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Macroeconomic policy formation in Senegal : Challenges in formation and coordination

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List of abbreviations

ACBF	African capacity Building Foundation
AfDB	African Development Bank
BAD	Banque Africaine de Developpement
AGS	Accelerated Growth Strategy
CBWAS	Central Bank of the West African States
CDP	Community Development Program
CRDC	Chaire de recherche du Canada en développement des collectivités
CRES	Consortium pour la Recherche Economique et Sociale
CSPLP	Cellule de Suivi du Programme de Lutte contre Pauvreté
CTS	Community Tax for Solidarity
DESP	Document of Economic and Social Policy
DFES	Direction of Forecast and Economic Studies
DGID	Direction Générale des Impôts et Domaines
ECDPM	European Centre for Development Policy Management
ECOWAS	Economic Community of West African States
EPCMU	Economic Policy Coordination and Monitoring Unit
EOP	Economic Orientation Plan
EPSI	Economic Policy Support Instrument
GDP	Gross Domestic Product
GFPI	Guarantee Fund for Priority Investment
IDRC	International Development Research Centre
ICT	Information and Communications Technology
ILO	International Labor Organization
IMF	International Monetary Fund
JO	Journal Officiel
MDG	Millennium Development Goals
MEF	Ministry of economy and finance
MI	Ministry of Interior
MPI	Ministry of Planning and Industry
MPIA	Modeling and Policy Impact Analysis
NASD	National Agency for Statistics and Demography
NCEPC	National Committee of Economic Policy Coordination
NFE	Non-Formal Education
NGO	Non Governmental Organization
NPGG	National Program for Good Governance
NPS	New Planning System
NSESD	National Strategy for Economic and Social Development
PEP	Partnership for Economic Policy
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
RPSAOC	Réseau de Recherche sur les Politiques Sociales en Afrique de l'Ouest et du Centre.
SAP	Structural adjustment policies
SFSI	Sovereign Fund for Strategic Investments
SLF	Statistical License Fee
SSID	Senegalese Social Indicators Database

SPPS	Survey on the Perception of Poverty in Senegal
TPIP	Triennial Public Investment Program
UCAD	University Cheikh Anta Diop of Dakar
UCMEP	Unit for Coordination and Monitoring of Economic Policy
UNECA	United Nations Economic commission for Africa
WAEMU	West African Economic and Monetary Union

Macroeconomic policy formation in Senegal: Challenges in formation and coordination

Abstract: This paper presents the framework of economic policy formulation in Senegal from 1960 to 2012 with special emphasis on the years from 2000. It identifies the political, social and economic objectives of these policies. Subsequently, the role of the stakeholders such as the government, the international financial and technical partners, the civil society and the local administrations in Macroeconomic formation in Senegal were analysed. The paper presents various propositions on how macroeconomic policies can effectively impact growth and development in the future. The findings suggest that macroeconomic policies recently undertaken by the government, private sector and institutional partners supported by international institutions such as IMF and the World Bank have greatly shaped the growth path of the economy.

1 Introduction

Senegal has been facing many economic and social challenges which often lead to regular interventions of the government despite its political stability. All the political regimes since 2000 have followed liberal policy agenda. The country's development strategies and economic policies can largely be explained by the economic performance with tertiary sector as the dominant sector. As shown in Table 1, the tertiary sector is more dynamic than the others in terms of contribution to the growth rate of GDP (Gross Domestic Product) at constant price (1999) and the value added. The contribution of primary sector to the GDP growth is not consistent due to frequent shocks as result price fluctuation in the world market.

Table 1: Annual growth rate of GDP at constant price of 1999 and its Components

Years	2005	2006	2007	2008	2009	2010	2011	2012*
Value added	5.7	2.3	4.9	4.4	3.4	4.4	1.6	2.7
Primary sector	8.5	-8.9	-5.8	18.5	15.1	5.9	-12.8	2.9
Secondary sector	3.8	1.4	7.1	-1.2	1.7	4.4	6.4	0.1
Tertiary sector	5.8	5.8	6.8	3.4	1.2	4	4.1	3.9
GDP	5.6	2.5	4.9	3.7	2.4	4.3	2.1	2.9

Source: NASD (2011): National Accounts data.
*NASD (2012): Recent economic evolutions data.

Table 2 presents the sector-based contributions to the GDP growth[2]. It shows that the tertiary sector contributes at about 60% of the GDP growth between 2005 and 2011. This is followed by secondary sector which contributes about 24% to the GDP growth. The contribution of the secondary sector comes mainly from the extraction and processing of phosphates, food processing, construction and cement industry, (DFES, 2011: 4). Domestic and foreign investment in the sector also plays an important role in the secondary sector's development. This can be explained by two factors. Firstly, Diaspora investment in housing sector through their remittances. The estimate by the Directorate of Forecast and Economic studies (DFES) revealed that total remittances in 2011 amounts to 702.5 billion CFA francs in 2011 and 737.7 billion in 2012 (DFES, 2012).

Table 2: Annual growth rates (in percentage) of the contributions to the GDP

Years	2005	2006	2007	2008	2009	2010	2011
Value Added	5.0	2.0	4.3	3.8	3	3.9	1.4
Primary sector	1.2	-1.3	-0.8	2.2	2.1	0.9	-2
Secondary sector	0.8	0.3	1.4	-0.2	0.3	0.8	1.2
Tertiary sector	3.0	3.0	3.7	1.9	0.6	2.2	2.2
Taxes on products	0.6	0.5	0.6	-0.1	-0.6	0.3	0.6
GDP	5.6	2.5	4.9	3.7	2.4	4.3	2.1

Source: NASD (2011): National Accounts data.

Secondly, the government investments in the infrastructures increased since the beginning of the 2000s especially in energy sector which supported the recovery of the chemical industries in Senegal. However, the rising cost of production has affected the energy sector negatively. The government's efforts to liberalise the sector in 1999 and 2001 failed as a result of weak political will and the fear of jobs losses.

In recent times, the major programs undertaken by the government at macroeconomic level are the Accelerated Growth Strategy (AGS) in 2005, the Third Poverty Reduction Strategy Paper III (PRSP) from 2011 to 2015 and the Document of Economic and Social Policy (DESP) in 2006. Currently, a new National Strategy for Economic and Social Development (NSESD) for the years 2013-2017 have replaced the DESP. The NSESD is developed through a participatory process, at both central and local levels. It involves regional stakeholders, consultations with local authorities and the Senegalese Army. The NSESD document laid emphasis on wealth creation, strengthening governance, development of strategic sectors with significant special focus on improving the welfare and social demand. Support for cross-cutting issues such as employment, gender, social protection and sustainable development were taken into account in the new strategy. The coordination process of the NSESD is based on a synergy between the economic and social policy programs such as the AGS and the Economic Policy Support Instrument (EPSI). One basic impact of the macroeconomic programs is low inflation that remains below 3% and expected to be around 2.7% in 2012 (DFES, 2011:5). The real GDP growth rate in 2011 was 4%. The tax revenues expressed as a percentage of the GDP increased from 18.8% in 2010 to 19.3% in 2011 due to improved efficiency in the tax collection and the modernization of the management of the public finances (DFES, 2011:5). The formulation of economic policies in Senegal have been under strong collaboration with the International Monetary Fund (IMF), the World Bank and other technical partners such as the African Development Bank (AfDB), the United Nations Economic commission for Africa (UNECA), the African capacity Building Foundation (ACBF). Nevertheless, the formation and coordination of economic policies in the country are done at national and international levels. Recently, the regional organizations have been involved in the proposition and choice of national development programs.

In view of the macroeconomic policy formulation as well as past and recent developmental issues in Senegal, this paper presents the framework of economic policy formulation in Senegal from 1960 to 2012. Emphases are placed on the policies from 2000, mainly on their political, social and economic objectives. The role of the stakeholders such as the financial and technical partners as well as the civil society is also analysed. The paper is divided into 6 sections. Following section 1, section 2 focuses on economic policy changes since 1960s. The new vision on economic policies since 2000 is discussed in section 3. The conduct of macroeconomic policies is presented in section 4. The macroeconomic policy formation in Senegal is treated in the section 5 while section 6 conclusions with policy recommendations.

2 The Economic Policy Changes since 1960s

There are three different policy regimes in Senegalese development phases. First was the *centralized planning system* from 1960 to 1985 whereby central authorities enthusiastically believe in the power of planning for the development of the entire country. The second was the *decentralized planning system* that involves more directly all the regions and local administrations supported by international financial organizations from 1985 to 2000. The third *participatory planning system* from 2000 to date that is nationally and locally coordinated with strategic specific options. The current planning system is being supported by various international technical and financial partners.

2.1 Centralised Planning system from 1960 to 1985

The first economic policies and the investment programs of the government were defined in the first development plan of 1961 to 1964. The Second development Plan of 1965 to 1969 was a mere reinforcement of the goals of the first development plan. The Third development Plan (1969 - 1973) tried to improve the level of human capital, the food security and the reduction of inequalities between regions (MPI, 1962, 1965, 1969). Between 1961 and 1973, the economy of Senegal was relatively stable. The annual growth averaged 3%, between 1960 and 1967. However, the annual growth rate of the population was 2.3% per. The stable economic growth then was as a result of the development of peanut production. Indeed, peanut exports accounted for nearly 80% of the domestic exports and contributed 12% and 15% to GDP growth during that period (Diene, 2005: 40).

During the period between 1967 and 1974, the country's exports were vulnerable due to price fluctuations in the world. Like in most African countries, the terms of trade of Senegal began to deteriorate from 1967 and its share in cash crops exports also decreased drastically in the world markets (World Bank, 2000: 22). The fall in export prices led to downward spiral of terms of trade to about 25%. The income of the rural producers consequently fell as prices of peanuts plunged from 21.5 CFA francs to 18 CFA francs per kilogram (Ly and Sow, 1999: 7). This led to recession in agricultural production with annual growth rate of only 1% and weak growth in the GDP.

The Fourth Plan of 1973 to 1977 was designed to find solution to the economic and social problems. The main objectives of the Fourth Plan were to improve the living conditions of the households and the industrialization of the economy. In general, the impact of the fourth development plan was the subsequent increase of the export value between 1973 and 1974 by 82% and increased terms of trade from 102.5% to 105% (Diagne and Daffé: 2002: 60). Moreover, the strong growth of the prices of phosphates and peanut (24% and 132%, respectively) helped to reduce the consequences of the oil shock (AT: 2012: 7). The hourly minimum wage increased from 58.19 CFA francs in 1973 to 107.05 in 1974. Hence, the purchasing power of rural households increased as the price of peanut producer increased by 38% in 1975. (ILO, 2008: 43).

The Fifth Plan of 1977 to 1981 was designed to address the economic recession. In 1978, the Senegalese economy entered into a deep crisis with profound impairment of the overall macroeconomic framework. The main indicators clearly show stagnation of real output and a chronic deficit in the trade balance and public finance (Kasse, 2008: 11). The peanut production drastically declined as export prices fell by 25% between 1978 and 1981. The growth of the imports of consumption goods resulted to high current account deficit of 14.2% of the GDP and 8% decrease of budget revenue (MEF, 2010: 66). In 1979, the price of peanuts was at a level lower than it was in the period between 1969 and 1973. This resulted to sharp decrease in rural income. Furthermore, the increasing public debt and structural imbalances forced the Senegalese Government to implement a set of economic reform programs from 1980.

The Sixth Plan of 1981 to 1985 under a new political regime took different approaches and methods in terms of administration, by the introduction of permanent committees for planning at the national and regional levels. As a result of oil crisis, drought and structural imbalances, the country adopted stabilization plans and Structural Adjustment Policies (SAP) with support from the IMF and World Bank.

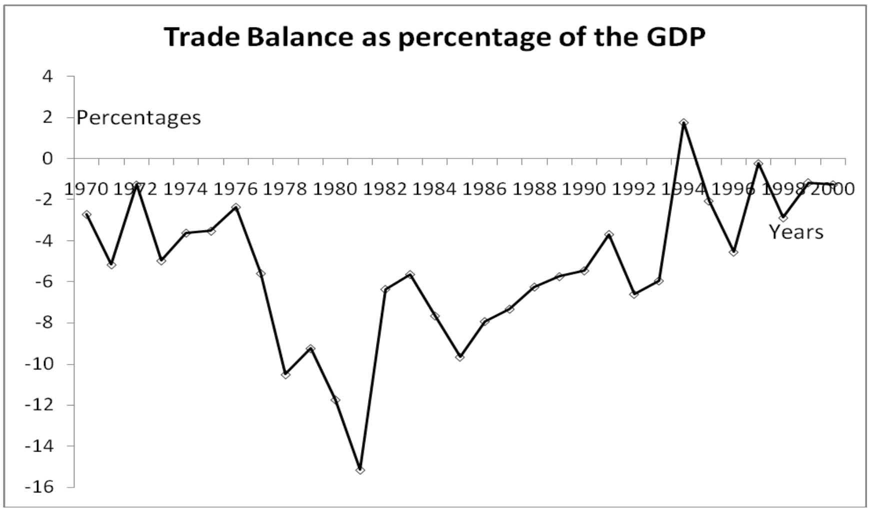
2.2 The New Planning System and the Adjustment Policies

The Seventh Plan of 1985 to 1989 aimed a stimulation of the production of the primary and secondary sectors as well as a reduction of institutional barriers that may limit productivity, financial and economic recovery. A New Planning System (NPS) was introduced in 1987. An “Economic Orientation Plan” (EOP) for six years that covers economic and social development as well as a “Triennial Public Investment Program” (TPIP) was created in the new planning system. Budget discipline became the central policy issue in the new plan. The

Eighth Plan of 1989 to 1995 aimed at an implementation of the NPS, focused on increasing the total factor productivity, the adaptation of the national education inline to the productive system, and the control of urbanization through improvement of the rural economy (MEF, 2010: 60). The objective of the Ninth Plan of 1996 to 2001 was a liberalization of the economy (MEF, 2010: 62). The plans have been in existence till date with specific programs managed by committees of sector-based experts or by national agencies.

The significant features of the new policy reforms are the low public investment and the disengagement of the State from productive and social sector. However, the policy reforms failed to expand the economy and provided no safety net to the poorest segment of the population (Diouf, 1992:73). The economic reforms failed to promote domestic savings, the terms of trade fell to the level of the 1970s (Fall and Sy, 2003: 8). The exports remained weak and at only 30.5% of the GDP between 1994 and 2000 (Daffé, 2002:71). As shown in Figure 1 above, the persistent trade deficit has limited opportunities for foreign exchange earnings that depend on primary commodity exports.

Figure 1: The trade balance as percentage of the GDP



Source: NASD: (SSID, 2006)

The informal economy grew and accounted for more than 60 % of the total jobs in the country (Daffé, 2002: 77; MEF, 2012: 9). Table 3 shows the GDP growth rate and GDP per Capita between 1960 and 2000. The Table reveals that the GDP increased from 1.8% between 1980 and 1984 to 5.5% between 1994 and 2000. The GDP per capita improved from -0.9 to 2.8 in the two periods respectively. Despite of low exports, the GDP growth between 1994 and 2000 is important. The explanation is that, after the devaluation of the CFA franc in 1994, the overall strategies of the government were to stimulate the economic growth by bringing more resources to the sectors of non-tradable goods. The economic growth was expected to be mainly driven by the sectors of services, construction and manufacturing: (AT: 2012: 24).

Table 3. Percentage growth rate of the GDP and the per capita GDP

Periods	1960 - 1969	1970 – 1979	1980 – 1984	1985 - 1993	1994 - 2000
GDP	2,2	3	1,8	2,2	5,5
GDP per capita	-0,5	0,3	-0,9	-0,4	2,8

Source: NASD, National Accounts (2005)

3 The New vision on Economic policies since 2000

3.1 The recent economic strategies

The country became more involved in the regional integration process and adopted the declaration of the Millennium Development Goals (MDG). It began to apply economic policies recommended by regional integration institutions such as the West African Economic and Monetary Union (WAEMU). In this context, the harmonization of the fiscal policies proposed by the WAEMU was adopted in Senegal. The country applied the common taxes externally and the unique VAT tax, as the other members of the union. For the first time, regional common fiscal policies were adopted in Senegal. In parallel, the country developed and implemented a first Poverty Reduction Strategy Paper (PRSP) that covers the period from 2003 to 2005, accompanied by the Accelerated Growth Strategy (AGS) since 2005. The main feature of these government's new strategies, concerning economic policies is the involvement of many private stakeholders. The technical and financial partners work together with the social partners such as the civil society, and the central and local administrations. The donors often provide technical support and fund the training and the participation of all the actors in the formation of policies. Transparency in budget management has become the key condition of the donors' participation. This explains why programs such as the PRSP III, the AGS and the Economic Policy Support Instrument (EPSI) involve many experts from different sectors. The EPSI is an IMF program for Senegal adopted since 2007 to date. The program is designed to help the government to pursue a cautious approach to public finances and debt in order to maintain economic stability; increase revenues in order to generate greater fiscal space for financing priority expenditures; strengthen the public financial management and governance; and promote private sector development by making structural reforms, particularly in the areas of energy and finance; and make better business environment. For example, in 2008 a major slippage in public finances was found, and the state had large arrears debt settlement to the private sector, and the EPSI helped the program to tackle this situation: (IMF:2009: 6)

The second program review of EPSI which allowed the mobilization of funds from the international community was approved by the IMF in 2008. The EPSI is now extended over the period from 2010 to 2013. This allows the government to complete the major infrastructure spending programs. Under the PRSP III and the AGS which are the main strategic options of the government, structural reforms and sector-based policies were designed to bring the average growth rate above 4% in the period between 2010 and 2015 (EPCMU, 2011). The PRSP III is the framework for political, economic and social development of Senegal for the period between 2011 and 2015. Arguably, it is an extension of PRSP I (2002), PRSP II (2006) and (EPCMU, 2011). It is structured around the following strategic areas:

- Wealth creation for a pro-poor growth strategy accompanied by the development of transport infrastructure and energy.
- Promotion of access to basic social services in conjunction with the MDGs to be achieved in the social sectors.
- Social protection, prevention and management of risks and disasters (drought, floods, locusts, etc.).
- Good governance, decentralized and participatory development with particular emphasis on the continued implementation of the National Program for Good Governance (NPGG) and the AGS, (MI, 2002).

The PRSP III gives a central role to the current AGS for the generation of sustainable high rates of GDP growth, the creation of jobs and the improvement of the households' living conditions. Critical assessment of the PRSP revealed that it is unlikely that the country will achieve the objectives of MDGs by 2015. However, the access to electricity and drinking water seems to be progressing in the whole country. Access to basic infrastructure in villages has greatly improved through the PRSP (Backiny-Yetna *et al.* : 2010: 21).

The Accelerated Growth Strategy is the strategy designed to diversify and transform the economy by strengthening competitiveness. The strategy adopted in 2005 was based on two focal points. The first was the development of groups of clusters with high growth potential (growth areas) which could positively impact the overall economy. The second was focused on the promotion of investment by continuously improving the business environment, aligning it to international standards, strengthening the efficiency of infrastructure sectors such as transportation, energy and the telecommunications. The AGS is designed to foster a dynamic process towards economic emergence. Operationally, it is focused on promoting private investment and growth in the agriculture and agro-industry, aquaculture and seafood, textiles and clothing; ICT, tourism, cultural industries and crafts. The main weakness of the AGS is its lack of evaluations, though it has become since 2012 a component of the National Strategy for Economic and Social Development (NSESD).

3.2 The National Strategy for Economic and Social Development

The NSESD was established in November 2012 and its objectives are reflected in three economic and social policy areas. The first area comprises growth, productivity and wealth creation. The second is human capital, social protection and sustainable development while the third is governance, institutions, peace and security.

a) Growth, productivity and wealth creation

The objective of NSESD Document is to achieve the average annual growth rate of 6.8%. To achieve this, emphasis was laid on the development of the energy sector, specially the electricity. In addition, the government hoped to create the conditions for economic growth by strengthening good governance and improving the efficiency of public investment. The elements of the objective are:

- Macroeconomic stability: the macroeconomic stability measures such control of the inflation and the volatility of interest rates, reduction of risk and uncertainty for investors and creation of the conditions for income growth are the central elements of the objectives. The achievement of these elements depends on the improvement of the business climate.
- Promotion of employment: To ensure full employment, the economy must generate each year nearly 150,000 jobs. Between 2013 and 2017, at least 500,000 jobs are to be created in the formal private sector and the public sector, with a gradual implementation of the local public sector. These objectives are supposed to be achieved by promoting public investment and self-employment of young people, by supporting the integration and reintegration of military and paramilitary personnel released from active service: (MEF, 2012: 25).
- Private Sector Development: This program focuses on micro-enterprises and small businesses, rural suburban youth and crafts, as well as women. Regional development centres were involved to support export.
- Easy access to financial services is also an objective. This has led the government to create a Guarantee Fund for Priority Investment (GFPI) and Sovereign Fund for Strategic Investments (SFSI), and to help funding women entrepreneurs.
- Development of sectors to support the production: this is done by promoting access to energy services in terms of accelerating rural electrification, increasing the supply of renewable energy and a higher electricity production capacity. Infrastructure and transport services and telecommunications services will be promoted as overall objective to support cross-cutting areas of production: (MEF, 2012: 32).

b) Human capital, social protection and sustainable development

The main components of these policy objectives are:

- Improvement of health and nutrition, access to drinking water and sanitation, strengthen of social protection. The strategy was designed to build health infrastructures, strengthening the existing military medical centres, to recruit skilled health staff and to promote generic drugs. Other major issue includes measures to improve the performance of the prevention and fight against diseases such as the HIV.

- Support universal education by improving the quality of teaching and training, by building, rehabilitating and the equipment supply to colleges, schools, institutes and universities.
- Eradication of illiteracy and promotion of national languages: there is to undertake the diversification of the Non-Formal Education (NFE), the building of new infrastructures for the NFEs and the codification of national languages (MEF, 2012: 40).

c) Governance, institutions, Peace and Security

Bad governance is a hindrance to development hence some essential rules of economic and social policies are covered in the NSESD document such as:

- Peace, democracy and security
- Ethics, transparency in public finance management
- Creation of frameworks for dialogue on public policy.

Compliance to these rules requires mutual trust among different stakeholders in macroeconomic policy formulation and implementation. The first actors that are involved in the coordination aspects of the NSESD are the local private organizations, civil society and local administrations.

4 Macroeconomic Policies and the Performance of the Economy in the period between 2000 and 2012

In 2000, poverty alleviation was among the primary policy objectives of Senegalese government. The Poverty Reduction and Growth Facility (PRGF) program which is supplemented by the PRSP was initiated in 2002. The PRGF helped the government to achieve considerable macroeconomic stability. In the 2000s, the government initiated several tax reforms especially at the sub-regional levels.

4.1 The Tax reforms since 2000

Over the past 12 years, three major objectives have been constantly sought in government fiscal policies. The first one is the preservation and consolidation of tax revenues. The secondly is the rationalization and modernization of the tax system. The third is the creation of favorable environment for the development of investments and business promotion. These include the adoption of indirect taxation according to the WAEMU directives in terms of single VAT rate (18%) and the rationalization of the VAT exemptions. The third is the harmonization of the rates of excise duties and modernization of the tax system by simplifying the tax system. Other fiscal reform measures include the enhancement of the financial capacity of the local administrations by preserving the integrity of the local tax and the development of a new Investment Code which allows a tax credit mechanism within the corporate taxations (DGID, 2012: 97).

To promote savings mobilization and development of financial and stock market, incentive tax for collective investment securities such as Unit Trusts and the Open-ended Investment Trusts was introduced. Other reforms aimed to tackle tax evasion and to promote gender equality in the taxation of men and women’s incomes (MEF, 2010: 76). Diagne *et al.* (2007) argued that the adoption of the harmonization of the tax system in Senegal have considerably reduced the protection of its economy (50% reduction in customs duties) and consolidated its domestic tax system. However, the Government considered fiscal consolidation as more important policy. It paid little attention to the possible negative effects of a higher VAT on income inequality and on the households' welfare (Diagne, 2007: 12). The research findings of Diene (2010) revealed that the advantages of the harmonization of the VAT and the other indirect taxes in Senegal mainly reside on the reduction of the costs of tax collection and on the simplification of the fiscal administration procedures (Diene, 2010:23).

4.2 Inflation, growth public budget and poverty

The impact of the economic reform programs can be assessed through economic indicators such as the rate of inflation, the economic growth and the public budget and through the impact of the macroeconomic policies on poverty. In the period of the PRGF, the average inflation rate was of 2.2%. Specifically between 2003 and 2005 the inflation stood at 1.7 %. Over the period from 2000 to 2012 the average inflation rate was 2% as against 6.3% in other ECOWAS countries (DFES, 2011: 5). The growth rate of the real GDP in the period 2000-2002 was 2.8%. Between 2003 and 2005, it passed to 6.1%. Thereafter, the average annual economic growth rate declined to 3% between 2006 and 2010. Its estimation for 2011 was 4% and its projection for 2012 was 4.2% (BAD *et al*., 2012: 4).

Concerning the public budget, there is a significant improvement of the taxation system and a more efficient management of the public finances. The improvement can be traced to the policies that supported broadening the tax base combined with specific budget reforms, such as a gradual harmonization of the assessment of the tax expenditures, land reform and a modernization of the tax procedures. Table 4 presents the public finance components as percentage of the GDP. The share in GDP of the tax revenues rose from 18.8% in 2010 to respectively 19.5 and 19.7 in 2011 and 2012, (BAD *et al*. : 2012 : 6).

Table 4: Public Finances (as percentage of GDP)

	2007	2008	2009	2010	2011	2012
Total revenue and grants	22.8	21.5	21.6	22	22.5	22.6
Tax revenue	19.3	18.1	18	18.8	19.5	19.7
Total expenditure and net lending	26.5	26.3	26.8	27.2	27.8	28.9
Current expenditure	16	16.3	16.7	15.6	16.2	16.5
Primary Balance	-3.2	-4.1	-4.4	-4.2	-4	-4.9
Overall balance	-3.8	-4.8	-5.2	-5.2	-5.3	-6.3

Source: BAD *et al*. (2012: 6)

Between 2000 and 2002, the public deficit was about 12% of the GDP. In the period between 2003 and 2005, the public deficit was 6% of GDP. From 2007 to 2011, the budget deficit was below 6% of the GDP. Public spending rose sharply from 2007 to 2012 with the total expenditure as a percentage of GDP increased from 26.5% to 28.9%. The impact of macroeconomic policy on poverty can be explained by changes in poverty index. Senegal remains a poor country however the proportion of poor households has declined. The proportion of poor individuals in the country has also declined from 55.2% in 2001 to 48.3% in 2005 and to 46.7% in 2011: (MEF, 2012: 11).

Table 5: The Evolution of proportion of poor households in Senegal.

Zones Years	2001	2006	2011
Dakar	38.1	28.1	26.2
Other urban zones	45.2	41.4	41.3
Rural zones	65.2	59	57.3
Senegal	55.2	48.3	46.7

Source: (MEF: 2012: 10).

As shown in Table 6, the proportion of poor people in Senegal stood at 46.7% in 2011. The Table indicates that poverty is higher in rural areas than in urban zones. This phenomenon suggests that so far policy reforms adopted have not influenced poverty reduction in rural areas.

Arguably, the reforms were more successful where the government initiatives are supported by the international financial and technical partners. From 1960 to early 1980s, the government has tried to implement its own policies but fail to put the country in a specific development trajectory or path. For example, the involvement of the international partners in the economic policy formulation since the early 1980s helped the country to resolve international debts crisis. The implication is that government cannot undertake a meaningful policy without the technical and financial support of its international partners. Contrarily to the external policy package of the structural adjustment programs, the economic policies are developed in the 2000s by the government and the national experts coming from different economic and social sectors. For example, all the economic strategies of the PRSP III were developed by national experts.

5 Macroeconomic Policy Formation in Senegal

The government of Senegal conducts the macroeconomic policies of the country but it has no autonomy on the monetary domain. The monetary policies in all the WAEMU countries are under the responsibility of the Central Bank of West African States (CBWAS). The traditional instruments of monetary policy used by the CBWAS are the changes in interest rates and the refinancing of the economy. The country as well does not have enough space to undertake indirect fiscal policies because they are directed by international organizations, such as ECOWAS and mainly WAEMU. Harmonized international fiscal policies are applied by the countries of these organizations. In fact, the effectiveness of the instruments used for monetary, indirect tax rates and exchange rate policies is not completely controlled by the government because these policies depend on the entire unions. Furthermore, common polices in sectors such as agriculture within the WAEMU and industry within the ECOWAS, are actually still running, despite some difficulties in their implementation and monitoring. (Savadogo, 2009: 2; ECOWAS, 2010: 39)

5.1 The monetary and fiscal policies

Three issues are considered here. First is the evolution of the monetary policy tools namely the exchange rates and interest rates. The second is the features of the monetary policy and the third is the nature of the fiscal policies.

The real effective exchange rate estimated in 2012 by the CBWAS shows an improvement in the competitive position of Senegal at 1.7% compared to other partner countries. This gain in competitiveness was as a result of a combination of factors. First was due to an average reduction of inflation in the WAEMU countries of about 1.8%. The second was the reduction of the nominal effective exchange rate by 0.1% (CBWAS, 2012: 43). The interest rate in the first quarter of 2012 as shown by CBWAS declined to 3.2736 % as against 3.2940% in the last quarter of 2011(CBWAS, 2012: 28). The interest rate is the monthly average money market rate. It is the main tool the CBWAS uses to influence the liquidity in the economy. A remarkable aspect of CBWAS's function is its support in financing the public deficit. It provided to the government an amount equal to 11.9% of the fiscal revenues, in 2012: (CBWAS, 2012: 54). The official rule is that a government cannot have an amount greater than 35% of its fiscal revenues. This explains why its refinancing of the country has a high net margin valued at 219.7 billion in mid-2012[1]. Nevertheless, the government issues Treasury bonds and obligations to reduce its deficit bought by the national and external economic agents such as the banks and the public.

In respect to monetary policies in Senegal, their transmission channels rely more on the interest rates and on the monetary aggregates than on the exchange rate because the currency is pegged to the Euro. Dramani, Ly and Diouf (2007) argue that there are close relationship between interest rates and real exchange rates with the aggregate real supply in Senegal on one side, and between the real exchange rate and inflation on the other side. They show that an increase of the real interest rate will induce a transient decrease of the real output (Dramani, Ly, Diouf, 2007: 46). For example, 10% increase of interest rate in one year induces 4.57% increase of the money supply in the first year and a decrease by 4.52% in the second year. It also implies a decline in private investment by 0.4% in the first year. This affects the economic growth

[1] This margin means that the government can borrow money up to this amount. This margin is determined by the CBWAS by deducing from the statutory limit the amount of loans granted to banks and backed by government securities.

negatively which decreases by 0.71%, 0.35% and 0.03% in the first, second and third years respectively (Dramani, Ly, Diouf: 2007: 45).

Similarly, in the short and medium term, a depreciation of the CFA vis-à-vis to the US dollar will induce economic expansion and high inflation. In fact, the interventions of the CBWAS effectively have impact on the real sector and the inflation rate. Depreciation of the currency is directly linked to the fluctuations of the Euro against the US dollar because of the fixed rate between the CFA Franc and Euro. Dramani *et al.* (2007) argued that a depreciation of the CFA franc against the dollar by 10% resulted to higher cost of imports but a renewed competitiveness of the domestic products. For example, imports of capital goods increase by 17% on average over the two years following the depreciation of CFA franc (Dramani, Ly and Diouf, 2007: 47). The GDP increases by 3.01% during the first year and 0.55% in the third year, (Dramani, Ly and Diouf, 2007: 48). The research evidence of the macroeconomic model of the Senegalese economy run on a panel data from 1980 to 2000 by different authors show that inflation grew by 4.73% in the first year; 3.58% in the second year, and 0.46% at the end of the third year (Dramani, Ly and Diouf, 2007: 48).

In respect to fiscal policy, the VAT rates are harmonized at 18% as a result of the reform introduced within the WAEMU countries in 2001. However, indirect taxes are still levied on imports of commodities such as sugar, oil of peanut, etc from other countries. In addition to custom duties, products coming from non-WAEMU countries are subject to several supplementary taxes such as the Statistical License Fee (SLF) and the Community Tax for Solidarity (CTS) at the rate of 1%. Nevertheless, the government has little policy space for fiscal policies and uses mainly indirect taxes. The recent economic statistics shows that the tax revenues increased to 1.3132 trillion CFA francs in 2011, at a rate of 9.9% compared to 2010. The indirect Tax revenues grew by 10.8% in the two years, due to VAT on oil consumption and customs duties (DFES, 2011: 23). Direct taxes mainly, through the income tax, grew moderately by 2.9%. In general, the ratio of taxes to GDP is estimated at 19.2% in 2011 as against 18.8% in 2010. This reflected more an improvement of the effectiveness of revenue collection than higher tax rates (DFES, 2011: 25).

5.2 The levels of formation and coordination of the economic policies

The formation and coordination of the economic policies in Senegal are done at two different levels. The first is at the national level where the government is better positioned to coordinate various policies and programs in the country. For example, in 2009, a national institution called Unit for Coordination and Monitoring of Economic Policy was created (UCMEP). Its mission is to support the implementation and the monitoring of all national and sector based policies. The unit is also involved in the issues related to development of finance that documents transactions and the use of financial resources. The unit is attached to Ministry of Economy and Finance. It is made up of working groups assigned with specific functions. The groups are classified according to their functions and objectives.

The group of quantitative monitoring of policies: Its objectives are to monitor the indicators of achievement of the development programs, such as the (PRSP or NSESD). This group reviews periodically the quantitative surveys undertaken by the statistical departments of the government.
The group of qualitative monitoring of policies: This group is responsible for monitoring the changes induced by the policies. It also provides the capacity building to the regional actors and to the civil society by helping them in the implementation and monitoring of projects and programs.
The group for the better articulation of sector based policies: The main function of this group is to review the sector based policies and identify the strengths, weaknesses and gaps as well as providing corrective measures.

The second is at the international level where the country has transferred some of its prerogatives functions in economic policy formulation to international organisations such as ECOWAS and WAEMU. This is in the area of the international trade policies especially the tariff issues. Senegal has adopted the common external tariff policies of ECOWAS and WAEMU. In addition, the country is actively involved in the negotiations for the effective implementation of the policies undertaken in these organizations. Like other ECOWAS member states, the country has created a National Committee of Economic Policy Coordination (NCEPC). The aim of NCEPC is to ensure the identification, formulation and monitoring of the Community Development Program (CDP). The CDP is an ECOWAS program with the objective to establish coherency between sector-based programs within the ECOWAS and its member-States development policies. CDP was launched in 2008 with its strategies focused to sectors such as common agricultural and industrial policies, interconnection of transport infrastructure, energy supply, financial and monetary integration, research and development, innovation, as well as common natural resources and environmental policies. The NCEPC is attached to the Ministry of Economy and Finance and is composed of members of the UCMEP and of the WAEMU as well as civil society and the private sector. The NCEPC also assists the ECOWAS in the collection, processing and analysis of economic information related to Senegal.

6 Conclusions and recommendations

The government is the major actor in the definition and implementation of the national development policies. The Central Bank defines the monetary policies for the WAEMU countries and has a great role to play in terms of monetary policies in Senegal. Besides issuance of the banknotes, coins and lender of last resort, it is also responsible for the centralization of the foreign exchange reserves, the management of the monetary policy, control of the accounts of the Treasures and definition of the banking law applicable to banks and financial institutions. In addition, the macroeconomic policy formation in Senegal involves other actors than the public administration and the Central bank. The economic and financial partners work together with the social partners, such as the NGOs, the trade unions, etc. The international donors are also involved in the entire process of definition and application of the economic policies. They are no longer considered as finance providers only but they are also institutional and technical partners.

It is necessary to encourage a process of innovative and continually reinforced participation in the economic policies formulation, which involves all stakeholders, including non-state actors (NSA) from the regions and the rural areas. For this direction to emerge, it is desirable to create functional and durable mechanisms of dialogue between the government, the donors and the NSA.

This paper therefore recommends the following specific actions:

- Effective involvement of the NSA who have skills to participate in technical discussions. This can be done by the establishment of a national cell of the NSA to enhance their participation in the formulation and implementation of macroeconomic policies.
- Strengthening the institutional support for the NSA and local authorities by the government and its partners,
- The financial partners should help to strengthen the capacity of sector. This is to support the development of detailed proposals at national and sub-regional levels based on the analysis of the situations.
- Establishment of a national observatory to monitor the degree of partnership with stakeholders in the development of macroeconomic policies. This will help the beneficiaries to better understand the implications of macroeconomic policies.
- Strengthening the information dissemination processes on macroeconomic policies for the benefits of the esconomic agents
- Effective coordination and constant monitoring and evaluation of macroeconomic policies in order to support business sector development projects.

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