

Rapid Appraisal of Senegal's System of Public Finance Management (PFM) Preliminary Findings and Conclusions

I. Background

a. Economic and Fiscal Context

Between 2000 and 2010, Senegal averaged 4% growth of its Gross Domestic Product (GDP), well below the Government of Senegal's (GOS) target of 7%. With an estimated population growth of 2.5%, Senegal's economic performance falls short of that necessary to meet its Millennium Development Goal (MDG 1) for halving the incidence of poverty by 2015. In an effort to improve its fiscal and monetary standing, since 2003 Senegal has adopted a series of Public Finance Management (PFM) reforms which are described in the paragraphs below.

Based on the recommendations of a 2003 Country Financial Accountability Assessment (CFAA), an initial action plan for reforms was prepared and the *Projet de Coordination des Réformes Budgétaires et Financières* (PCRBF) was launched to coordinate budgetary and financial reforms. Donors in Senegal strongly supported the GOS's PFM efforts and codified a formal framework for policy dialogue around PFM issues in 2005 with the creation of the joint Committee for Harmonization and Monitoring (CCHS), of which USAID/Senegal is an active member. Between 2006 and 2008, the global food crisis and the global recession adversely affected Senegal's fiscal position, resulting in mounting payment arrears and, even more troublesome, the execution of expenditures without prior legislative authority. Amid these setbacks, the GOS adopted a macro-economic program supported by the International Monetary Fund (IMF) under the Policy Support Instrument (PSI). The PSI was designed to increase Senegal's economic growth as well as to keep the country's overall fiscal balance in line with the objectives of medium- and long-term debt sustainability.

Senegal is not the only country in the region to undertake such reforms. In 2008, the West African Economic and Monetary Union (WAEMU) issued six compulsory directives aimed at harmonizing public finance, legal and regulatory frameworks across its eight member countries. Participating countries are expected to integrate all six directives of the WAEMU PFM framework into their respective frameworks by the end of 2016.

In 2007 and again in 2011, Senegal underwent two Public Expenditure Financial Accountability (PEFA) exercises to evaluate the progress of its PFM reform efforts. The table below provides a quick comparison of scores related to Senegal’s PFM performance.

<i>Scores</i>	<i>2007</i>	<i>2011</i>
A	6	10
B	18	26
C	23	16
D	21	19
Not scored	1	0
Total	69	71

The table suggests that progress is being made, but also underlies the need to accelerate the pace of reforms so that Senegal attains more A and B scores.

b. Political Context

Senegal has long enjoyed a tradition of political stability and prides itself as the only country in West Africa that has yet to be ruled by the military. Good governance with a strong and vibrant democracy are also key ingredients to strong Public Financial Management. It is requirement for USAID that elections are deemed free, fair, and legitimate as pre-requisite for increasing direct investments in host governments.

II. Methodology

Based on a request from USAID/Senegal, a joint assessment team composed of members from Washington and the Senegal Mission conducted a Rapid Appraisal (RA) of Senegal’s public finance system. Members from USAID/Washington included Thomas Briggs (who served as principal Agency Advisor and Team Leader), Maria Cruz, Amy Stenoien and Sidi Maghraoui. Mission team members included individuals from the Program, Technical and Financial Management offices under the leadership of Mission Controller James Redder. Field work for the Rapid Appraisal began on September 12, 2011 and lasted two weeks.

As part of the field work, the RA team met with all major stakeholders in public finance representing a wide range of institutions including the Central Government, the National Assembly, the Supreme Audit Institution (*Cour des Comptes*), the private sector, civil society organizations, USG agencies, and donors. At the end of the two-week field work period, the RA team along with the Acting Mission Director participated in an exit meeting with Mr. Abdoulaye Diop, the GOS Budget Minister.

The following paragraphs describe the RA team's findings and recommendations.

III. Findings

a. General findings

- **The legal and regulatory framework established by the WAEMU-issued directives provides a strong basis upon which to improve Senegal's system to meet international standards in public finance management.**

In particular, the WAEMU directive related to the Budget Law introduces two major innovations. The most notable change will require the MOF to transfer the responsibility for budget execution to the line ministries. In addition, the directive introduces performance-based budgeting which is a significant change from the current method of input-based appropriation that based budgets on historical data.

- **The GOS prefers general budget support and for all foreign funds to flow through the Treasury Single Account (TSA).**

The GOS has drafted an Aid Policy Document which clearly expresses the Government's preferred mechanism for receiving development assistance. The failure of the 1998-2005 Health Sector Wide Approach (SWAP) is the argument used by the GOS in favor of budget support and for the use of Treasury accounts to channel donor funding. The GOS identified the lack of integrated funds management as the main concern in sector support. However, despite this preference, the GOS will continue to allow donors to provide sector assistance.

- **Technical staff is generally well qualified.**

From meetings with government and regulatory body institutions, the RA team found these organizations to be staffed by a generally competent workforce. There are no reports of critical skill gaps that would hinder operations should USAID decide to use country systems to implement some of its programs.

- **The office in charge of coordinating budgetary and financial reform implementation is independent from the line ministries.**

As discussed earlier, the PCRBF was established at the Ministry of Finance (MOF) to coordinate the implementation of public finance reforms. While this office provides for a unified management structure to monitor progress, the commitment to reform through continuous management improvement should not be perceived as the sole responsibility of the MOF but rather ought to be shared by all ministries, departments, and agencies.

b. Fiduciary issues

- **Internal control of budget execution at the Central Government is generally effective.** Internal controls at the budget implementation stage primarily examine the compliance of spending proposals with applicable rules and regulations as well as the existence of a budget authority.

Senegal significantly revamped its procurement code in 2008 to promote greater transparency as well as to increase competition and accountability in procurement activities using public funds. As a result of the improved code, 92% of public procurement in 2010 was executed using competitive contract mechanisms, an increase from the 8% executed before 2008.

Two independent regulatory bodies were created as part of the revamped procurement code. The first one is the *Direction du Contrôle des Marchés Publics* (DCMP) which verifies procurement plans and solicitations before they are issued to ensure compliance, fairness and budget availability. The second regulatory body is the *Agence de Régulation des Marchés Publics* (ARMP) which addresses protests from bidders and spending agencies, and conducts

annual audits of spending ministries' procurement actions to ensure proper end use of public goods. However, AMRP audit reports carry no enforcement actions, or consequences to the offender, for lack of corrective action on audit recommendations. In addition, ARMP's director reports to the MOF, which may hinder its independence.

- **Specific Internal controls need strengthening**

Several sources reported that internal control procedures may still be bypassed through the use of exceptional spending procedures. The *Cour des Comptes* reports show deficiencies in internal controls within the ministries during audits. There are other internal control bodies such as the *Inspection Générale d'Etat* (IGE) and the *Inspection Générale de Finance* (IGF), however they are not as independent and effective as the *Cour des Comptes* given that they report directly to the Executive branch.

- **The GOS Treasury is not facing a structural liquidity shortage.**

The relative abundant liquidity of the WAEMU financial market offers a good opportunity for member countries to issue Treasury bills and bonds. For years, the U.S. Government has supported the GOS through technical support in debt issuance and management. In 2011, the GOS Treasury plans to mobilize CFAF 355 billion (about \$710 million at an exchange rate \$1 = CFAF 500) or 5.2% of Senegal's GDP. Financial institutions within WAEMU consider Senegal a "good risk rating" debtor because the GOS Treasury has demonstrated its capacity to repay its debt in a timely manner. Several sources confirmed that the shortage of cash does not appear to be a major problem for spending ministries in the execution of their approved budget.

- **The GOS Treasury has not fully established an efficient cash plan.**

There is a disconnect between budget planning and the Treasury: though funds may be reserved at the budget level, the Treasury may not have the cash on hand when presented with a pay order. Once a pay order is presented to the Treasury, it must be paid within 90 days as per regulation. The lack of a cash plan sometimes results in late payments to vendors. There are widely differing opinions as to what the average payment delay is within the GOS Treasury system, but some parties quote up to 12 months.

Several initiatives are currently underway to address this well-known deficiency. For instance, the World Bank recently launched a program with the GOS that, among other things, aims to reduce payment delays. The WAEMU directives also call for the development of a cash plan as part of overall public finance reform.

The need for a cash plan is compounded by the growing number of autonomous agencies in Senegal. Though these agencies receive appropriated funds from the Treasury, these significant cash resources are deposited in commercial bank accounts that are beyond the purview of Treasury oversight.

Donor practices also contribute to this problem by promoting a multitude of parallel systems that are, for the most part, out of reach of the Senegalese Treasury. While this practice comes from a need to shield donor funds from unintended use, it is nevertheless an impediment to building sustainable Treasury capacity.

- **The GOS has yet to implement the Treasury Single Account (TSA).**

In October 2011, the GOS defined a strategy to implement a Treasury Single Account (TSA) mechanism. The timeline calls for its implementation by December 2012 as submitted to the IMF in the second review of the Policy Support Instrument (PSI). The TSA will result mainly in the closing of commercial bank accounts opened by autonomous Agencies but it is still unclear how the TSA will affect donor funds at this time.

- **The financial information system is in progress, but issues remain.**

The GOS deployed several systems to manage public funds of which SIGFIP and ASTER are the primary ones (Gateway is a separate system that is currently being used to track donor funds). The SIGFIP system manages budget information while ASTER is the cash management and accounting system. ASTER played a major role in improving the timeliness of Treasury balances by the MOF. The IMF indicated that Treasury balances are now produced 10 days after the close of the month which is a remarkable achievement.

At this time, these two systems are not totally interfaced with one another which poses a number of coherency issues because data is inputted manually into both systems. The GOS is currently working on a dual interface for the two systems to completely cover all the phases of public finance management.

c. Governance accountability issues

- **CPA association and industry appear strong.**

The Certified Public Accountant (CPA) association is a member of, and follows the standards set forth by, the International Federation of Accountants with regard to audit and financial services. The strength of Senegal's CPAs enhances accountability and oversight of the public and private financial sectors. USAID's Regional Inspector General has certified five accounting firms that are members of the association and most donors in Senegal (including USAID and MCC) contract members of this organization for audit services. It is therefore clear that USAID and other donors could engage local firms for financial services while ensuring auditing independence.

- **Procurement Regulation and Oversight Agency (ARMP) appears sound.**

As discussed above, ARMP was instituted to provide external oversight of the procurement process. ARMP's membership includes the private sector, civil society and the GOS. The Managing Director is selected through an open bid process and is a voting member of the Board.

- **Political and financial independence of ARMP is an issue.**

The GOS's willingness to reduce the number of independent members within ARMP's Board is a concern raised by donors and civil society organizations. In early 2011, the Netherlands and the World Bank suspended their use of GOS procurement due to manipulations of ARMP's board and a weakening of regulations that allowed for transfers of procurements to secret and emergency categories which are excluded from ARMP audits. In addition, ARMP's mandate is further constrained due to the need of a coercive enforcement so

offenders are penalized if they do not take corrective action on audit report recommendations.

- **The National Assembly needs to play an effective role in budget formulation and oversight of execution.**

The National Assembly's participation in budget formulation and execution is critical because a national budget is the quantification of the policies of the State. Increased involvement of the National Assembly in budget formulation and oversight of execution will strengthen overall accountability of public funds.

- **The *Cour des Comptes* has promise but challenges exist.**

One of main roles of the *Cour des Comptes* is to assist Parliament with oversight of the budget's execution. As such, the *Cour* performs audits of public funds and reviews the budget execution laws before their submission to the National Assembly.

The *Cour des Comptes* reports on three types of cases: criminal, disciplinary and mismanagement. While criminal activities are referred to the judicial system, other mechanisms are used for disciplinary and mismanagement cases.

The *Cour des Comptes* benefits from a staff that is technically savvy and regularly trained. It is capable of conducting audits that uphold the standards of the International Organization of Supreme Audit Institutions. Per law, it is authorized to employ 60 magistrates, but only 25 are on board and the *Cour* has not recruited magistrates since 2003.

With the new WAEMU directives, the *Cour* will have a new role in assessing the results of public spending by conducting performance audits. This new role will require different skills as well as change in culture related to audit corrective actions and closures. Lastly, the Mission and RIG have an active MOU with the *Cour des Comptes* for government auditing services. Unfortunately there have been no opportunities to utilize it because of institutional

changes at the Supreme Audit Institution level, staff turnover and the fact that USAID has not needed these services. However, USAID will look for opportunities to use this MOU as we proceed to Stage 2 of this process.

- **The anti-corruption commission needs strengthening and more independence.**

The anti-corruption commission needs to be strengthened and more independent of the Executive branch if it will perform its mandate in order to curb corruption in Senegal.

In addition to its 2011 annual report, the anti-corruption commission has submitted, to the President of the Republic, a new proposition of legal reform strengthening its prosecution power and its independency from the executive branch. USAID, in collaboration with the Ministry of justice and Dakar University, is supporting the commission to advance this initiative.

- **There is a dynamic civil society.**

The country's Constitution entitles civil society to play a part in governance issues, but apart from elections there is little space for civil society to influence decision makers. However, civil society played an important role in the establishment of the new procurement framework. Civil society is also pushing for the adoption and full implementation of the WAEMU directive on transparency.

IV. Recommendations

Based on our meetings, applicable reports, and internal discussions, the appraisal team strongly believes that the GOS has taken significant actions within the past three years to improve its systems and procedures and that there is real potential to successfully implement USAID programs that use GOS systems. There are still significant challenges but these issues can be overcome if there is strong political will and genuine commitment to reform. Current donors like the World Bank, the IMF and the European Union will provide sufficient information to determine if such a commitment exists. As mentioned above, USAID/Senegal will be able to perform full implementation of PFMRAF assuming 2012 presidential election is free and fair.

The RA team recommends that USAID/Senegal cautiously proceed to Stages 2 and 3 of the ADS 220 process, satisfying only those components of Phase 2 that can be undertaken in-house. The Mission will complete Phase 2 (e.g. completing a risk assessment and evaluation, determining mitigating measures) after the 2012 presidential elections. . This will permit the Mission to respond with alacrity assuming the 2012 presidential elections are free and fair.