### Project Context

#### Country Context

Senegal enjoys a broadly stable political climate. The political system continued to show a degree of democratic maturity with recent elections that were widely viewed as fair and transparent. Senegal's aggregate demand policies continued to aim at sustaining external and internal balances. Fiscal policy has been tightened to correct inconsistencies in expenditure policy (notably subsidies) implemented in 2008 as a response to higher oil and food prices. Monetary policy, under the purview of BCEAO continued to pursue price stability with some accommodation to support growth and financing of the economy. The real growth has slowed since 2006 when the economy was buffeted by a series of domestic and external shocks as well as poor policies that persisted through 2011. The global financial crisis of 2008-09 revealed Senegal’s significant exposure to the global recession. Impacts included declines in export demand and prices, tourism, remittances and foreign direct investment. More recently, in 2013 real GDP growth is expected to increase to 4
percent against a real rate of 3.5 percent in 2012 and an estimate of 4.6 percent in 2014. This renewed dynamism is supported by increased public investment (including projects financed by the Millennium Challenge Account), the implementation of Senegal’s development priorities, as articulated in the SNDES, the continued restructuring of the energy sector and the development of projects in social sectors. Achieving sustainable economic growth will depend critically on how well these public resources are allocated to line ministries and how efficiently they are managed.

**Sectoral and institutional Context**

Recent Assessments performed by or at the request of the authorities have identified a range of weaknesses in Senegal’s Public Financial Management (PFM) system. These assessments included the 2007 and 2011 Public Expenditures and Financial Accountability (PEFA) and IMF Technical Assistance reports. These reports identified a number of critical shortcomings in budget preparation and execution processes as well as internal and external controls. As a result of government's efforts to address the identified PFM issues, there has been significant progress in the Public Financial Managements reforms. Medium Term Expenditures Frameworks have been developed in key priority sectors. Despite these improvements, there are significant challenges, as summarized below, which still need to be tackled.

1. Implementation of WAEMU Regulations: West African Economic and Monetary Union (WAEMU) has adopted in 2009 six new PFM regulations (Directives) covering transparency in public finances in general, budget preparation and execution laws, government accounting, budget classifications, central government chart of accounts (CoA), and central government operations (tableau des operations financières de l’Etat- TOFE). These new regulations set ambitious objectives such as performance budgeting, significant changes of internal and external control methodologies, modernization of expenditures management, implementation of accrual accounting and new budget classification aligned with international standards. The laws related to these regulations were approved by the Senegalese Parliament in 2012 and are expected to be fully implemented over the period 2017-2020. Their specific impacts in the financial management system and procedures have been assessed as significant, given the strong focus on results and principles contrary to the current model which is rules based. The country will therefore need strong support to implement these reforms.

2. Budget execution processes: Budget execution is affected mainly by (i) excessive centralization of budget execution authority in the Ministry of Finance; (ii) significant extra-budgetary operations; (iii) weak oversight of public Institutions/Agencies; (iv) non incorporation of significant budget expenditures, including integrating payroll and pensions into the budget management information system, (v) fragmentation of IT systems and (vi) procurement bottlenecks. The performance of the procurement regulatory texts and control entities has been questionable and subject of many complaints and criticisms, in particular from the contracting authorities which emphasized that the system creates more problems than solutions and slows down the budget execution. In addition, governance issues have been pointed out in terms of inefficiency of the systems: possible abuse in exceptions and not enforcing properly the procurement procedures; and the needs for the procurement system to adapt to the new economic environment.

3. One key problem faced by Senegal is that fiscal information is fragmented and derived from IT systems that do not communicate with each other; fiscal information, including on the government's aggregate fiscal position, therefore lacks comprehensiveness as well as reliability. This affects the
ability of the authorities to base key policy decisions on sound data. It also makes it more challenging for them to focus on the efficiency and effectiveness of public spending. In addition, the existence of separate disconnected systems hinders transparency and undermines the strength of internal controls. Weak internal controls increase the risks associated with the devolution of budget authority to line ministries, which would be a critical step to increase the performance and effectiveness of public services.

4. Extra-budgetary expenditures and oversight of public institutions/agencies: Senegal has chosen to delegate significant portions of the execution of public policies – notably the carrying out of public investment projects – to autonomous agencies and State Owned Enterprises (SOEs). The accountability of those SOEs regarding the related financial transfers they are benefiting from the State’s Budget is therefore of the utmost importance. The framework of the SOE’s governance is yet to be modernized, in order for the Central Government to enhance its ability to (i) monitor and evaluate their overall performance and (ii) reinforce its technical and financial oversight.

II. Proposed Development Objectives

A. Current Project Development Objectives – Parent

The PDO is to enhance the credibility, transparency, and accountability in the management and use of central government finances. The project aims to support the modernization of the Public Financial Management system in Senegal. It includes four components: (1) Strengthening Fiscal Policies and Planning; (2) Improving Budget Execution Processes; (3) Strengthening the capacity of external audit and legislative oversight; and (4) Project Management.

B. Proposed Project Development Objectives – Additional Financing (AF)

To enhance budget credibility, transparency and accountability mechanisms in the use and management of central government financial resources.

The project aims to support the modernization of the Public Financial Management system and the implementation of a Public Sector performance based system in Senegal. It includes five components: (1) Strengthening Fiscal Policies and Planning; (2) Improving Budget Execution Processes; (3) Strengthening the capacity of external audit and legislative oversight; (4) Project Management; and (5) Supporting the implementation of a Public Sector Performance-Based Management and Results Monitoring system.

III. Project Description

Component Name

Component 4 : Project Management

Comments (optional)

26. Additional allocation to the Project Management component will cover implementation management and coordination costs over the extended life of the project.

Component Name

Component 2 : Improving Budget Execution and Reporting Processes

Comments (optional)

The additional activities under this component are aligned to those defined in the already existing sub-components. They will therefore not contribute to triggering a change in the PDO. The AF will not also change the objective of the component as a result of the need to scale up to create greater development impact.
Component Name
Component 5: Improving Public Sector Performance-Based Management System and Results Monitoring

Comments (optional)
The objective of this new component is to support the Government of Senegal in (i) establishing a Public Sector Performance-Based Management System, that will be applicable to both the Central Government level (Ministry of Finance and Line Ministries) and the State Owned Enterprises (SOEs) and autonomous agencies and, (ii) strengthening the system of monitoring and evaluation of results. This component aims at implementing a comprehensive set of monitoring tools which will enhance informed and timely decision-making abilities at key levels within the Government. Strengthened monitoring and evaluation is not only critical for the overall management of the targets set by the Plan Senegal Emergent, but is essential for the entire performance based management system adopted by the Government.

IV. Financing (in USD Million)

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<th>Amount</th>
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<td>Total Project Cost:</td>
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<tr>
<td>Total Bank Financing:</td>
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<td>Financing Gap:</td>
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V. Implementation
Implementation arrangements of the original PFM TA Project will be maintained under the AF. The PFM Reform Secretariat (PCRBF) within the Ministry of Economy and Finance is in charge of the day to day implementation of the activities. The Technical Committees (TCs) cover the six core dimensions of the PEFA, i.e. (i) Credibility of the budget; (ii) Comprehensiveness and transparency; (iii) Policy-based budgeting; (iv) Predictability and control in budget execution; (v) Accounting, recording and reporting; (vi) External scrutiny and audit. They comprise Focal Points (FPs) of the implementing entities and are in charge of operational monitoring of the implementation of the reforms and execution of the project’s activities. The TCs meet monthly and are chaired by the head of Executive Secretariat (ES) of the PCRBF. The National Steering Committee (CCP) oversees the implementation of the project and PFM reforms in general. The CCP is chaired by the Minister of Finance or his Designate and comprises all national institution members of the CCHS, plus the private sector and representatives of the key line ministries. The head of the Executive Secretariat of the PCRBF acts as the secretary of the CCP. The CCP meets quarterly to: (i) discuss the strategic direction and orientation of PFM reforms, including progress in meeting project PDOs, ii) review the implementation status of the PFM reform action plan; (iii) provide guidance and address policy related issues; (iv) approve the budget and the annual work plans.

VI. Safeguard Policies (including public consultation)

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**Comments (optional)**

**VII. Contact point**

**World Bank**
- Contact: Maimouna Mbow Fam
- Title: Sr Financial Management Specialist
- Tel: 5331+3411 /
- Email: mfam@worldbank.org

**Borrower/Client/Recipient**
- Name: Ministry of Economy and Finance
- Contact: Amadou Ba
- Title: Minister
- Tel: 221338892100
- Email:

**Implementing Agencies**
- Name: PFM Reform Secretary
- Contact: Cheikh Tidiane Diop
- Title: Coordinator
- Tel: 2218214587
- Email: ctdiopmef@yahoo.fr

**VIII. For more information contact:**
- The InfoShop
- The World Bank
- 1818 H Street, NW
- Washington, D.C. 20433
- Telephone: (202) 458-4500
- Fax: (202) 522-1500
- Web: http://www.worldbank.org/infoshop