monitored by the authorities and staff to ensure that it is finally implemented by the end of 2015. The energy prior action has been changed to focus on full implementation of reforms supported by the first two operations of the series. Governance, agriculture, education and health sector triggers identified last year were maintained in the current operation, with minor modifications. A tourism prior action has been added to address the need for support to this sector in the face of the effects of Ebola. Overall the program remains on track. The changes in the original triggers and the status of the prior actions are summarized in Annex 1b.

Pillar 1: Government Accountability and Public Sector Performance

4.6 The Government has put governance and public sector performance at the center of its program. The PDOs are i) to improve economic governance by strengthening accountability systems, and ii) to promote better governance and efficiency in the education, health and agriculture sectors, and within agencies, and strengthen monitoring and evaluation.

Pillar 1a: Government Accountability

4.7 Under President Macky Sall, two successive Governments have taken numerous steps to increase transparency. Access to budgetary information has improved with the publication on a monthly basis of budget execution tables, and the availability of information on procurement practices. Senegal has joined the Stolen Asset Recovery Initiative and has adopted a new law on illicit enrichment. Following the adoption of the WAEMU Transparency code in 2012, a law on asset declaration for public officials has been passed. The newly created anti-corruption authority, the National Office for the Fight against Fraud and Corruption (OFNAC), is in charge of the management of these declarations. Senegal's ranking on the Corruption Perception Index improved in 2013 to 77 from 94 in the previous year and 112 in 2011.

4.8 The Supreme Audit Institution has been modernized for more transparency and enhanced government accountability, but more progress needs to be made. Senegal's Supreme Audit Institution or Audit Court (*Cour des Comptes*) has made significant efforts to clear the backlog in the review of the draft Budget Execution Laws (*Lois de Réglement*), and the law for 2012 is published on its website. It has also published its public annual reports up to 2012, the last one appearing in August 2014. The decree completing the new organic law passed in 2012 was adopted in November 2013. However, the accounts produced by the public accountants (*comptes de gestion*) have not been duly certified for years and still represent an important backlog. Contrary to the Transparency Code adopted in 2012, the findings of the audits conducted by the Audit Court are not automatically made available to the public. The IDA Public Financial Management Technical Assistance project has components to strengthen both the Audit Court and the Parliamentary Finance Committee for more transparency.

4.9 OFNAC has become operational. OFNAC was created in 2012, but its President was only appointed in July 2013, followed, in December 2013, by its 10 "permanent" members. OFNAC received its first budget in 2014, although as part of the budget of the Presidency rather than having a separate budget line. CFAF 925 million (US\$1.5 million) has been allocated, permitting initial hiring of staff, and additional financing was provided to refurbish and equip offices. OFNAC has now recruited over 60 staff to carry out their mission of investigation and management of asset declarations. This has been recognized by all donors as the necessary condition for them to provide support to this institution.

4.10 Implementation of the asset declaration law has proven difficult but is now well under way. The draft law on asset declaration was adopted by the Council of Ministers in July 2013. However, the National Assembly asked for amendments and it was only passed in March 2014 and promulgated in June 2014. The necessary implementation decree posed new challenges, notably the identification of all persons subject to the declaration, delaying its signature until October 2014. As a result, the submission of declarations only started in January 2015, and then many were rejected or not properly supported with the required documentation. Nonetheless, over 100 have now been received, including all those for ministers with portfolios. This should help avoid some of the

abuses of the past, since all Ministers and other senior officials managing more than CFAF 1 billion will have to declare their assets now, and again when they leave their positions. This remains a high priority for the President who declared his assets upon taking office.

Focus of the GGSC series under Pillar 1a — Government Accountability

4.11 **The proposed GGSC III supports strengthened accountability with the following prior action:** The Recipient has operationalized its asset declaration system by: (a) approving the related implementation decree; (b) allocating appropriate human and financial resources to the national office for the fight against fraud and corruption (“*Office National pour la Lutte contre la Fraude et la Corruption*”/“OFNAC”); and (c) ensuring deposition of asset declarations by ministers holding a portfolio to OFNAC.

Pillar 1b: Public Sector Performance

Education

4.12 **Education personnel account for three-quarters of all government employees, and better management will be important to bring public spending under control.** Personnel costs in primary and secondary education represent about 93 percent of education spending, leaving little for textbooks, classroom material and teacher training. Regular teachers in the civil service receive a salary that, relative to GDP per capita, is among the highest in Africa. About 28 percent of personnel costs go to non-teaching staff. This DPO series aims to improve human resource management through a combination of a more decentralized education system and better systems and controls at the central level.

4.13 **A key objective is to make better use of existing staff, control the growth of the wage bill, and establish more credible forecasts of wages and remuneration, including contractual and higher education personnel.** The government will need to strengthen controls over staffing numbers, and the geographical assignment of teaching staff, as well as manage recruitment programs based strictly on actual needs. For this, a strengthened HR management system—with an individual identification system for both staff and positions—has become essential. A personnel audit of the entire civil service has been conducted and a number of ghost workers and individuals receiving two salaries have been identified. It was then necessary to establish an effective payroll and HR control in education by linking databases for contractual agents and civil servants in the education ministry with that of the public service ministry, and then linking this with the ministry of finance payroll. A clean database of education staff has been established and a new payroll system has been finalized and tested in the ministry of finance. Now the ministries responsible for finance, education and the public service need to be interconnected and share a common data base. This operation supports the preparation of this new system. It also promotes coordination between the ministries of finance and education in the recruitment program so that the national budget is based on agreed levels of hiring and avoids costly overruns which must be met late in the fiscal year.

4.14 **Public universities are primarily funded by the state budget, but universities also derive significant revenues from parallel programs charging substantial fees.** These are estimated to provide over 15 percent of university funding. This has resulted in unsatisfactory annual budget negotiations in which the Ministry of Higher Education argues that the universities are under-funded while the Ministry of Economy and Finance responds that they can manage once revenues from external services are included. For this reason, a new financial regime was

introduced in 2012 to require full disclosure of all revenues, and modernize the accounting framework. Budgets for 2013 were prepared by all the universities along the lines of the new financial regime and performance contracts signed. Budgeting can now be more closely tied to results, strengthening incentives to achieve outcomes such as higher graduation rates and providing programs with a better fit with the labor market. Proper accounting of university-generated revenues will also help to improve transparency and reduce misuse. The proposed operation supports better management of these revenues, including accountants in key institutions who must report to the university financial officer. It also supports better governance through the submission of a draft law which will require universities to include outside representatives on their Boards, notably from the private sector.

Health

4.15 **To release more resources for pro-poor health services, the authorities will need to reduce the heavy burden of hospital debt.** Previous DPOs supported financial restructuring plans for the hospitals, and now the majority is operating with balanced budgets. Nonetheless, further reforms are needed to improve the efficiency of hospital spending, which accounts for 30 percent of the health budget, or about US\$45 million. With estimated efficiency running below 80 percent, there is a potential gain of some US\$10 million. In addition, annual subsidies for those hospitals with deficits remain at US\$5 million. Performance contracts were signed with eleven hospitals up to 2013. Five more contracts are supported under the proposed operation. To ensure that these contracts are implemented and monitored, the government needs to strengthen its Directorate in charge of the hospital sector, to upgrade hospital information systems and implement a cost accounting system. These investments are part of the recently-approved IDA Health and Nutrition Financing Project.

4.16 **The next critical step is to develop a new financial regime.** The principle of performance contracts needs to be institutionalized through the enactment of a financial and budgetary regime for hospitals. Many past problems can be explained by the lack of clear rules for financial accountability of hospitals after the hospital autonomy reform in 2000: (i) hospital budgets can be executed without any formal approval from the ministries of health or finance; (ii) hospital recruitment decisions are not constrained by a staffing plan which defines the maximum number of staff that can be hired by a given hospital (without approval from the Government); (iii) no cost accounting system is required, although such a system has been designed; and, (iv) there is no required cash management system. Some of these issues will be addressed with a new financial and budgetary regime which has been developed for all agencies and public establishments, including hospitals. This complements the performance contracts in their effort to reintroduce accountability within hospitals. Whereas performance contracts may be characterized as curative, a new financial regime would be preventive. The proposed operation supports both.

Agriculture

4.17 **Subsidies for agricultural inputs have become a significant expenditure in recent years, while also suffering from major inefficiencies and leakages in their allocation.** Such subsidies reached roughly CFAF 65 billion (US\$130 million) in 2012, but have fallen to CFAF 26 billion in 2014. They have been offered in a fairly indiscriminate fashion for a wide range of inputs and crops, and with no attempt to target the more needy farmers. The process of distributing the inputs was also hampered by high costs and significant leakages, with inputs often arriving too late to be useful, or not at all. The World Bank has worked with the authorities to develop criteria for more

selective subsidies based on effectiveness, and a new e-platform which exploits cell phone technology. SMS and Interactive Voice Response (IVR) are used to send e-vouchers for fertilizers and seeds directly to producers, notify subsidy availability at a local agro-dealer, validate vouchers, and distribute the subsidy. A database of approximately 740,000 farmers has been created, including crop variety, area, location, and cell phone number. Delays in conducting the survey of farmers prevented the use of this mechanism for the main 2014 crop season, but the authorities have committed to begin using it for the distribution of inputs for the main crop season beginning in June 2015.

4.18 Irrigation offers major opportunities for expanding agricultural output, but maintenance has been a long-standing problem. There is an estimated renewable potential of more than 35 billion cubic meters of water, but the utilization of this resource remains small at a rate of only 5.5 percent. Large public investments have been made in irrigation infrastructure and crop perimeters, mainly in the Senegal River valley for rice and horticulture. Performance has not met expectations and Senegal needs to establish a strong institutional, legal and regulatory framework for infrastructure maintenance. The Millennium Challenge Corporation (MCC) has laid important groundwork in the Senegal River delta to ensure quality control and timely execution of works. A detailed action plan has been agreed for the public enterprise responsible for irrigation management in the Senegal River valley (SAED), including the contracting of private companies to conduct maintenance. Annual contracts have been signed for 2014, but the plan is to move to multi-year contracts in the near future to avoid missing valuable work time each year while waiting for the completion of the procurement process. A well-functioning maintenance system will be important for the IDA Sustainable and Inclusive Agribusiness Project as well as the broader goals of the government for rice self-sufficiency.

Agencies

4.19 The government allocates a significant and increasing part of its public investment program to a number of autonomous public sector agencies and specialized funds. Agencies receive budget transfers but enjoy relative management autonomy, while budgetary information remains limited. By 2013 there were more than 70 operating agencies, and roughly one-quarter of the investment budget was executed by them. A law on agencies was adopted in 2009, to strengthen oversight of their budget execution, promote performance contracts, and establish procedures for the creation of new agencies, but progress has been slow. An evaluation of all autonomous agencies was finally completed in mid-2013, and an action plan was eventually approved to close or merge various agencies, and return some to the appropriate ministry. Three agencies and one fund designed to promote youth employment have been merged, with plans to reduce total staffing from over 200 to about 60. Other closures and mergers are expected, and performance contracts are being prepared for the largest agencies. However, it will also be necessary for the authorities to move ahead with the liquidation process and set aside budget resources for appropriate severance packages. This operation supports the implementation of the action plan and the signature of performance contracts for six of the largest agencies: Agence des Travaux et de Gestion des Routes (AGEROUTE), Fonds d'Entretien Routier Autonome (FERA), Agence Nationale pour les Statistiques et de la Démographie (ANSD), Agence Nationale des Affaires Maritimes (ANAM), Agence de l'Informatique de l'Etat (ADIE), and Agence Sénégalaise de l'Electrification Rurale (ASER). The IDA Public Financial Management Technical Assistance Project is supporting the parastatal department in the finance ministry as it prepares contracts for all remaining agencies and develops its supervisory capacity.

Monitoring and Evaluation

4.20 **The institutional framework for monitoring and evaluation needs to be strengthened to hold ministers accountable and support the delivery of government commitments.** While the public administration has many qualified civil servants and relatively strong capacity to formulate strategies, policy implementation has been a critical challenge. In 2013, the government launched a monitoring mechanism for the implementation of strategic priorities, with technical assistance from the World Bank. It has five objectives: (i) facilitate the use of program information and the coordination of government monitoring; (ii) regularly measure results achieved; (iii) contribute to swift adoption of measures to address bottlenecks and delays; (iv) support the institutionalization of results monitoring; and (v) anticipate the requirements of the new organic budget law that will require, by 2017, a performance-oriented budget including multi-year program budgeting and performance indicators. This mechanism focuses on priority results consistent with the PSE. Seminars to review progress in priority sectors were held quarterly in 2013, chaired by the President of the Republic or the Prime Minister, though this process stalled in 2014 with the launch of the PSE and the local elections. It began again in April 2015 with a Presidential Council to review the first year of PSE implementation.³

4.21 **The Bureau of Organization and Method (BOM) at the Presidency was established as the unit responsible for monitoring state priorities through a Presidential decree in 2013.** In 2014, the President appointed a new Minister to monitor the PSE, to focus on the 27 priority projects and 17 reform programs. The Ministry of Economy, Finance and Planning also has a key role to play given its planning and budgeting functions, and its responsibility for donor relations. But the BOM has the technical expertise needed to guide the process, while the Prime Minister's office must also be actively involved. A single and comprehensive framework is essential for assigning and executing government priorities, avoiding duplication and excessive demands on the sector ministries which underpin the whole process. This is supported by the proposed operation, while capacity-building for its successful implementation is financed with additional funding for the IDA PFM TA project.

Focus of the GGSC Series under Pillar 1b – Public Sector Performance

4.22 **The proposed GGSC III supports six policy actions that build on reforms supported in the first and second DPOs to improve the governance and efficiency of public spending in education, health, agriculture, and agencies, as well as monitoring and evaluation:**

- (i) The Recipient has strengthened wage bill control and human resources in the education sector by: (a) creating a system connecting data bases of the ministries in charge of education and civil service; and (b) preparing the 2015-2016 recruitment plan for education in collaboration with the ministry in charge of finance;
- (ii) The Recipient has implemented presidential directives on external revenues earned by universities through: (a) adoption and submission to Parliament for enactment of a draft law reforming universities governance system; (b) issuance of an *Arrete* specifying

³ Areas covered were: agriculture, higher education, technical and vocational training, energy, social protection, infrastructure, health, and the investment climate.

resource allocation and use of external revenues; and (c) appointment of accountants in key faculties and schools at the University of Dakar, who report to the chief financial officer;

- (iii) The Recipient has adopted a new financial regime for public agencies and establishments, and has entered with five additional public health institutions into performance contracts whose objectives are to increase service supply, improve billing process and control general costs;
- (iv) The Recipient has adopted a mobile phone-based e-platform to distribute subsidized agricultural inputs in the 2015 crop season; and obtained approval allowing SAED to enter into multiannual maintenance contracts of hydro-agricultural works with private contractors and launched a call for bids;
- (v) The Recipient has launched implementation of the action plan to restructure autonomous government-owned agencies, by: (a) merging certain selected agencies; (b) appointing officers responsible for the liquidation of certain selected agencies; and (c) entering with six of the largest agencies into performance contracts with the objective of clarifying the financial commitments of the Recipient's ministry responsible for finance and the related performance targets of agencies concerned;
- (vi) The Recipient has issued a decree establishing a comprehensive monitoring and evaluation system for the government's policies and programs, defining the roles and responsibilities of all actors in the administration.

Pillar 2: Private Sector Development

4.23 For the Macky Sall government, faster growth is central to their development strategy.

The situation in the energy sector and the cost inherent in the difficult business environment are among the most binding constraints to growth. Tourism has been identified as a key growth sector in the PSE but it has been badly affected by Ebola in neighboring countries which has discouraged tourist flows to the entire sub-region. The GGSC series focuses on these domains with the following program development objective: to enhance private sector development through energy sector reforms, and improvements in the investment climate, including in the tourism sector.

Electricity and Energy

4.24 **Electricity supply in Senegal has improved in 2013 and 2014**, following a period of severe disruptions in 2011 and marginal improvements in 2012; further progress is expected in 2015. Aided by lower international oil prices and investments that expanded and rehabilitated power generation plants, the national power company, SENELEC, has significantly reduced unserved demand. Generation upgrades have resulted in lower production costs, with the amount of emergency rental power in the interconnected system decreasing from 150MW to 100MW. Shifting from expensive diesel to cheaper heavy fuel oil allowed for further savings. SENELEC's tariff compensation (a government direct subsidy provided to the utility to maintain affordable tariffs) has been reduced from about CFAF 120 billion in 2012 to CFAF 88 billion in 2013 and CFAF 77

billion in 2014. SENELEC is advancing the implementation of its loss-reduction program with network rehabilitation and upgrade investments. In addition, an investment program for the installation of about 200,000 new meters that allow for prepayment and about 30,000 intelligent meters for high-consumption customers should result in better commercial operations by end of 2015. Following years of heavy financial losses, SENELEC reached a break-even result in 2013 with some profits estimated for 2014 and 2015. Nevertheless, SENELEC remains in a precarious liquidity situation with considerable arrears to suppliers (CFAF 24 billion as of February 2015), though considerably reduced from the same time one year ago (CFAF 42 billion). Its expensive power generation base continues to require government support to finance operations and investments. The proposed DPO supports the resolution of cross-debts between SENELEC and the Ministry of Economy, Finance and Planning up to July 31, 2012, which helps improve the balance sheet of SENELEC and contributes to recovering its creditworthiness and access to finance. However, new cross-debts will need to be resolved in the coming year.

4.25 A performance contract for SENELEC has established a good mechanism for improvements in the sector. The government and SENELEC signed in May 2013 a contract outlining performance targets and indicators for sector improvements. The first annual performance report has been prepared by the authorities and its summary was presented to development partners in April 2014. An independent external auditor has been appointed to follow the execution of the performance contract and prepare performance reports for 2014 and 2015. The proposed DPO builds upon the experience of the first year of the performance contract and will strengthen it further by establishing a system of rewards and penalties to consolidate performance gains. SENELEC and the Government have agreed on a set of incentives, distributing an appropriate percentage of profits to SENELEC's employees if performance exceeds expectations, and providing for penalties in case performance falls short of targets.

4.26 However, in the short-term, the sector remains extremely sensitive to external oil price shocks, potential delays with private sector generation projects, and any unforeseen disruptions caused by equipment failure, while the government works on medium-term diversification. Electricity supply in Senegal remains fueled overwhelmingly by oil-based products. Technical problems and an increase in oil prices pose risks for operations and the sector's financial situation. The former risk materialized in April 2014, when the Manantali hydro plant on the Senegal River lost about half of its 200 MW capacity. Fortunately, the second risk has been avoided for now, with world oil prices in 2014 generally lower than 2013. If significantly lower prices persist through 2015, SENELEC should reach an improved cash flow situation, and subsidies will fall further. The government has already laid out targets for diversification of supply through coal power investments, renewable energy, and natural gas generation. Nevertheless, implementation of a 125MW coal power project (financed with assistance from the AfDB) is facing delays and is not expected to be on-line before 2017. The World Bank-funded Banda Gas-to-Power project, involving the importation of electricity from Mauritania, is also behind schedule due to the withdrawal of the main developer of the off-shore gas fields. Furthermore, a series of unsolicited negotiated projects for solar and wind power projects are facing difficulties with their financial closure, as many development partners hesitate to assist agreements that have not been the result of fully competitive procedures. The World Bank Group is supporting two new thermal IPPs, while it also proposes to support the OMVG transmission line project to bring hydro power from Guinea, which is another important part of the longer-term solution to Senegal's energy problems. A renewed coordination effort among development partners in the sector (AfDB, AFD, EIB, EU,

JICA and KfW) will assist with the financing of initiatives to implement a more diversified energy mix for the sector and further improve network and commercial performance in the medium term.

Investment Climate

4.27 **Improving the business environment and competitiveness has been recognized as a priority in the PSE.** Already in December 2012, the Presidential Investment Council (PIC) - Senegal's main forum for public-private dialogue - underscored the importance of continued investment climate reforms and adopted the Reform Program on Business Environment and Competitiveness (RPBEC). It aims to provide Senegal with a high quality business environment, improving its ranking in *international* ratings including *Doing Business*. A program of 50 measures was adopted, to be implemented over three years. Within this framework, improvements took place in 2013-14. Senegal became one of the top 10 reformers worldwide in *Doing Business 2015* with reforms in the areas of business start-up, construction permits, property registration, credit information systems, minority investor protection and tax payments. The country is now ranked 161 out of 189 countries in the *Doing Business Report* – up from 171 in 2013. The current operation supports further reforms in the areas of construction permits, by reducing both the time and cost, and enterprise creation, by further reducing the minimum required capital.

Tourism

4.28 **In the 1980s, Senegal was a booming African tourism destination, second only to Kenya in terms of arrivals.** Today, it does not rank amongst the top ten destinations of Sub-Saharan Africa. In spite of this decline, in 2013 the sector still generated an estimated 16 percent of export earnings and 10 percent of all employment. While endowed with a relatively rich asset base, the sector has not realized its full potential due to the persistence of various structural issues.

4.29 **Senegal's leisure tourism started to lose market share in the early 2000s.** Prior to this, there was a broad representation of origin markets and the product was seen as largely beach holidays offered at competitive prices through reliable international tour operators. With a lack of promotion across source markets and a lack of investment in assets, the non-French markets began to decline. With a lack of product diversity and increasing competition in the French market, this led to price competition, reduced margins and further contraction of investment. In addition, beach erosion triggered by unregulated building of sea structures and climate change became a significant issue and lowered the value of the product. It is critical for the Saly resort, the center of Senegalese leisure tourism, as the 7.5 km shoreline is its main attraction. The speed of beach erosion is very high (around 6 m/year, in the most exposed sectors) and by 2080, given current forecasts of sea level rise, 60 percent of the beaches could disappear. Overall, Senegal was unable to cement the 'exotic' character of its offer and became a mass market product with low margins.

4.30 **Furthermore, a 2005 increase in airport taxes and charges (now about half of the price of an air ticket) made Senegal more expensive than emerging competitors,** particularly those within 5 hours flying time from Europe such as Tunisia, Morocco and Egypt. The 2014/15 season package price for a one-week holiday in Senegal through FRAM (a major tour operator in France) is Euro 1200 compared to Euro 790 in Egypt or Morocco for the equivalent product (7 nights, full board). The impact on Senegal's competitive position was further exacerbated by the global financial crisis of 2008, leading to changes in demand, especially in Europe. Core markets became

much more price sensitive, whereas Senegal had not developed a wider range of product with the additional value needed to justify its higher prices.

4.31 Policy changes following elections in 2011/12 resulted in a removal of the promotion agency and a change in the visa regime. The removal of the promotion agency effectively transferred responsibility for all destination marketing to an already struggling private sector, triggering a loss of strategic direction for the industry and a loss of clear market position. The new 2013 visa regime – i.e. a fee-based biometric entry visa (only obtainable in a few locations in Europe) – added more costs and difficulties, and made Senegal still less attractive as key competitors do not have such requirements. Finally, in 2014, the regional Ebola crisis had a major impact as it fell onto an already weak sector. Induced cancellation rates hovered around 75 percent by end 2014. Some prominent large hotels closed and job losses were significant in early 2015.

4.32 The Government now seeks to address issues in this sector which is recognized as a potential source of growth in the PSE, and relevant policy measures are detailed in a 2013 sector strategy. It intends to do so, inter alia, by i) dealing with the beach erosion issue, ii) improving communication and marketing efforts, and iii) improving the sector's investment climate. Beach erosion mitigation measures, and communication and marketing will be supported by an upcoming World Bank IPF (Growth and Exports Project) while the proposed DPO supports improvements in the sector's investment climate. To help address the immediate impact of the Ebola crisis while coping with structural issues, the current operation supports the removal of the fee for entry visas - a key structural impediment to the sector since 2013; the reduction of selected taxes on air tickets to initiate a reversal of mid-2000s price hikes; and suspending fiscal litigation for late payment of the patente and land taxes for hotels in 2015 to provide immediate financial relief to the sector.

Focus of the GGSC Series under Pillar 2 — Private Sector Development

4.33 The proposed GGSC III supports three policy actions that build on energy sector and investment climate reforms initiated in the first two GGSCs, and fosters private sector development in agriculture:

- (i) The Recipient has amended the performance contract entered into between the Recipient and SENELEC on June 11, 2013 to include performance-based bonuses and sanctions, and has amended the agreement regularizing cross-debt entered into between the Recipient and SENELEC dated November 16, 2012, to determine the method for the balance allocation;
- (ii) The Recipient has: (a) issued (i) a decree reducing the number of days and costs to obtain construction permits through the creation of a single window and online processing; and (ii) a decree determining a new fee schedule for warehouse inspection; and (b) eliminated the minimum capital requirement for creating a new company;
- (iii) The Recipient has offset the impact of Ebola's on the tourism sector by: a) removing entry visas' fees; b) reducing selected taxes on air tickets; and c) suspending recovery acts initiated against hotels with arrears in payment of patented and land taxes in 2015.

Table 4.1: GGSC III Prior Actions and Analytical Underpinnings

GGSC III Prior Actions	Analytical Underpinnings
Pillar 1a: <i>To improve economic governance by strengthening accountability systems.</i>	
<p>The Recipient has operationalized its asset declaration system by: (a) approving the related implementation decree; (b) allocating appropriate human and financial resources to the national office for the fight against fraud and corruption (“<i>Office National pour la Lutte contre la Fraude et la Corruption</i>”/“OFNAC”); and (c) ensuring deposition of asset declarations by ministers holding a portfolio to OFNAC. (Prior Action 1)</p>	<p>The Governance Charter of the <i>Assises Nationales</i> originally established the importance of such a system. A policy note produced by the World Bank subsequently laid out international experience and lessons for Senegal.</p>
Pillar 1b: <i>To promote better governance and efficiency in the education, health and agriculture sectors, and within agencies, and strengthen monitoring and evaluation.</i>	
<p>The Recipient has strengthened wage bill control and human resources in the education sector by: (a) creating a system connecting data bases of the ministries in charge of education and civil service; and (b) preparing the 2015-2016 recruitment plan for education in collaboration with the ministry in charge of finance. (Prior Action 2)</p>	<p>The Public Finance Review conducted by the World Bank in 2011 documented the central role of contractual teachers and the need to improve controls over the management of all human resources in education.</p>
<p>The Recipient has implemented presidential directives on external revenues earned by universities through: (a) adoption and submission to Parliament for enactment of a draft law reforming universities governance system; (b) issuance of an <i>Arrete</i> specifying resource allocation and use of external revenues; and (c) appointment of accountants in key faculties and schools at the University of Dakar, who report to the chief financial officer. (Prior Action 3)</p>	<p>The Public Finance Review conducted by the World Bank in 2011 documented the high share and rising cost of tertiary education and hence the need for greater financial controls.</p>
<p>The Recipient has adopted a new financial regime for public agencies and establishments, and has entered with five additional public health institutions into performance contracts whose objectives are to increase service supply, improve billing process and control general costs. (Prior Action 4)</p>	<p>The World Bank conducted an evaluation of hospital reform in Senegal in 2011 which underlined the need for better mechanisms to supervise hospital performance.</p>
<p>The Recipient has adopted a mobile phone-based e-platform to distribute subsidized agricultural inputs in the 2015 crop season; and obtained approval allowing SAED to enter into multiannual maintenance contracts of hydro-agricultural works with private contractors and launched a call for bids. (Prior Action 5)</p>	<p>The Public Expenditure Review for Agriculture conducted in 2011 emphasized the high cost of subsidized inputs and the need for better targeting, and the need for improved maintenance of irrigation systems.</p>

GGSC III Prior Actions	Analytical Underpinnings
<p>The Recipient has launched implementation of the action plan to restructure autonomous government-owned agencies, by: (a) merging certain selected agencies; (b) appointing officers responsible for the liquidation of certain selected agencies; and (c) entering with six of the largest agencies into performance contracts with the objective of clarifying the financial commitments of the Recipient’s ministry responsible for finance and the related performance targets of agencies concerned. (Prior Action 6)</p>	<p>The Public Finance Review conducted by the World Bank in 2011 identified the need for rationalization, and better monitoring, of agencies. Subsequently, an evaluation of all agencies was conducted by the authorities through an IDA-funded project.</p>
<p>The Recipient has issued a decree establishing a comprehensive monitoring and evaluation system for the government’s policies and programs, defining the roles and responsibilities of all actors in the administration. (Prior Action 7)</p>	<p>Consultations for the CPS consistently emphasized the problem of implementation of strategies and reforms in Senegal.</p>
<p>Pillar 2: <i>To enhance private sector development through energy sector reforms, and improvements in the investment climate, including in the tourism sector.</i></p>	
<p>The Recipient has amended the performance contract entered into between the Recipient and SENELEC on June 11, 2013 to include performance-based bonuses and sanctions, and has amended the agreement regularizing cross-debt entered into between the Recipient and SENELEC dated November 16, 2012, to determine the method for the balance allocation. (Prior Action 8)</p>	<p>Preparation of the contract was informed by analytical work to review and update SENELEC’s financial model.</p>
<p>The Recipient has: (a) issued (i) a decree reducing the number of days and costs to obtain construction permits through the creation of a single window and online processing; and (ii) a decree determining a new fee schedule for warehouse inspection; and (b) eliminated the minimum capital requirement for creating a new company. (Prior Action 9)</p>	<p>The Doing Business annual report has documented Senegal’s poor performance in these areas, and the report of the Presidential Investment Council confirmed the need to make improvements.</p>
<p>The Recipient has offset the impact of Ebola’s on the tourism sector by: a) removing entry visas’ fees; b) reducing selected taxes on air tickets; and c) suspending recovery acts initiated against hotels with arrears in payment of patented and land taxes in 2015. (Prior Action 10)</p>	<p>Analysis by the authorities, the IMF and the Bank concluded that Ebola reduced GDP growth by 0.2 percentage points in 2014 due to its effect on tourism, and that the effect would be greater in 2015. Analysis of the tourism sector performed during the preparation of the “Growth and Exports” project (P146469) as reported in Annex 6 of the PAD.</p>

C. LINK TO CPS AND OTHER BANK OPERATIONS AND THE WBG STRATEGY

4.34 **The new Country Partnership Strategy for FY13-17 was discussed by the Executive Directors in January 2013.** The new CPS has two main pillars: (a) Accelerating Inclusive Growth and Creating Employment; and (b) Improving Service Delivery, supported by a foundation of

Strengthening Governance and Building Resilience. In the CPS, policy-based lending is seen as a critical instrument in support of the government's strategic agenda. The focus of policy-based lending operations was expected to be good governance, economic reforms for wealth creation, and support for policies that improve the delivery of basic social services.

4.35 **The GGSC series provides an important complement to a variety of IDA investment projects.** It supports reforms which are necessary for project success, while benefiting from technical assistance, studies and policy dialogue conducted within these operations. Strong linkages have been established with the Public Financial Management Technical Assistance project, which has supported the Court of Accounts and the evaluation of agencies, and will build capacity in monitoring and evaluation, including of agencies, under the additional financing approved in July 2014. There are important synergies with three energy sector operations: the Electricity Sector Support Project, which is leading the dialogue on reform in this sector, and two projects designed to reduce the cost of generation – the Taiba Ndiaye Independent Power Producer project and the Banda Gas-to-Power project, both approved in FY14. The Tertiary Education Governance and Financing for Results Project has been instrumental in developing performance contracts with the universities and conducting the policy dialogue on scholarships, while the EFA-FTI Catalytic Fund has supported reforms in basic education. The new Results-based Financing for Health Project has supported the elaboration of performance contracts in hospitals. IFC is assisting the government to improve its Doing Business indicators. The irrigation component complements newly-approved projects for Sustainable and Inclusive Agri-Business and development of the Senegal River Valley.

4.36 **The proposed operation is consistent with the twin goals of the World Bank Group.** It will support the government in increasing the efficiency of public spending, notably in health and education, improve the targeting of agricultural subsidies, and promote the implementation of projects and programs in all priority development sectors. By promoting the private sector, it will enhance job creation including for the poor.

D. CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

4.37 **The design of the proposed GGSC has drawn on the SNDES and PSE, both of which benefited from broad stakeholder consultations.** Additional consultative inputs were drawn from stakeholders' participation in the preparation of the CPS and in the development of the monitoring and evaluation framework for key outcomes shared jointly by the SNDES and the CPS. The annual Presidential Investment Council meetings and the Competitiveness Fora have provided important opportunities to listen to the private sector. Under the preparation and the supervision of the Higher Education Governance and Financing for Results project and the Public Finance Management Technical Assistance project several consultations with stakeholders were organized to identify priorities, areas of reform and discuss instruments. A Presidential Council was held in May 2013 to agree on reforms in the higher education sector, and a seminar on hospital performance contracts was conducted in September 2013. The irrigation agenda was discussed at a high-level regional conference in November 2013. In addition, the World Bank Country Office also conducts outreach activities and consultations with stakeholders on a routine basis.

4.38 **The World Bank collaborates with a range of bilateral and multilateral development agencies in Senegal.** Through the Framework Agreement on Budget Support (*Accord Cadre pour les Appuis Budgétaires*, ACAB), donors providing budget support have developed a joint policy matrix of prior actions and triggers and common monitoring mechanisms to improve harmonization

and exchange of information, and enhance the predictability of budget support. The ACAB has the following objectives: (i) increase the absorption rate of external resources available to the government; (ii) increase aid effectiveness; (iii) improve the predictability of short-term resources and ensure disbursement in line with the budget cycle; (iv) foster harmonization among partner including the definition of disbursement criteria; (v) improve coordination through joint and coordinated missions, studies, audits, and evaluations; and (vi) support the implementation of the SNDES and other national strategies.

4.39 **Sector collaboration occurs around twenty thematic working groups, including public financial management, energy, agriculture, education, health, and private sector development.** These groups generally comprise government officials, and sometimes include civil society and private sector representatives. They have been increasingly active, and played a catalytic role in the areas of budgetary reform, education, and health. In the specific context of this DPO series, USAID financed preparatory work on the new asset declaration law, and the Canadian aid program financed a consultant to develop the harmonized HR system for education.

5. OTHER DESIGN AND APPRAISAL ISSUES.

A. POVERTY AND SOCIAL IMPACT

5.1 **The proposed operation is expected to have a positive impact on medium-term poverty reduction.** It will strengthen the government's accountability system and institutional capabilities to ensure greater efficiency and effectiveness of public expenditure and improve the quality of basic services. The selected actions are expected to create fiscal space for primary and secondary education and basic health care. The government actions to restructure the universities and improve quality in the higher education sector and strengthen accountability in hospitals will impact student living conditions and patient care. The e-platform for agricultural inputs will reduce leakages and help ensure that the intended beneficiaries – poor farmers – receive seeds and fertilizers which can substantially increase their productivity and incomes. Improvements in irrigation maintenance should have similar impacts by ensuring more reliable access to water and facilitating a second harvest during the dry season. Investments, institutional development and policy dialogue will continue through the Higher Education Governance project and new projects in primary education (Global Program for Education) and health (Financing for Results).

5.2 **Policy reforms on energy, higher education, and autonomous agencies may affect selected groups.** The performance contract for SENELEC may eventually lead to some reduction in staffing, and the evaluation of agencies will result in the closure of some agencies. However, to the extent this happens, the persons affected will be the non-poor and will be covered by the fairly generous provisions of Senegalese law concerning termination of public employment. The rationalization of scholarships in higher education will focus on re-establishing the link between performance and funding, including the removal of students who enroll simply to obtain the scholarship and never actually come to class. The GGSC series supports policy reforms associated with Bank projects that are subject to Bank safeguards policies. Comprehensive analytical work, including a Poverty and Gender Report, and stakeholder consultations are ongoing and will continue as part of developing the policy program to ensure that any measures supported under future operations are implemented in a manner that is consistent with Bank policies. Preliminary results show that around 60 percent of electricity subsidies are captured by the 20 percent of households with the highest revenue, while the poorest 50 percent capture less than 20 percent of

the subsidies. Targeting energy subsidies on the poor could protect them from the effects of an increase in energy prices, while generating significant revenues from higher income households. The Energy Sector Support Project is supporting the design of a new tariff structure, while Bank staff is advising the authorities on the establishment of a cash transfer scheme which became operational in 2013.

5.3 The proposed series is expected to have a positive impact on gender equality. Reforms promoted in basic and higher education as well as in health care are expected to facilitate girls' and women's access to social services. While the percentage of pregnant women receiving prenatal care reached 93 in 2011, the percentage of women giving birth in health clinics is 20 percentage points lower (73 percent). The hospital reform promoted by the GGSC series is expected to improve the quality of services and save resources for better financing of primary health clinics (*centres de santé, cases de santé*), particularly in rural areas, and thus improve access to services by women. The percentage of women giving birth in health clinics will be used to monitor this objective. Also, the improvement of the universities' financial situation is expected to have a positive impact on the quality of education, reducing the drop-out rate and thus encouraging female completion rates. Improvements in the quality of student services such as the living conditions in university residences should also help. Gender equality exists already in primary education and improvements in secondary education are expected to reduce girls' dropout rates at that level. Finally, the introduction of a well-targeted agricultural input delivery system, which specifically identifies women farmers, should enhance their access to essential inputs for productivity improvement. All these potential impacts on girls and women are being monitored under the DPO series.

B. ENVIRONMENTAL ASPECTS

5.4 The specific reforms supported by the proposed development policy credit are not likely to have significant negative impacts on the country's environment, forests and other natural resources. The structural reforms supported by GGSC III aim generally at strengthening the government accountability system and institutional capabilities to ensure greater efficiency and effectiveness of public expenditure and improve the quality of basic services through a set of reforms that by themselves entail no specific impact on the environment. The energy sector reforms are designed, among other things, to improve the reliability of the electricity system, thereby reducing the need for smaller-scale, polluting private generators, with a positive effect on the environment.

C. PFM, DISBURSEMENT AND AUDITING ASPECTS

5.5 Progress has been made on some dimensions of PFM. Most recent PFM diagnoses⁴ have identified mixed PFM performance. Strengths in Senegal's PFM system include: (i) a coherent legal framework consistent with good international practices; (ii) a rational institutional organization; (iii) good capacity for economic forecasting; and (iv) a commitment to develop multi-year and performance based budgeting approaches. Conversely, some budget preparation modalities have a negative impact on budget quality and execution. The quality of expenditure estimates undermines the credibility of the budget and complicates budget execution. Additional measures are also needed to improve fiscal forecasts, such as developing adequate techniques for revising approved funding,

⁴ In particular the 2007 and 2011 PEFA, a 2008 IMF technical assistance report, the 2011 World Bank Public Finance Review and the PFM Technical Assistance project.

estimated appropriations, personnel expenditure, and unforeseen expenditure. Finally, the parliamentary debate on the budget and budget execution could be strengthened.

5.6 The six WAEMU public financial management directives have been transposed into national law and their implementation is in progress. In 2009, WAEMU adopted six new PFM directives covering transparency in public finances in general, budget preparation and execution laws, government accounting, budget classifications, a central government chart of accounts, and central government operations. The country is receiving strong support from the Bank PFM-TA project to implement these directives. Similarly, the Bank, in partnership with USAID, is supporting the implementation of the Transparency Code for the introduction of an asset declaration system and a code of ethics for public officials and the improvement of access to financial information.

5.7 Performance of the public financial management reform program to date and government commitment to its improvement is satisfactory but could be strengthened. The government is required by law to submit to Parliament its Budget execution law (*Loi de Règlement*) by the end of the year following the execution of the budget. The delay in the preparation and the approval of budget execution laws accumulated since the creation of the Audit Court in 1999 has been almost closed. The 2012 law was approved by the National Assembly in June 2014, six months behind schedule. However, it was not accompanied by the assessment of the General Audit Office (*lettre de conformité*) which normally helps the deputies in their analysis of the law. The budget law and monthly budget execution tables are published, and economic journalists have received training in order to understand better the budget and the broader PFM system. The authorities are eager to adopt the BOOST instrument to make budget information more accessible and technical assistance from the World Bank has begun.

5.8 The Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) is the common central bank of the West African States, which includes Senegal. The latest IMF Safeguards Assessment was completed in December 2013. The assessment found that the bank continued to have a strong control environment and has, with the implementation of the 2010 Institutional Reform of the WAEMU, enhanced its governance framework. Specifically, an audit committee was established to oversee the audit and financial reporting processes, transparency has increased with more timely publication of the audited financial statements, and the BCEAO is committed to IFRS implementation by end-2014. The assessment also identified some limitations in the external audit process and recommended that steps be taken to ensure the adequacy of the mechanism through selection of a second experienced audit firm to conduct joint audits.

5.9 The credit will follow IDA's disbursement procedures for development policy financing. Upon approval of the credit and effectiveness of the Financing Agreement, and provided IDA is satisfied with the Country's macroeconomic framework and with the program being carried out by the Recipient, the proceeds of the credit would be disbursed by IDA into an account of the Government for budget support. The foreign currency account forms part of the country's foreign exchange reserve. The proceeds of the credit would not be used to finance expenditures excluded under the Agreement. The borrower shall ensure that upon the deposit of the credit into said account, an equivalent amount is credited in the borrower's budget management system, in a manner acceptable to the Bank, with ten days. Within 30 days of disbursement, the borrower will report to the Bank on the amounts deposited in the foreign currency account and credited in local currency to the budget management system. Assuming that the withdrawal request is in foreign

exchange, the equivalent amount in CFAF reported in the budgetary system will be based on the market rate at the date of the transfer.

5.10 **Auditing.** The administration of this credit will be the responsibility of the Ministry of Economy and Finance. Through this Ministry, the borrower will (a) report the exact sum received into the Dedicated Account; (b) ensure that all withdrawals from the Dedicated Account are for budgeted public expenditures, except for purposes such as military expenditures or for other items on IDA's negative list; (c) provide to IDA evidence that the CFAF equivalent of the credit proceeds were credited to the Account and disbursements from that account were for budgeted public expenditures. If, after being deposited in this account, the proceeds of the credit are used for ineligible purposes as defined in the Financing Agreement, IDA will require the recipient to refund an amount equal to the amount of said payment directly to IDA.

D. MONITORING, EVALUATION AND ACCOUNTABILITY

5.11 **Strengthening monitoring and evaluation is critical for the successful implementation of the Government's priorities.** The last presidential election brought high expectations for government accountability as well as enhanced performance of service delivery and policy implementation. M&E functions in the Senegalese public administration are characterized by weakness in line ministries, and the need to coordinate and strengthen central government actors. The current institutional link between the head of the executive, the head of government, the ministries of finance and planning, and sector M&E units has not been clear. The Government has adopted a new framework developed jointly with the World Bank which now covers ten key programs: agriculture, energy, infrastructure, water and sanitation, basic education, higher education, health, social protection, disaster management and flood control, and the investment climate. Many of the reforms and outcomes supported by the GGSC series are covered by this framework. The M&E system is managed jointly by the Bureau of Operations and Method (BOM) and the Ministry responsible for follow-up of the PSE, both located in the Office of the President, along with the Ministry of Economy, Finance and Planning and the Prime Minister's office.

5.12 **The institutional structure for implementing all budget support has also been strengthened.** Previously, a senior advisor to the Minister of Economy, Finance and Planning was responsible, supported by an inter-ministerial committee. However, he had insufficient staff to support him and many competing functions. The role has now been transferred to the unit responsible for monitoring economic policy within the new General Directorate of Planning and Economic Policy. A committee consisting of government officials from the Offices of the President and Prime Minister, all relevant sector ministries, and various departments within the Ministry of Economy, Finance and Planning will meet every quarter, supplemented by other sectoral meetings. The Minister of Economy, Finance and Planning will chair the full committee meeting twice a year, while the Director General of Planning and Economic Policy will chair all others.

5.13 **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to

the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

6.1 **The overall risk rating for GGSC III is ‘moderate’, with five sources of risks associated with a moderate risk rating.** The identified risks for this operation, as summarized in Table 6.1, relate to (i) political and governance risks, (ii) macroeconomic risks, (iii) technical design of the program, (iv) institutional capacity for implementation and sustainability and (v) environmental and social. Other risks with a rating of ‘low’ are considered residual. The following sections describe risks that are considered ‘moderate’, as well as mitigation mechanisms where applicable.

6.2 **The political situation is broadly stable but subject to the pressures on a coalition in a lively democracy.** The ruling party depends on the cooperation of numerous smaller parties, and there are signs of disagreement and an initial splintering. There was another cabinet shuffle after the June 2014 local elections, which brought in a different Prime Minister and some new ministers. However, the new Prime Minister is a long-standing and close associate of the President, who was previously the Minister responsible for the monitoring of the PSE, so this has consolidated the authorities’ focus. Most key development ministers remained in place. With two years before the next elections (presidential), there is a window of opportunity to take tough decisions, and a sense that there must be results to show by 2017. Political unrest in Mali and Guinea Bissau appears to be subsiding, but instability in any of the neighboring countries continues to be a possibility.

6.3 **Governance deteriorated in the last years of the previous regime but the new regime has started to reverse this trend.** Vested interests will resist change but the GGSC series tackles some of the key sources of abuse, through the declaration of assets, the rationalization of agencies, and reforms in higher education, hospital management and agricultural subsidies. A new institution to fight corruption, OFNAC, has been created. The President has reiterated his commitment to reducing his mandate from 7 years to 5, which will strengthen accountability.

Table 6.1: Risk Assessment

Risk categories	Rating (H, S, M, or L)
1. Political and governance	M
2. Macroeconomic	M
3. Sector strategies and policies	L
4. Technical design of project or program	M
5. Institutional capacity for implementation and sustainability	M
6. Fiduciary	L
7. Environmental and social	M
8. Stakeholders	L
Overall	M

6.4 **Senegal's prospects continue to depend on developments in the global and regional economy.** A slower normalization in the current global context represents a significant risk. Mali is Senegal's largest single trading partner, as well as a key customer for transit trade, and its economic performance continues to be hampered by insecurity and political uncertainty. The outbreak of Ebola in neighboring countries has had serious consequences for the tourism industry in Senegal, and it is not yet clear if the epidemic is under control. On the other hand, the dramatic decline in global energy prices has created some welcome fiscal space by reducing subsidies required for electricity production. This DPO series helps mitigate these risks by supporting reforms in the investment climate to help diversify the economy and thereby reduce its vulnerability, as well as actions more specifically focused on helping the tourism sector.

6.5 **The IMF PSI ended in December 2014 but the authorities negotiated a new program which was approved by the IMF Board on June 24, 2015.** The PSE has very ambitious GDP growth targets which seem somewhat unrealistic given past experience. However, Senegal needs to maintain sound macroeconomic management to reassure traditional budget support partners, while its increasing reliance on international financial markets will only reinforce this obligation. The PSE reiterates the authorities' commitment to gradually reduce the fiscal deficit under 4 percent of GDP. The current series helps create fiscal space by supporting spending efficiency in energy, education, health, agriculture, and agencies.

6.6 **The proposed program includes an ambitious set of reforms which will prove a challenge for intra-governmental coordination.** Beyond the Ministry of Economy, Finance and Planning, seven different sector ministries and one agency are involved in steering the agriculture, energy, basic education, higher education, health, tourism and investment climate reforms. Numerous other agencies and public establishments, and one public enterprise, must cooperate. In addition, two of the most challenging reforms – asset declaration and monitoring and evaluation – require leadership from the Presidency, over which the finance ministry has no control. Asset declaration has encountered some resistance from various quarters. However, the President has clearly stated his support for these two reforms, and the Bank is providing TA in all areas covered by the program.

6.7 **The continued emphasis on electricity sector reform poses some risks.** The electricity sector and its institutions have a long history of failed reforms and their leadership has often lacked a sense of urgency. However, progress has been made in the last three years, and the risk of not engaging in this sector seems greater. The reforms promoted through this series are backed by TA in a parallel investment operation, continuous dialogue by a reinforced field-based team including IFC, active involvement by management, and regular, in-depth discussions with the IMF.

6.8 **Implementation may be hampered by capacity constraints within the Ministry of Economy, Finance and Planning.** The monitoring framework for budget support in this ministry has been understaffed, with little support from sector specialists in other parts of the ministry. One person was essentially responsible for all four donors providing budget support, while also serving as advisor to the Minister. However, all budget-support donors collectively raised their concerns with the Minister, and appropriate changes have now been introduced, as summarized in paragraph 5.12. In the interim, direct supervision has been provided by Bank sector staff, most of who are based in Dakar.

6.9 **Finally, the impact of global warming and more specifically sea level rise could affect the recovery of the tourism sector.** Coastal erosion due to sea level rise is widespread. For

tourism, beach erosion has severely affected the size and quality of beaches at Saly, the country's main resort. This is a critical issue as beaches are the main attractions of the resort. The World Bank, with the Ministry of the Environment and Sustainable Development, recently undertook a study of the vulnerability and adaptation of coastal areas to climate change.⁵ It provides a roadmap to improve the situation along with preliminary technical solutions to be used and cost estimates. Its main results are to be used to deal with beach erosion in the touristic resort of Saly within the framework of an upcoming World Bank IPF (Growth and Exports Project). A sub-component should help counter current erosion and restore the attractiveness to the site through renovation of beaches and targeted erosion mitigation infrastructures.

⁵ - World Bank and Egis Eau (2013). *Economic and spatial study of the vulnerability and adaptation of coastal areas to climate change in Senegal*, Ministry of the Environment and Sustainable Development, Dakar, Senegal.

ANNEX 1A: POLICY MATRIX AND RESULTS FRAMEWORK

Area/ Objective	Prior Actions			Results Framework: Indicator		
	GGSC I	GGSC II	GGSC III	Baseline (2012 unless otherwise indicated)	End-2014	Target (2016)
Pillar 1a: Government Accountability – Program Development Objective: <i>Improve economic governance by strengthening accountability systems.</i>						
Foster Public Sector transparency, and accountability	Enhance Budget transparency by submitting to Parliament a draft law consistent with the WAEMU guidelines for a Code of Transparency (<i>Directive N°1/2009/CM/UEMOA portant Code de Transparence dans la Gestion des Finances Publiques au Sein de l'UEMOA</i>) (Prior Action 1)	Establish an Asset Declaration System by submitting to Parliament a draft law making asset declarations mandatory for all Ministers (Prior Action 1)	The Recipient has operationalized its asset declaration system by: (a) approving the related implementation decree; (b) allocating appropriate human and financial resources to the national office for the fight against fraud and corruption (" <i>Office National pour la Lutte contre la Fraude et la Corruption</i> " / "OFNAC"); and (c) ensuring deposition of asset declarations by ministers holding a portfolio to OFNAC. (Prior Action 1)	Percentage of holders of public office defined in the asset declaration law who have made a declaration of assets		
	Strengthen the independence of the Audit Court by submitting to Parliament a draft organic law (<i>projet de loi organique sur la Cour des Comptes</i>) (Prior Action 2)	Publish the 2011 Annual Report of the Audit Court on the <i>Cour des Comptes</i> website (Prior Action 2)		3 persons	27% (April 2015)	100%
				Delay in the publication of the Audit Court annual report after the year of the report		
				34 months	20 months	12 months
Pillar 1b: Public Sector Performance – Program Development Objective: <i>to promote better governance and efficiency in the education, health and agriculture sectors, and within agencies, and strengthen monitoring and evaluation.</i>						
Improve Human Resource Management effectiveness in Education	Improve personnel management of the education ministry by adopting a decree reinforcing the deconcentration process (<i>décret abrogeant et remplaçant le décret n° 93-789 du 25 juin 1993</i>) (Prior Action 3)	Improve control of the wage bill and human resources in education by a) connecting the data bases of the ministries of education, public service, and finance; b) preparing the 2014/15 recruitment plan for education in	The Recipient has strengthened wage bill control and human resources in the education sector by: (a) creating a system connecting data bases of the ministries in charge of education and civil service; and (b) preparing the 2015-2016 recruitment plan for education in collaboration with the	Budget Credibility for Basic Education wage and salaries (Ratio executed to approved budget)		
				>110	n.a.	100

Area/ Objective	Prior Actions			Results Framework: Indicator		
	GGSC I	GGSC II	GGSC III	Baseline (2012 unless otherwise indicated)	End-2014	Target (2016)
		collaboration with the ministry of finance, and c) correcting staffing irregularities (moved to GGSC III)	ministry in charge of finance. (Prior Action 2)			
Improve oversight and efficiency of the public universities	Strengthen financial management of universities by amending the financial regime, (adoption of the <i>Décret portant régime financier des universités</i>) (Prior Action 4)	Adopt 2013 budgets for the two largest universities which are in compliance with the revised financial regime; and adopt new criteria for allocation of scholarships (Prior Action 3)	The Recipient has implemented presidential directives on external revenues earned by universities through: (a) adoption and submission to Parliament for enactment of a draft law reforming universities governance system; (b) issuance of an <i>Arrete</i> specifying resource allocation and use of external revenues; and (c) appointment of accountants in key faculties and schools at the University of Dakar, who report to the chief financial officer. (Prior Action 3)	Budget Credibility for University Education (Ratio executed to approved budget)		
				133 (2011)	n.a.	<105
				Share of girls in the total number of students receiving scholarships (percent)		
				35 (2011)	n.a.	40
Improve Hospital efficiency	Sign a performance contract between the HOGGY hospital, the Ministry of Health and the Ministry of Finance (Prior Action 5)	Evaluate existing performance contracts and sign performance contracts between 5 new public hospitals, the Ministry of Health and the Ministry of Economy and Finance (Prior Action 4)	The Recipient has adopted a new financial regime for public agencies and establishments, and has entered with five additional public health institutions into performance contracts whose objectives are to increase service supply, improve billing process and control general costs. (Prior Action 4)	Hospital efficiency index ⁶		
				79.54%	n.a.	85%
				Percentage of assisted births		
				65 (2011)	n.a.	70
Improve efficiency of			The Recipient has adopted a mobile phone-based e-platform to	Percentage of subsidized agriculture inputs allocated through new e-platform		

⁶ *The hospital efficiency index is the distance between (i) each hospital's combination of outputs and inputs and (ii) an efficiency frontier estimated through a Data Envelopment Analysis (DEA). This technique is standard for assessing technical efficiency in data-poor environments

Area/ Objective	Prior Actions			Results Framework: Indicator		
	GGSC I	GGSC II	GGSC III	Baseline (2012 unless otherwise indicated)	End-2014	Target (2016)
agriculture services			distribute subsidized agricultural inputs in the 2015 crop season; and obtained approval allowing SAED to enter into multiannual maintenance contracts of hydro-agricultural works with private contractors and launched a call for bids. (Prior Action 5)	0	0	90
Improve financial and technical oversight and transparency of the autonomous agencies		Finalize the evaluation of autonomous agencies; and approve an action plan including the closure and merger of some agencies. (Prior Action 5)	The Recipient has launched implementation of the action plan to restructure autonomous government-owned agencies, by: (a) merging certain selected agencies; (b) appointing officers responsible for the liquidation of certain selected agencies; and (c) entering with six of the largest agencies into performance contracts with the objective of clarifying the financial commitments of the Recipient's ministry responsible for finance and the related performance targets of agencies concerned. (Prior Action 6)	Percentage of functioning agencies with a performance contract		
				0	14	90
Strengthen M&E Functions in the Government		Establish an institutional mechanism for regular monitoring of strategic priorities linked with the budget cycle (Prior Action 6)	The Recipient has issued a decree establishing a comprehensive monitoring and evaluation system for the government's policies and programs, defining the roles and responsibilities of all actors in the administration. (Prior Action 7)	The number of government programs with results framework approved by the M&E Unit		
				0	10 in draft	10

Pillar 2: Private Sector Development – Program Development Objective: *To enhance private sector development through energy sector reforms, and improvements in the investment climate, including in the tourism sector.*

Area/ Objective	Prior Actions			Results Framework: Indicator		
	GGSC I	GGSC II	GGSC III	Baseline (2012 unless otherwise indicated)	End-2014	Target (2016)
Improve efficiency and sustainability of the energy sector	Adoption by the Government (signed by the Minister in charge of Finance and the Minister in charge of Energy) of a new Energy Sector Policy Letter (ESPL) and action plan 2012-2016 (Prior Action 6)			Undistributed energy due to load shedding		
				250GWH (2011)	41 GWH	10 GWH
	Adoption by the SENELEC Board of directors of SENELEC's financial and operational restructuring plan including the agreement of cross-debts settlement as of July 31 2012 between SENELEC and State signed by the Ministry in charge of Finance and SENELEC (Prior Action 7)	Signature of a Performance Contract between the State and SENELEC (Prior Action 7)	The Recipient has amended the performance contract entered into between the Recipient and SENELEC on June 11, 2013 to include performance-based bonuses and sanctions, and has amended the agreement regularizing cross-debt entered into between the Recipient and SENELEC dated November 16, 2012, to determine the method for the balance allocation. (Prior Action 8)	Government Subsidies to the electricity sector for tariff compensation (billions of CFAF)** ⁷		
				105	80	50
SENELEC's debt to equity ratio			3 (2011)	2 (2013)	<1	
Promote private sector development		Improve business climate by i) enacting a law simplifying property registration procedures and ii) revising its tax code to reduce property taxes and reduce the time required for other tax payments. (Prior Action 8)	The Recipient has: (a) issued (i) a decree reducing the number of days and costs to obtain construction permits through the creation of a single window and online processing; and (ii) a decree determining a new fee schedule for warehouse inspection; and (b) eliminated the minimum capital requirement for creating a new company. (Prior Action 9)	Paying taxes: Number of payments and time required		
				59; 666 hours	56; 287 hours	37; 318 hours
				Registering Property: Time required and cost as % of property value		
				122 days 20%	40 days 15%	65 days 12%
				Construction permits: Time required		
210 days	135 days	150 days				

⁷ ** Unexpected changes in international prices for oil will be taken into account.

Area/ Objective	Prior Actions			Results Framework: Indicator		
	GGSC I	GGSC II	GGSC III	Baseline (2012 unless otherwise indicated)	End-2014	Target (2016)
			The Recipient has offset the impact of Ebola's on the tourism sector by: a) removing entry visas' fees; b) reducing selected taxes on air tickets; and c) suspending recovery acts initiated against hotels with arrears in payment of patented and land taxes in 2015. (Trigger 10)	Number of arrivals by air		
				868,649	855,602	875,000

ANNEX 1B: MODIFICATIONS OF ORIGINAL TRIGGERS AND STATUS REPORT

GGSC III Prior Actions	Change from original trigger	Status as of June 23
Pillar 1a: <i>To improve economic governance by strengthening accountability systems.</i>		
The Recipient has operationalized its asset declaration system by: (a) approving the related implementation decree; (b) allocating appropriate human and financial resources to the national office for the fight against fraud and corruption (“ <i>Office National pour la Lutte contre la Fraude et la Corruption</i> ”/“OFNAC”); and (c) ensuring deposition of asset declarations by ministers holding a portfolio to OFNAC. (Prior Action 1)	The process has taken longer than expected so it will not be possible for all persons to declare their assets in time. The action now focuses on Ministers with portfolios, while the DPO results indicator still aims for full compliance by 2016.	All ministers with portfolio have now submitted declarations in conformity with the law.
There is no action proposed for the Court of Accounts, as proposed in GGSC II, as we chose instead to focus on the monitoring and evaluation system.	In preparing this operation, it was decided to focus on the M&E system, as this seemed more critical to the successful implementation of the government’s strategy.	
Pillar 1b: <i>To promote better governance and efficiency in the education, health and agriculture sectors, and within agencies, and strengthen monitoring and evaluation.</i>		
The Recipient has strengthened wage bill control and human resources in the education sector by: (a) creating a system connecting data bases of the ministries in charge of education and civil service; and (b) preparing the 2015-2016 recruitment plan for education in collaboration with the ministry in charge of finance. (Prior Action 2)	Interconnection with the payroll has proven more difficult than expected and will take longer to complete so it has been dropped for now. The proposed third component “eliminating ghost and double-counted teachers” was dropped as the interconnection did not take place in time to enable such improvements. The targeted recruitment plan was changed from 2014/15 to 2015/16, which is more relevant for the preparation of the 2015 budget law.	The education HR data base is now connected to the civil service registry, and is operational. The recruitment plan was approved in November 2014.
The Recipient has implemented presidential directives on external revenues earned by universities through: (a) adoption and submission to Parliament for enactment of a draft law reforming universities governance system; (b) issuance of an <i>Arrete</i>	Basically unchanged. Component c) is slightly modified to replace “secondary accountants” with “accountants who report to the University of Dakar’s chief financial officer”, since the accountants appointed are not secondary	The draft law was submitted to the national assembly and approved in January 2015. The necessary <i>arrêté</i> has been approved. Four accountants have been

GGSC III Prior Actions	Change from original trigger	Status as of June 23
specifying resource allocation and use of external revenues; and (c) appointment of accountants in key faculties and schools at the University of Dakar, who report to the chief financial officer. (Prior Action 3)	accountants as defined in Senegal. The objective remains the same.	appointed.
The Recipient has adopted a new financial regime for public agencies and establishments, and has entered with five additional public health institutions into performance contracts whose objectives are to increase service supply, improve billing process and control general costs. (Prior Action 4)	Strengthened with the addition of five new performance contracts. Also the new financial regime applies to all agencies and public establishments, and not just hospitals.	Completed.
The Recipient has adopted a mobile phone-based e-platform to distribute subsidized agricultural inputs in the 2015 crop season; and obtained approval allowing SAED to enter into multiannual maintenance contracts of hydro-agricultural works with private contractors and launched a call for bids. (Prior Action 5)	Modified due to delays in recruitment of the consultant and difficulties in conducting the survey. This prevented the distribution of inputs in 2014. The second part was being treated as a separate action but has now been added here to create one agriculture prior action. Initially, the signature of multi-year contracts was targeted but it has taken longer than expected to complete the process.	The minister responsible for agriculture has signed a memo confirming that the platform is to be used for the distribution of inputs in the main crop season starting in June and we are monitoring its implementation. SAED has launched the call for bids.
The Recipient has launched implementation of the action plan to restructure autonomous government-owned agencies, by: (a) merging certain selected agencies; (b) appointing officers responsible for the liquidation of certain selected agencies; and (c) entering with six of the largest agencies into performance contracts with the objective of clarifying the financial commitments of the Recipient's ministry responsible for finance and the related performance targets of agencies concerned. (Prior Action 6)	The threshold budget of CFAF1 billion for the agencies required to sign contracts was removed. This reduced the number of agencies targeted from 10 to six.	Completed.
The Recipient has issued a decree establishing a comprehensive monitoring and evaluation system for the government's policies and programs, defining the roles and responsibilities of all actors in the administration. (Prior Action 7)	The institutional mechanism approved under GGSCII predated the creation of a new Minister responsible for monitoring the PSE in 2014. Greater clarity in roles and responsibilities was needed, so this action has been added.	The President and Prime Minister have signed a decree.

GGSC III Prior Actions	Change from original trigger	Status as of June 23
Pillar 2: <i>To enhance private sector development through energy sector reforms, and improvements in the investment climate, including in the tourism sector.</i>		
<p>The Recipient has amended the performance contract entered into between the Recipient and SENELEC on June 11, 2013 to include performance-based bonuses and sanctions, and has amended the agreement regularizing cross-debt entered into between the Recipient and SENELEC dated November 16, 2012, to determine the method for the balance allocation.</p> <p>(Prior Action 8)</p>	<p>The original trigger called for the separation of accounts between the three business lines of SENELEC but Bank procurement procedures have delayed the process. The new actions are considered to be more important than the other original components.</p>	<p>Completed. The Board of SENELEC approved the capital restructuring in December 2014.</p>
<p>The Recipient has: (a) issued (i) a decree reducing the number of days and costs to obtain construction permits through the creation of a single window and online processing; and (ii) a decree determining a new fee schedule for warehouse inspection; and (b) eliminated the minimum capital requirement for creating a new company. (Prior Action 9)</p>	<p>Measures to improve trading across borders, where Senegal already does quite well, were considered less important by the authorities compared to a reduction in the minimum capital requirement.</p>	<p>Completed. The minimum capital requirement was reduced from CFAF1 bil. to CFAF 100,000 in 2014 and then completely removed in 2015.</p>
<p>The Recipient has offset the impact of Ebola's on the tourism sector by: a) removing entry visas' fees; b) reducing selected taxes on air tickets; and c) suspending recovery acts initiated against hotels with arrears in payment of patented and land taxes in 2015. (Prior Action 10)</p>	<p>This is a new action which accompanies the increase in the DPO amount by US\$20m in order to assist the authorities in coping with the impact of Ebola.</p>	<p>Completed. In fact, the new visa system has been abandoned but the legal documentation is not yet finalized.</p>

ANNEX 2: DEVELOPMENT POLICY LETTER

République du Sénégal
Un Peuple – Un But – Une Foi

MINISTÈRE DE L'ÉCONOMIE,
DES FINANCES ET DU PLAN

N° 006037
MEFP/CAB

Dakar, le 10 JUIN 2015

LE MINISTRE

A

Monsieur Jim Yong Kim
Président de la Banque Mondiale

OBJET : Troisième Crédit d'Appui à la Gouvernance Economique et à la Croissance (CAGEC-III).


Monsieur le Président,

Je voudrais, au nom du Gouvernement de la République du Sénégal, solliciter un Crédit d'Appui à la Gouvernance Economique et à la Croissance d'un montant équivalent à 50 millions de dollars US pour soutenir notre programme de réformes.

A cet effet, je vous transmets en annexe, une lettre de politique de développement qui résume les récentes performances économiques et sociales du Sénégal, particulièrement dans les domaines soutenus par le CAGEC-III et présente les orientations majeures sur la période 2015 – 2017 faisant partie intégrante de notre nouvelle stratégie de développement le Plan Sénégal Emergent (PSE) et du nouveau programme économique et financier conclu avec le Fonds Monétaire International.

Par ailleurs, l'ensemble des actions préalables convenues avec les services de la Banque Mondiale ont été entièrement réalisées.

En vous remerciant pour l'appui constant que vous nous apportez, je vous prie d'agréer, Monsieur le Président, l'assurance de ma haute considération.


Le Ministre de l'Économie
des Finances et du Plan
Amadou BA

REPUBLIQUE DU SENEGAL

Le Peuple – Un But – Une Foi

MINISTRE DE L'ECONOMIE, DES FINANCES ET DU PLAN

LETTRE DE POLITIQUE DE DEVELOPPEMENT

(mai 2015)

INTRODUCTION

1. Le Sénégal fait face à des défis critiques qu'il entend relever et par-delà mener à bien ses ambitions à travers un agenda de transformations économiques et sociales, pour se diriger sûrement vers l'émergence. Pour s'inscrire dans cette dynamique de long terme, le Gouvernement a élaboré et adopté, avec l'appui de ses partenaires techniques et financiers, sa nouvelle stratégie de développement le Plan Sénégal Emergent (PSE) sur la période 2014-2024. Elle traduit le volonté politique du Gouvernement, d'inscrire le Sénégal sur la voie du développement et la prise en compte des préoccupations des populations de base.
2. Cette nouvelle vision se décline autour de trois axes stratégiques : (i) Transformation structurelle de l'économie et croissance ; (ii) Capital humain, protection sociale et développement durable ; et (iii) Gouvernance, institutions, paix et sécurité. Aussi, l'opérationnalisation de la Stratégie exige la mise en place d'un ensemble de réformes pour accélérer le processus de transformation structurelle susceptible d'amorcer le décollage économique.
3. Cadre fédérateur des interventions et politiques publiques, le PSE 2014-2024 prend comme repère les orientations gouvernementales et le cadre d'accélération des Objectifs du Millénaire pour le Développement (OMD) à l'horizon 2015. Cette présente Stratégie, cherche d'abord à infléchir d'ici à l'horizon 2018, les tendances lourdes identifiées par la rétrospective socio-économique. Ensuite, elle veut tenir compte des facteurs déterminants et enfin intégrer le jeu des acteurs révélé par la participation des parties prenantes dans la mise en œuvre. L'objectif consiste à assurer les conditions d'une croissance soutenue et durable à même de réduire significativement la pauvreté et d'atteindre les Objectifs du Millénaire pour le Développement (OMD).

4. Le développement économique et social du Sénégal nécessite la mise en œuvre d'une stratégie conduisant à une croissance économique à fort impact positif sur les conditions de vie des populations mais prenant en compte la nécessité de redresser les finances publiques et de maintenir la dette publique à des niveaux soutenables. A cet égard, le défi majeur porte essentiellement sur la relance de l'économie dans un contexte de gouvernance vertueuse, efficace et efficiente. Par ailleurs, en vue de renforcer le dialogue sur les politiques publiques avec ses partenaires au développement, et de rationaliser leurs interventions pour un meilleur alignement et une meilleure prévisibilité, le Gouvernement a décidé de tenir des rencontres périodiques avec le groupe G50 ses partenaires techniques et financiers et de redynamiser l'Arrangement Cadac pour les Appuis Budgétaires (ACAB).

1. Développements Economiques récents

5. Les récents développements économiques laissent entrevoir des signes de reprise en 2014, suite à la recrudescence observée au cours des dernières années et imputable notamment à une faible résilience aux chocs exogènes, à une agriculture tributaire de la pluviosité ainsi qu'à une faiblesse persistante du tissu industriel. Le regain de dynamisme qui semble s'annoncer résulte du renforcement de la demande intérieure favorisé par la consolidation des investissements publics dans l'énergie et les infrastructures, dans un contexte de démarrage de la mise en œuvre du Plan Sénégal Emergent (PSE). Ainsi, le taux de croissance du PIB réel est estimé à 4,7% contre 3,6% en 2013, soit un gain d'environ un (1) point de pourcentage reflétant la vigueur des services mais également la relance des secteurs secondaire et primaire. Au niveau des services d'hébergement et de restauration, l'activité demeure déprimée en raison des difficultés du secteur touristique accentuées par l'impact négatif de l'épidémie à virus «Ebola». Le sous-secteur recule sur une tendance baissière.
6. S'agissant de la gestion budgétaire, elle est caractérisée par une mobilisation assez satisfaisante des ressources budgétaires conjuguée à une augmentation soutenue des dépenses liées au renforcement de certains projets de développement. Les ressources ordinaires sont arrivées à 1877 milliards contre 1659 milliards en 2013 soit une progression de 13,1%. Cependant les effets de la crise de la maladie à virus Ebola notamment par l'absence d'activités dans le secteur Tourisme-restauration ont eu un impact négatif sur les recettes. Les dépenses totales et les prêts nets sont évalués à 2518,5 milliards. Au total, le déficit public devrait s'améliorer en 2014 de 0,4% de PIB en se situant à 5,1% du PIB contre 5,5% en 2013. L'inflation est restée modérée à 1,1% en 2014. Quant aux échanges avec l'étranger, le déficit du compte courant hors dons devrait ressortir à 8,8% du PIB en 2014 contre 10,4% en 2013.

II. Politiques macroéconomiques pour 2015-2017

7. Le Gouvernement a préparé avec l'appui du Fonds Monétaire International un nouveau programme de trois ans dans le cadre de l'Instrument de Soutien à la Politique Economique (ISPE), sur la période 2015- 2017. Le nouveau programme qui se situe dans le prolongement des deux premiers ISPE, vise à accompagner le Sénégal dans la mise en œuvre de sa nouvelle stratégie de développement le Plan Sénégal Emergent (PSE) qui table sur une croissance forte, durable et inclusive afin de réduire sensiblement la pauvreté, tout en préservant la stabilité macroéconomique et la viabilité de la dette. Le programme s'appuie sur des ruptures qui se traduiront à court et moyen termes par la mise en œuvre d'actions hardies pour stimuler la créativité et l'initiative privée afin de satisfaire la forte aspiration des populations à un mieux-être, des réformes qui visent à restreindre les marges de manœuvre budgétaire de l'Etat et à instaurer un environnement des affaires plus attractif pour le développement du secteur privé. En dépit d'un environnement international difficile marqué par des incertitudes persistantes, les perspectives macroéconomiques du Sénégal sur la période 2015-2017 sont généralement bien orientées. La croissance du PIB réel devrait s'accroître graduellement pour atteindre 7% à moyen terme. L'inflation devrait baisser et se maintenir à moins de 2 pourcent sur la période. Le déficit extérieur courant devrait s'améliorer et se situer en dessous de 3 pourcent du PIB, financé de plus en plus par des flux d'Investissements Directs Étrangers (IDE). Le déficit budgétaire devrait être maintenu en dessous de 5 pourcent en 2015 et de 4 pourcent en 2017 afin de ralentir la rapide croissance de la dette publique totale (extérieure et intérieure) qui devrait rester en dessous de 35 pourcent du PIB en 2015. Pour atteindre les objectifs de déficit, le gouvernement compte améliorer sensiblement l'efficacité de la dépense publique dans les secteurs sociaux et des infrastructures et contenir les risques budgétaires. Une attention particulière sera accordée à la gestion des ressources humaines en général et des enseignants en particulier, au financement des universités et hôpitaux publics et l'efficacité des agences d'exécution. Le cadre sous régional qui régit les politiques monétaire et de change continuera de contribuer à préserver une faible inflation, mais une politique budgétaire prudente demeure un instrument clé pour atteindre la stabilité macroéconomique au Sénégal et contribuer à la stabilité extérieure de l'UEMOA.

A. Politique budgétaire

8. Le gouvernement réitère son engagement à limiter le déficit budgétaire global à moyen terme autour de 3 pourcent du PIB, un niveau qui permettra de préserver la viabilité de la dette publique. Ainsi, le gouvernement continuera à soutenir l'investissement et la croissance, tout en maintenant la stabilité en contenant les pressions de la demande intérieure et éviter la concurrence avec le secteur privé. Les dépenses au profit des secteurs prioritaires continueront d'augmenter mais leur efficacité et leur équité devraient être améliorées. Les dépenses en faveur du monde rural et les dépenses d'infrastructures seront priorisées. Les efforts de maîtrise des dépenses courantes seront poursuivis à travers notamment la réduction conséquente de la facture énergétique, le

gel des conventions de location de bâtiment à usage de logement. Au niveau des coûts de personnel, l'orientation demeure le gel des augmentations, de la création ou revalorisation d'indemnités, ainsi qu'une plus grande maîtrise notamment le renforcement des effectifs dans le secteur de la santé et des services de sécurité. Le Gouvernement conduit avec l'appui de la Banque Mondiale un exercice de revue des dépenses publiques en 2015.

9. **La gestion de la dette publique sera davantage renforcée.** En particulier, le gouvernement continuera de faire une analyse de viabilité de la dette publique une fois par semestre. Cet exercice comportera une analyse des risques posés par les passifs conditionnels liés aux garanties émises par l'État, aux PPP et aux opérations des entreprises publiques. Un bulletin trimestriel de la Dette publique est régulièrement publié. Le gouvernement a élaboré un Document de Stratégie de Gestion de la Dette à moyen Terme (SDMT). La mise en œuvre d'une SDMT permettra aux autorités d'identifier et de gérer les risques associés à la dette actuelle. La décision de limitation des déficits sur le moyen terme entraînera une tendance moindre du besoin de financement et stabilisera ainsi l'évolution de l'endettement sur la période.

B. Réformes budgétaires et structurelles

B1. Réformes budgétaires et de marchés publics

10. **Le gouvernement poursuivra ses efforts de réformes budgétaires en vue d'améliorer la productivité des dépenses publiques, d'accroître la transparence budgétaire et de renforcer l'évaluation, le suivi et la comptabilisation des réserves budgétaires.** Le gouvernement continuera à mettre en œuvre les réformes visant à améliorer la planification et la préparation du budget, l'exécution transparente du budget ainsi que son contrôle à posteriori par l'Assemblée nationale. Concernant le suivi de l'exécution du budget de l'État, des rapports trimestriels d'exécution sont régulièrement produits et publiés et des situations de trésorerie trimestrielles sont élaborées et soumis au ministre en charge des finances. Le Gouvernement compte renforcer davantage le contrôle externe de l'exécution du budget. A cet effet, la loi de règlement de 2012 a été votée par l'Assemblée nationale et les comptes de gestion de l'année 2013 ont été transmis à la Cour des comptes.
11. **Le parachèvement de l'interface entre SIGFIP et ASTER a permis de réduire considérablement les délais de production des comptes de gestion et des projets de lois de règlement.** Par ailleurs, le Gouvernement a renforcé les moyens et l'indépendance de la Cour des Comptes et a, à cet effet, fait adopter par l'Assemblée Nationale une nouvelle loi organique sur la Cour des Comptes en 2012 et pris un décret portant application de cette loi et un autre portant régime financier de la Cour des comptes. La Cour des comptes continue de publier ses rapports annuels sur son site.

12. Afin de renforcer la transparence et l'intégrité du système des finances publiques, le Gouvernement a adopté la loi portant déclaration de patrimoine. Dans ce cadre, le gouvernement a pris un décret d'application de cette dite loi et l'Office national pour la lutte contre la fraude et la corruption (ONFAC) a été créée et équipée pour s'occuper entre autre de ces déclarations. Ainsi, les acteurs publics qui pilotent et gèrent les fonds publics, élus ou fonctionnaires, seront soumis à des obligations d'intégrité et de rectitude, à mesure de la confiance qui leur est faite. Les membres du gouvernement en particulier ont déposé leur déclaration de patrimoine. En vue de promouvoir la transparence dans l'exécution des marchés publics, le gouvernement est déterminé à poursuivre l'application avec fermeté du code des marchés publics. L'Autorité de Régulation des Marchés Publics (ARMP) continue de présenter au Gouvernement ses rapports annuels sur l'efficacité et le fiabilité du système de passation, d'exécution et de contrôle des marchés publics et délégations de service public, assorti de recommandations susceptibles d'y apporter des améliorations.
13. Une réflexion approfondie sur les obstacles à la mise en œuvre des décisions et politiques publiques est en cours. Cette réflexion a déjà abouti à l'adoption d'un nouveau mécanisme de suivi-évaluation des programmes prioritaires du gouvernement avec l'appui technique de la Banque mondiale. Un Conseil Présidentiel s'est tenu à cet effet le 7 avril 2012. Un décret fixe désormais les attributions des différents acteurs du suivi-évaluation.

B2. Prise en compte des risques budgétaires

14. En ce qui concerne la prise en compte des risques budgétaires, le gouvernement compte renforcer le suivi et le contrôle des activités des autres entités du secteur public telles que les agences autonomes et les établissements publics, dont les hôpitaux et les universités publiques qui bénéficient de plus en plus de transferts de la part du budget de l'Etat. Des contrats de performances ont été signés avec six agences et avec cinq nouveaux hôpitaux. Un plan d'actions pour la restructuration des agences a été approuvé. Plusieurs agences ont été supprimées et certaines fusionnées, et des liquidations normées à cet effet. Une réserve de précaution a été établie qui regroupe des projets d'investissements qui ne sont pas encore prêts. Le début de leur exécution commencera uniquement après la finalisation des études de faisabilité montrant leur viabilité.

C. Politiques sectorielles

15. Le Gouvernement a continué à investir dans les secteurs de l'éducation. Des efforts importants ont été consentis pour accroître le niveau d'éducation de la population. Un accent particulier a été mis sur la gestion des ressources humaines. C'est ainsi qu'un audit du personnel de l'Éducation a été commandité. Pour une meilleure coordination de la gestion des ressources humaines, entre le service de la Solde du Ministère de l'Économie, des Finances et du Plan et le Ministère de la Fonction publique, un nouveau logiciel appelé Fichier Unifié de gestion du Personnel de l'État est mis en œuvre par décret. Un nouveau dispositif de recrutement des corps émergents a été mis en place pour une meilleure gestion des charges de personnels au niveau du secteur et le gouvernement s'engage à s'atteler au recrutement chaque année à temps pour la préparation de la Loi des Finances.
16. Au niveau de l'enseignement supérieur, les universités ont préparé des budgets 2014 et 2015 sur la base du nouveau régime financier. Par ailleurs, le gouvernement a tenu une rationalisation de sa politique d'octroi des bourses aux étudiants afin de contenir l'évolution insoutenable de l'enveloppe budgétaire qu'il y consacrait, et sa mise en application a démarré pour l'année scolaire 2014-15. Pour un financement adéquat de l'enseignement supérieur, les droits d'inscriptions ont été augmentés et toutes les autres ressources générées ramené dans le budget des universités. Des agents comptables particuliers ont été nommés dans les différents facultés et instituts pour une bonne gestion des ressources.
17. Dans le secteur de la santé, les performances s'améliorent plus lentement que le voudrait le Gouvernement du fait des difficultés que traversent le secteur, notamment les centres hospitaliers. Afin de corriger progressivement les dysfonctionnements constatés dans le secteur, la politique des contrats de performances a été poursuivie par la signature avec cinq nouveaux hôpitaux en 2014. Un nouveau décret portant régime financier des établissements publics et structures assimilés a été pris. Il devrait permettre l'amélioration et la sécurisation de la gestion des établissements publics de Santé. Par ailleurs, le gouvernement s'attèle à payer progressivement la dette due aux hôpitaux.
18. Au niveau du secteur agriculture, le gouvernement a adopté une e-plateforme des producteurs et institué son utilisation dès la campagne agricole 2015. Ce dispositif qui utilise les téléphones mobiles permet de rationaliser la distribution des intrants agricoles et faciliter à terme le ciblage des octroi des subventions. Par ailleurs, les infrastructures lycées agricoles feront l'objet d'une meilleure maintenance avec la signature de contrats pluriannuels avec des prestataires privés.
19. Dans le secteur de l'Énergie, les différentes mesures mises en œuvre par le gouvernement ont permis une amélioration de la gestion de la société d'électricité et

réduit considérablement les délestages dus à un manque de production. Un contrat de performance important une clause bonus-malus a été signé avec la Sonelde et un comité technique de suivi institué. Cette amélioration de la gestion de la société dans un contexte de baisse des prix des produits pétroliers a permis de réduire au tiers le montant de la compensation tarifaire initialement prévu dans le budget 2015. L'accord sur les nouvelles modalités entre Soneldec et le Ministère de l'Économie, des Finances, et du Plan a été rendu effectif avec la signature d'un avenant sur l'affectation du solde en faveur de l'Etat.

20. **Le secteur du Tourisme, a été durement affecté par la crise de l'épidémie à virus Ebola.** Le Sénégal a pu maîtriser son seul cas d'Ebola avec succès. Cependant, il n'a pas échappé à l'impact négatif de l'épidémie dans la sous-région, avec des taux de remplissage des hôtels très faibles voir nuls. Plusieurs hôtels ont fermé leurs portes avec des pertes d'emploi importantes. Pour pallier à cette crise, le gouvernement a pris plusieurs décisions, notamment la suppression de visa payant et biométrique. En plus, quelques taxes sur le billet d'avion ont été réduites de 50%, et les poursuites fiscales sur les arriérés des hôtels ont été suspendues. Toutes les taxes sur le secteur du tourisme et Casuarance ont été supprimées pour une période de 10 ans, et un fonds de 5 milliards de FCFA portant crédit hôtelier a été créé pour aider les professionnels à investir dans la réhabilitation et l'entretien des équipements. Tenant compte du coût fiscal de ses mesures, les autorités ont demandé une augmentation de l'appui budgétaire de la Banque mondiale.

D. Amélioration de l'environnement des affaires

21. **Le Gouvernement entend accélérer les réformes visant l'amélioration de l'environnement des affaires afin de rendre le Sénégal plus attractif à l'investissement privé.** C'est ainsi que le capital minimum pour créer une entreprise a été supprimé et des guichets uniques de recouvrement à l'eau, l'électricité et l'assainissement instaurés. Les droits d'enregistrement pour le transfert de propriété ont été divisés par trois en trois ans. Les délais de délivrance de permis de construire ont été réduits. Dans le domaine du foncier, la Commission nationale de réforme foncière devrait rendre ses conclusions avant la fin de l'année.

Unofficial translation

REPUBLIC OF SENEGAL

One People - One Goal - One Faith

MINISTRY FOR THE ECONOMY, FINANCE AND PLANNING

(May 2015)

I. Introduction

1. **Senegal is facing critical challenges that it intends to address, in addition to fulfilling its ambitions, through an agenda of economic and social transformation, in order to move towards emergence.** To achieve this long-term objective the Government, with the support of its technical and financial partners, worked out and adopted its new development strategy, the Emerging Senegal Plan (PSE) for the 2014-2024 period. The plan is an illustration of the Government's political will to usher Senegal into the path of development and take into account the basic concerns of its population.

2. **This new vision is structured around three strategic axes:** (I) Structural transformation of the economy and growth; (II) Human capital, social protection and sustainable development; and (III) Governance, institutions, peace and security. Furthermore, the operationalization of the Strategy calls for the implementation of a set of reforms to accelerate the structural transformation process likely to launch the economic take-off.

3. **As an umbrella framework of public interventions and policies, the PSE 2014-2024 takes its bearings from government directives and the framework to accelerate the achievement of the Millennium Development Goals (MDG) by 2015.** This Strategy is initially intended to reverse, by 2018, the trends identified by the socio-economic review. It will then take into account the decisive factors and finally integrate the interaction between actors revealed by the stakeholders' participation in the implementation. The objective consists in fulfilling the conditions of a sustained and sustainable growth likely to significantly reduce poverty and achieve the Millennium Development Goals (MDG).

4. **The economic and social development of Senegal calls for the implementation of a strategy leading to economic growth with a strong positive impact on the living conditions of the populations but also taking into account the need to improve public finance and maintain public debt at bearable levels.** In this respect, the major challenge primarily relates to the revival of the economy against a background of virtuous, effective and efficient governance.

Besides, to consolidate the public policy dialogue with its development partners, and rationalize their interventions for an improved alignment and greater predictability, the Government decided to hold periodic meetings with the G50 group of technical and financial partners and reactivate the Budget Support Framework Arrangement (ACAB).

II. Recent Economic Developments

5. Recent economic developments show signs of recovery in 2014, following the downturn observed in recent years and attributable to low resilience to exogenous shocks, an agriculture that is highly dependent on rainfall and an overt weakness of the industrial fabric. The renewed dynamism, which seems to be taking shape translates the increase in domestic demand encouraged by the consolidation of public investments in energy and infrastructure, as the implementation of the Emerging Senegal Plan (PSE) kicks off. Thus, real GDP growth is estimated at 4.7% against 3.6% in 2013, i.e. an increase of about one (1) percentage point reflecting the strength of the services as well as the revival of the secondary and primary sectors. With regard to accommodation and food services, the activity remains gloomy because of the difficulties of the tourism sector exacerbated by the negative impact of the "Ebola" virus outbreak. The sub-sector is expected to remain on a downtrend.

6. Budgetary management is characterized by a fairly satisfactory mobilization of budgetary resources combined with a constant increase in expenditures for the consolidation of some development projects. The ordinary resources stand at CFAF1877 billion against CFAF1659 billion in 2013, i.e. an increase of 13.1%. However, the effects of the Ebola virus outbreak, in particular, the absence of activities in the Tourism-Catering sector, impacted negatively on earnings. Total expenditure and net loans are estimated at CFAF2318.5 billion; Overall, public deficit is expected to improve by 0.4% of GDP in 2014, equivalent to 5.1% of GDP against 5.5% in 2013. Inflation remained moderate at 1.1% in 2014. With regard to foreign trade, the current account deficit excluding grants is expected to drop to 8.8% of GDP in 2014 against 10.4% in 2013.

III. Macroeconomic policies for 2015-2017

7. The government has prepared with support from the International Monetary Fund a new three-year program supported by the Policy Support Instrument (PSI) for the period 2015-2017. The new program is an extension of the first two PSIs. It is intended to guide Senegal in implementing its new development strategy Plan for an Emerging Senegal (PSE), which relies on high, sustainable, and inclusive growth to substantially reduce poverty while safeguarding macroeconomic stability and debt sustainability. The program relies on breaks with the past that will, in the short and medium term, result in the initiation of bold actions to stimulate private initiative and creativity in order to realize the people's aspirations towards well-being, as well as reforms aimed at restoring the government's fiscal space and creating a more

attractive business environment for private sector development. **In spite of a difficult international environment marked by persistent uncertainties, the macroeconomic prospects for Senegal over the 2015-2017 period are generally promising.** Real GDP growth is expected to accelerate gradually to reach 7 percent in the medium term. Inflation should drop and be maintained at less than 2 per cent during the said period. The current external deficit should improve to reach less than 8 percent of GDP, increasingly financed through Direct Foreign Investment (DFI) flows. The budget deficit should be maintained below 5 percent in 2015 and 4 per cent in 2017 in order to slow down the rapid growth of the total public debt (foreign and domestic), which should be maintained below 50 percent of GDP in 2015. To achieve the deficit targets, the government intends to substantially improve the effectiveness of public expenditure in the social and infrastructure sectors and contain budgetary risks. Special attention will be paid to the management of human resources, in general and of teachers, in particular, to the funding of universities and public hospitals and the efficiency of implementing agencies. The sub-regional framework which governs monetary and exchange policies will continue to contribute to the maintenance of a low inflation; however, a prudent budgetary policy will be a key instrument in achieving macroeconomic stability in Senegal and contributing to WAEMU's external stability.

A. Budgetary policy

8. The government reiterates its commitment to limit the total budget deficit in the medium term to around 3 percent of GDP, which will help preserve the public debt viability. The government will continue to support investment and growth, while maintaining stability by containing the pressures of domestic demand and avoid competition with the private sector. Expenditures on the priority sectors will continue to increase but their efficiency and equity need to be improved. Expenditures in favour of the rural areas and those on infrastructure will be increased. Efforts to control recurrent expenses will be pursued by substantially reducing the telephone bill and freezing rental agreements for officials. With regard to personnel costs, the policy remains to freeze increases, the creation or the revaluation of allowances, and exert greater control, notwithstanding the increase in the workforce in the health sector and security services. The Government, with World Bank support, will undertake a public expenditure review exercise in 2015.

9. Domestic debt management will be further strengthened. The government will, in particular, continue to conduct a domestic debt viability analysis every six months. This exercise will include an analysis of the risks posed by contingent liabilities related to guarantees issued by the State, to PPP and operations by public companies. A quarterly Public Debt bulletin is regularly published. The government has prepared a Medium-Term Debt Management Strategy Paper (SDMT). The implementation of a Medium-Term Debt Management Strategy Paper (SDMT) will enable the authorities to identify and manage the risks associated with the current debt. The decision to limit the deficits in the medium-term will lead to a decrease in the funding need and thus stabilize the indebtedness trend over the period.

B. Budgetary and structural reforms

B.1. Budgetary reforms and Government contracts

10. **The government will pursue its budgetary reform efforts in order to improve the productivity of public expenditure, improve budgetary transparency and reinforce the evaluation, monitoring and accounting of budgetary risks.** The government will continue to implement reforms aimed at improving budget planning and preparation, transparent budget implementation as well as its control a posteriori by the National Assembly. Concerning the monitoring of State budget implementation, quarterly implementation reports are regularly produced and published and quarterly cash flow statements are prepared and submitted to the Ministry of Finance. The Government intends to further strengthen external budget implementation control. To that end, the National Assembly adopted the 2012 Budget Execution law and the management accounts for 2013 were transmitted to the Court of Auditors.

11. **The completion of the interface between SIGFIP and ASTER helped to considerably shorten the process for the production of management accounts and budget execution bills.** In addition, the Government increased the means and strengthened the independence of the Court of Auditors. To this end, it submitted to the National Assembly for adoption, a new organic law on the Court of Auditors in 2012 and issued a decree for the enforcement of this law and another on the financial regime of the Court of Auditors. The Court of Auditors continues to publish its annual reports on its site.

12. **In order to improve the transparency and integrity of the public finance system, the Government adopted the law on the declaration of assets.** In this regard, the government issued a decree for the enforcement of the said law and set up and equipped the National Authority for Combating Fraud and Corruption (OFNAC) to deal with these declarations, amongst other things. Thus, public actors entrusted with the administration and management of public funds, be they elected officials or civil servants, will be subjected to obligations of integrity and propriety, commensurate with the trust placed on them. Members of the government, in particular, have submitted their declarations of assets. To promote transparency in the performance of public procurement contracts, the government is determined to continue to firmly implement the Public Procurement Code. The Public Procurement Regulation Authority (ARMP) continues to present to the Government its annual reports on the effectiveness and reliability of the public contract award, implementation and control system and public service delegations, combined with recommendations that could lead to the improvement of the system.

13. **A thorough reflection on the obstacles to the implementation of public decisions and policies is underway.** This reflexion has already led to the adoption of a new mechanism to monitor and evaluate the government's priority programmes with the technical support of the World Bank. To this end, a Presidential Council was convened on April 7, 2015 and a decree establishing the attributions of the various monitoring-evaluation actors has been issued.

B2. Addressing budgetary risks

14. **With regard to the need to address budgetary risks**, the government intends to step up the monitoring and control of activities of other public sector entities such as the autonomous agencies and public institutions, including public hospitals and universities, which increasingly receive transfers from the State budget. Performance contracts were signed with six agencies and five new hospitals. An action plan for the reorganization of the agencies was approved. Several agencies were closed while others were merged and liquidators appointed to this end. A reserve was established to hold investment projects that are not yet ready. Their implementation will begin only after the feasibility studies attesting to their viability are finalized.

C. Sectoral policies

15. **The Government continued to invest in the sectors of education**. Great efforts were made to increase the population's level of education. Special emphasis was placed on human resources management. Thus, an audit of the Education staff was commissioned. To better coordinate human resources management between the Pay service of the Ministry of Economy, Finance and Planning and the Public Service Ministry, a decree was issued for the implementation of a new software dubbed Unified Public Servants Management database. A new system for the recruitment of teachers (*corps émergents*) was set up to better manage personnel costs in the sector and the government is committed to recruit, every year and in time, for the preparation of the budget.

16. **With regard to higher education**, the universities have prepared the 2014 budgets on the basis of the new financial regime. Furthermore, the government has decided to rationalize its policy for awarding scholarships to students in order to contain the unsustainable expansion of the budget allocated to that effect. The policy was first implemented at the start of the 2014/15 academic year. To ensure an adequate financing of higher education, the registration fees were increased and all the other own-generated resources brought into the universities' budgets. Special accountants were appointed in the various faculties and institutes to guarantee a sound management of resources.

17. **In the health sector, performance is improving a lot slower than the Government would have wanted because of the difficulties confronting the sector, in particular the hospitals**. In order to gradually rectify the imbalances observed in the sector, the policy instituting performance contracts was pursued with contracts signed with five new hospitals in 2014. A new decree on the financial regime of Public Institutions and similar bodies was issued. It should help improve and secure the management of Public Health Institutions. Moreover, the government will strive to progressively pay the debt owed to hospitals.

18. **With regard to the agriculture sector, the government has adopted an e-platform of producers and instituted its use as of the 2015 crop year**. This mechanism will help rationalize the distribution of agricultural inputs and, in the long term, facilitate targeting in the

granting of subsidies. In addition, the maintenance of the hydro-agricultural infrastructure will be improved with the signing of multi-annual contracts with private service providers.

19. **In the energy sector, the various measures implemented by the government helped improve the management of the Electricity Company and considerably reduced power rationing due to production shortages.** A performance contract comprising a bonus-malus clause was signed with Sénélec and a technical monitoring committee established. The improvement of the company's management against a background of declining oil product prices helped reduce by a third, the tariff compensation amount initially provided for in the 2015 budget.

20. **The Tourism sector was severely affected by the Ebola virus outbreak.** Senegal was able to successfully bring under control its single Ebola case. However, this did not spare the country from the negative impact of the epidemic in the sub-region. Hotel occupancy rates were very low - or non-existent in some cases. Several hotels had to close causing significant job losses. To mitigate this crisis, the government took several decisions, in particular, the abolition of the biometric visa issued against payment. In addition, some taxes on air tickets were halved, and the prosecution of hotels for tax arrears was suspended. All taxes levied on the tourism sector in Casamance were suspended for 10 years, and a 5 billion CFAF fund for hotel loans was set up to help professionals to invest in the rehabilitation and maintenance of hotel establishments. In view of the fiscal cost of these measures, the authorities requested an increase in the World Bank's budget support.

D. Improving the business environment

21. **The Government intends to speed up the reforms aimed at improving the business environment in order to boost Senegal's attractiveness to private investment.** Thus, the minimum capital to create a company is no longer required and one-stop shops were set up for connections to water and electricity supplies and to the sewage system. The registration fee for the change of ownership was reduced threefold within three years. The building permit issuance period was reduced. In the area of land, the National Land Reform Commission is to submit its conclusions before the end of the year.

ANNEX 3: IMF RELATIONS

IMF Executive Board Approves Three-Year PSI for Senegal

Press Release No. 15/297

June 27, 2015

The Executive Board of the International Monetary Fund (IMF) today approved a three-year Policy Support Instrument (PSI)¹ for Senegal. The PSI supports implementation of a three-year program of macroeconomic reforms designed to advance the **Plan Sénégal Emergent** (PSE), the authorities' strategy to increase growth and reduce poverty while preserving macroeconomic stability and debt sustainability. The authorities plan to focus on increasing tax revenues by broadening the tax base, as well as on rationalizing current expenditures to create fiscal space for financing infrastructure and social expenditure. Attention will be paid to the quality of expenditure, including investment, and to strengthening public financing, transparency, and economic governance. The authorities intend to accelerate structural reforms to foster a more attractive business environment, thereby promoting development of the private sector.

The authorities aim to achieve an economic growth rate of at least 5 percent in 2015 compared with 4.7 percent in 2014, while maintaining the inflation rate below 2 percent. Sustained efforts to scale back government spending and to improve mobilization of tax revenues will allow for an increase in investment and social expenditures and a decrease in the budget deficit to 4.7 percent. Medium-term targets include increasing the GDP growth rate to over 6 percent, containing inflation below 3 percent, and reducing the budget deficit to 3.6 percent by 2017, with the goal of reducing it to 3 percent by 2018. Export growth should reduce the current account deficit from 9 percent of GDP in 2014 to 6.5 percent of GDP in 2017.

Following the Executive Board's discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair issued the following statement:

“The new Policy Support Instrument (PSI) supports a three-year program of macroeconomic reforms embedded in a development strategy for inclusive growth and poverty reduction (Plan Senegal Emergent—PSE). The growth goals of above 7 percent enshrined in the PSE are achievable provided reforms are accelerated, broadened and deepened. Early signs indicate positive momentum owing to progress in reform implementation and favorable external factors. However, more remains to be done to solidify this momentum.

“The authorities are committed to meeting the target of the West African Economic and Monetary Union of a fiscal deficit of 3 percent of GDP by 2018 and implementing structural reforms to boost economic growth, with the 2015 budget targeting a deficit of 4.7 percent of GDP. The authorities plan to strengthen tax and customs administration, and rationalize taxation of the financial sector and telecommunications. On expenditure, they will reorient lower priority spending, particularly public consumption, to provide room for higher public investment.

“Risks to the program are significant but manageable. The political calendar may pose some risks to the planned fiscal consolidation. Reforms to curb unproductive public consumption and raise expenditure efficiency may slow down and there could be revenue shortfalls. External downside risks include slower growth in partner countries, continued volatility in oil prices—which may affect revenue targets and subsidies—and spillovers from regional shocks including extremism and natural disasters. To mitigate these risks, the authorities plan to supplement the fiscal deficit targets with a debt anchor and will expand use of the precautionary reserve envelope to link project financing to reform progress.”

¹ The PSI is an instrument of the IMF designed for countries that may not need, or want, IMF financial assistance, but still seek IMF advice, monitoring and endorsement of their policies. The PSI helps countries design effective economic programs that, once approved by the IMF's Executive Board, signal to donors, multilateral development banks, and markets the Fund's endorsement of a member's policies (see <http://www.imf.org/external/np/exr/facts/psi.htm>).