Difficulties to be overcome

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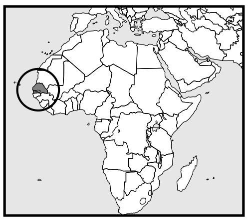

The global goal of reducing poverty by half between now and 2015, requires overcoming both internal and external constraints to turning the budget into a privileged instrument of economic policy.

The Poverty Reduction Strategy Paper (PRSP) recently prepared by Senegal in the framework of the Initiative for Heavily-Indebted Poor Countries (HIPC), has the following main objectives:

- Double *per capita* income between now and 2015, through strong, balanced and better-distributed growth;
- Universalise access to essential social services and put in place basic infrastructures to strengthen human capital before 2010;
- Eradicate all forms of discrimination and establish gender equality in primary and secondary education between now and 2015.

In the short-term, this would require economic growth of 7% or 8%, with a view to reducing by at least 15% the percentage of poor people from 2003 to 2005. Achieving the global objective of reducing poverty by half between now and 2015 would require removing certain internal and external constraints to turning the budget into an instrument of economic policy.

Strong fiscal pressure

From 1992 to 2001, tax revenues collected by the government were less than one-fifth of GDP. This implies that a considerable percentage of wealth generated evades taxation. Tax collection concentrates on a limited number of operators, indicating the complexity of problems related to tax collection and the paradox of high tax rates. Various factors contribute to low tax collection: the huge size of the informal sector within the national economy; the uncontrolled discrimination against tax-payers having permanent and substantial incomes; the limited means at the disposal of the tax administration to carry out its task; and, above all, the lack of political will.

In the first place, the informal sector represents over 50% of GDP, while the contribution of this sector's agents to the tax effort is essentially limited to paying indirect taxes (in particular customs expenses). Despite the search for solutions in this respect, taxation of the informal sector remains low. The principle of equality of stakeholders *vis-à-vis* taxation should be applied and a tax rate established that is compatible with such activities. The delay in taking decisions in this respect is at the root of many activities becoming informal, although the contrary should be promoted.

The consequence is a narrow tax base, reduced to a small number of companies in the formal sector, public and private sector salaries and consumption. For example, individual income tax affects a small proportion of tax-payers, barely 2% of the total taxable population. Individual income tax provides less than 15% of government income, while indirect taxes provide over 75%. It is true that public officials prefer indirect taxes, which are easier to collect.

The structure of the tax base explains to a large extent the high rate of taxation, as only a few companies pay taxes. These taxes, according to Laffer's law (too much taxation kills the tax) favour tax evasion. The strong tax pressure is also explained by the generalisation and harmonisation of the value added tax (VAT) rates within the West African Economic and Monetary Union (UEMOA).[1]

Additionally, the tax administration does not dispose of adequate and functional human and material resources to implement its task of mobilising resources. These difficulties inherent to the tax system contribute considerably to reducing the revenue the government should be collecting to cover its expenditures.

The debt problem

Payments due under the 2002 Finance Law amount to USD 173.3 million, which is about 19% of receipts. These figures show that the debt constitutes a burden that seriously compromises development funding. All the debt reduction policies and successive re-scheduling have not yet achieved the expected benefits. The admission of Senegal in June 2000 to the HIPC Initiative should make a substantial amount of over USD 800 million available for the poverty reduction strategy.

TABLE 1

Senegal's debt (in millions of US dollars)

Multilateral loans	1,978
Bilateral loans	624.15
Other loans	77.6
Re-scheduled debts	491.3
Total debt	3,171.05

1 The West African Economic and Monetary Union (UEMOA) was created on 10 January 1994 in Dakar (Senegal) and comprises eight countries: Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, Togo, Guinea-Bissau, having in common the use of the CFA franc. Its objectives are: to create a common market among members based on free circulation of persons, goods, services and capital, and the right of persons to establish themselves with a common foreign tariff and a common trade policy; and to guarantee the convergence of performance and macro-economic policies in the member states through the institution of a multilateral monitoring procedure.

Investment and reactivation of growth

The Three-Year Public Investment Programme (PTIP) for 2002-04 will make available USD 1,687.8 million, with a 3.7% progression.

The first priority for distribution of investment is the fourth sector covering the development of human resources, improvement of the quality of life, socio-economic support for vulnerable groups, *etc*, with 49% of investments going to this sector.

The first sector, including development of agricultural activities and improvement of living conditions in rural environments will receive 24% of investments. This is followed by the third sector, with 21% of investments, and far behind, in last place, comes the secondary sector receiving six per cent of investments.

What is the status of mobilisation of PTIP (2001-2003) resources? According to the Economic and Financial Co-operation Office, investment funding of USD 1,397.8 million has been confirmed, that is to say, 83% of the total programme. USD 166.7 million (10% of the programme) is under negotiation, while 7% of funds are still to be sought.

Seventy-one per cent of funding already granted and under negotiation comes from foreign sources and only 29% from domestic resources. Breakdown of foreign resources shows that 36% is made up of subventions and 64% of loans granted with conditions. Domestic resources come mainly come from the government (92%), and the remaining 8% come from beneficiaries and para-public establishments.

The most important observation is that agriculture is not considered as a motor for growth. If it were, it would have received a more substantial percentage of investment. Poverty reportedly affects 72% to 80% of the population in rural zones. This situation is aggravated by government neglect of the rural world.

Need for greater regional integration

Senegal is a member of CEDEAO (Economic Community of the West African States)[2] and of UEMOA, regional bodies that can make it possible to establish a vast market capable of attracting Foreign Direct Investment (FDI). This integration process inevitably requires the convergence of economic policies.

At CEDEAO level, however, three years from the date foreseen for a single currency, convergence criteria are still far from being respected by some countries. Only Benin was able to comply with the four criteria, which revolve around maintenance of monetary stability by the member states and reduction of inflation to one digit by 2000 and to 5% by 2003. CEDEAO countries must also maintain budgetary discipline, reducing budgetary deficits to 5% of the GDP by 2000 and to 4% in 2002. Finally, they must maintain a minimum in the government's net position of three months trade exchange in 2000 and six months in 2003. Nor have UEMOA member states complied with the Union's convergence criteria.

A trend towards degradation of the economic and financial situation of the Union is to be noted. *Per capita* GDP is falling because the GDP growth rate is lower than the demographic growth rate for a second consecutive year. The Union is also facing a convergence in the rates of inflation, affected by the poor results of agricultural campaigns in the different countries and by rising prices for oil by-products.

Finally, the lack of viability of public finance is evident, as characterised by the persistence of exceptional funding, in particular the accumulation of arrears in domestic and foreign payments and a strong contraction in investment expenditure funded by domestic sources. This lack of convergence suggests the risk that measures established, in particular regarding tax harmonisation, will not be strictly applied, with important consequences for the future of FDI. A lack of taxation or the absence of tax control over FDI in any member country would upset the rules of the co-operative game.

Despite this mediocre situation, new hopes have arisen with the establishment of the New African Collaboration for Development (NCAD)[3] , which offers prospects for an enormous investment market. ■

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2 The Economic Community of the West African States (CEDEAO) groups fifteen countries: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Liberia, Mali, Niger, Nigeria, Senegal, Sierra-Leona, Togo, Guinea-Bissau, and Guinea. Established in 1975, its mission is to promote economic integration in all fields of economic activity.

3 The New African Collaboration for Development (NCAD) operates in the following areas: good economic governance and flow of capital; good governance; access to markets and diversification of products; facilities, environment, new information and communication technologies, energy; human development.