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Senegal: Financial System Stability Assessment Update

This update to the Financial System Stability Assessment on **Senegal** was prepared by a staff team of the International Monetary Fund and the World Bank as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **December 13, 2004.** The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of **Senegal** or the Executive Board of the IMF.

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SENEGAL

Financial System Stability Assessment–Update

Prepared by the Monetary and Financial Systems and African Departments

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December 13, 2004

The Financial System Stability Assessment–Update is based on the work of a joint IMF-World Bank FSAP mission that visited Senegal in June 2004. The team comprised André Ryba (chief, World Bank), Bernard J. Laurens (deputy chief, MFD), Dmitriy Rozhkov (MFD), Toni Gravelle (ICM), Christian Josz (AFR), Carlos Cuevas, Jennifer Isern, Eric Haythorne, Loic Chiquier and Pauline Aranda (all World Bank). The mission liaised with the resident representatives of the Fund and the Bank in Dakar.

Since the 2001 FSAP, the structure of the financial sector and its soundness indicators are broadly unchanged. The banking sector remains the cornerstone of the sector and risk concentration remains the main source of vulnerability. The microfinance sector is dynamic; the largest microfinance institutions (MFIs) are sound, but smaller ones are weaker and need to be consolidated and better supervised. Commercial banks and large MFIs provide credit to small and medium-sized enterprises (SMEs), but their access to financial services suffers from asymmetries of information and flaws in the judicial system. The development of the regional capital market has not met expectations. In particular, borrowing costs are high compared to bank credit, due to flaws in market operations and structural excess liquidity that has driven down costs of borrowing from banks. If not immediately addressed, incentives to borrow on a short-term basis could result in balance-sheet vulnerabilities in the corporate sector.

Increased outreach of the financial sector calls for a better integration of its components. Given that the regulation and supervision of the financial sector is organized on a regional basis, Senegal needs to take advantage of its participation in the various regional governing bodies to shore up support among member countries for a timely implementation of reforms. These are particularly needed to establish the conditions for a continuum of financial markets in the West African Economic and Monetary Union (WAEMU).

An assessment of Senegal compliance with the FATF Recommendations for Anti-Money Laundering and Combating of the Financing of Terrorism is being conducted as part of this FSAP Update. A summary assessment of compliance will be presented to the Executive Board in due time.

FSSAs are designed to assess the stability of the financial system as a whole and not that of individual institutions. They have been developed to help countries identify and remedy weaknesses in their financial sector structure, thereby enhancing their resilience to macroeconomic shocks and cross-border contagion. FSSAs do not cover risks that are specific to individual institutions such as asset quality, operational or legal risks, or fraud.

The main authors of this report are Bernard J. Laurens and Dmitriy Rozhkov.

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GLOSSARY

AFD	French Development Agency (*Agence Française de Développement)*
BCEAO	West African Central Bank (*Banque Centrale des États de l'Afrique de l'Ouest)*
BHS	Senegal's Housing Bank (*Banque de l'Habitat du Sénégal*)
BOAD	*Banque Ouest Africaine de Développement*
BRS	Regional Bank of Solidarity *(Banque Régionale de Solidarité)*
BRVM	Regional Stock Exchange (*Bourse Régionale des Valeurs Mobilières*)
CAR	Risk-weighted capital asset ratio
CIDA	Canadian International Development Agency
CREPMF	Regional Securities and Exchange Commission (*Commission Régionale de l'Épargne Publique et des Marchés Financiers*)
FAC	Regional Aid and Cooperation Fund (*Fonds d'Aide et de Coopération*)
FATF	Financial Action Task Force
FNR	National Pension Fund (*Fonds National de Retraite*)
FSAP	Financial Sector Assessment Program
FSSA	Financial System Stability Assessment
MFI	Microfinance institutions
MOF	Ministry of Finance
NPLs	Nonperforming loans
OHADA	Organization for the Harmonization of Business Law in Africa (*Organisation pour l'Harmonisation du Droit des Affaires en Afrique*)
RTGS	Real time gross settlement system
SENELEC	Société Nationale d'Électricité
SONACOS	Société Nationale de Commercialisation des Oléagineux du Sénégal
SYSCOA	West African Accounting System *(Système Comptable Ouest Africain)*
SMEs	Small and medium-sized enterprises
TOB	Tax on bank operations
WAEMU	West African Economic and Monetary Union

I. Overall Assessment of Stability and Development Issues

1. **Since the 2001 FSAP (IMF Country Report 01/189), the stability of the financial sector has been safeguarded.** Financial soundness indicators for the banking sector, which remain the cornerstone of the system, are stronger than for the WAEMU as a whole. Risk concentration remains the main source of vulnerability. The microfinance sector, one of the most dynamic in the WAEMU, is made up of a solid core of profitable institutions that compete with banks to finance the top-rated small and medium-sized enterprises (SMEs). However, the smaller MFIs show signs of fragility and supervision of the sector needs to be strengthened.

2. **Senegal's financial sector is made up of a diversified range of institutions and players which are not yet fully integrated.** The sector includes a regional capital market at one end, the banking system in the middle, and microfinance institutions (MFIs) at the other end. The main challenge for the national and regional authorities is to create the conditions for a continuum, that is a sector in which all components are interlinked and flexibility exists. In particular, the financial sector has the following problems:

- **Weaknesses in market infrastructure prevent a continuum between the banking sector and the capital market.** Market inefficiencies, the absence of mortgage refinancing mechanisms, tax distortions, and a narrow investors' base have contributed to low recourse to the capital market by large corporations. Furthermore, excess liquidity in the system has led banks to offer large corporations low-cost funding for short-term credit lines. Hence, the mobilization of medium- and long-term resources is depressed; indicators of risk concentration in the banking sector are high; and imbalances in the corporate sector's balance sheets may build up over time.

- **Legal and institutional constraints prevent a continuum between the banking sector and the MFIs**. Regulation of the microfinance sector on the basis of institutions themselves rather than the microfinance credit function makes it difficult for commercial banks to grant microcredits, since they would need to create dedicated financial institutions (similar in structure to MFIs) if they wished to avail themselves of the benefits granted to MFIs.

3. **Information asymmetries and an inefficient judiciary are the main obstacles to the financing of SMEs**. The unavailability or unreliability of financial statements is one of the greatest difficulties faced by banks in lending to SMEs. In addition, uncertainties and delays in judicial procedures for recovering claims and realizing collateral undermine the interest for lending to SMEs. **The policy measures (Box 1) to address the sources of financial sector vulnerability or to develop its contribution to the financing of the economy call for action by Senegalese and WAEMU authorities**. While the authorities should start working on all of them, some require immediate attention.

Box 1. Key Recommended Actions

Immediate Measures

Macroeconomic and prudential frameworks

- Absorb excess liquidity in the system so as to allow a smooth development of financial markets and contain the potential for a buildup of balance sheet vulnerabilities in the corporate sector;[1/]
- Bring risk weights on loans secured by mortgages in line with Basel Committee norms;[1/]
- Increase BCEAO involvement in the supervision of the largest MFIs;[3/] and
- Eliminate the regulatory requirement for banks to maintain a minimum portfolio structure ratio.[1/]

Legal and Judicial frameworks

- Enforce the legislation governing the accounting profession; [2/]
- Simplify enforcement procedures for collection of claims, including execution of secured interests;[2/] and
- Train magistrates in commercial and financial matters; establish commercial divisions in courts; [2/]

Initiatives in the microfinance sector

- Until a private investor takes over its management, limit the activities of the institution taking over Post Office financial services to deposit mobilization and placements in money/capital markets; [2/] and
- Given the dynamism of Senegal's MFIs there is no need to set up a subsidiary of BRS-SA.[3/]

Near to Medium Term Policies

Prudential framework and financial market infrastructure

- Strengthen human and financial resources of the MOF unit in charge of MFIs supervision;[2/]
- Consider setting the minimum risk-weighted capital asset ratio above 8 percent;[1/]
- Research on the structure of SMEs funding to better understand obstacles to SMEs' finance;[2/]
- Accelerate the pace of development of a corporate database to reduce information asymmetries;[1/] and
- Consider lowering or eliminating the tax on bank operations (TOB).[2/]

Legal and Judicial frameworks

- Review procedures for surveying, parceling, registering and allocating real estate property; [2/]
- Amend OHADA legislation to allow individuals not involved in commercial activities to register secured interests without loss of possession of the asset(s) in question;[3/]
- Adopt legislation regulating the profession of receiver in insolvency proceedings; [2/]
- Streamline the OHADA draft Uniform Act on cooperatives and mutual benefit companies;[1/] and
- Promote alternative methods for settling disputes (arbitration and mediation). [2/]

Financial markets diversification and deepening

- Reassess the activity of Senegal's Housing Bank with a view to stimulate its activity;[2/]
- Move from issuing bonds based on guarantees to a system based on merit (rating agencies);[1/]
- Harmonize taxation of financial products across the WAEMU;[3/]
- Launch reforms to create a regional mortgage refinancing company;[3/]
- Adopt a program of regular issuance of government debt and repay by anticipation BCEAO statutory advances and other government debt as feasible;[2/] and
- Allow public institutional investors to invest in financial markets once they have risk control tools.[2/]

[1/]Responsibility of authorities of regional governing bodies. [2/]Responsibility of the Senegalese authorities. [3/]Joint responsibility of the Senegalese and regional authorities.

II. Macroeconomic Environment and Market Infrastructure

4. **Since the 2001, FSAP Senegal's financial sector has continued to operate in a favorable macroeconomic environment thanks to prudent macroeconomic policies and market-oriented structural reforms implemented over the last ten years**. The economy is on its way to achieving an annual average growth rate of approximately 4 percent and per capita GDP growth of 1.5 percent in real terms. Inflation is low and the fiscal and external account deficits are under control. Growth remains vulnerable, however, to the vagaries of climatic conditions. After drought slowed growth to 1.1 percent in 2002, GDP grew by 6.5 percent in real terms in 2003, consumer price inflation was almost nonexistent, and the fiscal and external account deficits (including grants) stood at 1.4 percent and 6.3 percent of GDP, respectively (Table 1).

Table 1. Selected Economic Indicators

	2000	2001	2002	2003 (est.)
(Annual percentage change, unless otherwise indicated)				
National income and prices				
GDP at constant prices	3.0	4.7	1.1	6.5
Consumer price (end of period)	1.3	3.9	1.5	-1.4
Nominal effective exchange rate	-5.1	1.2	2.4	5.1
Real effective exchange rate	-6.5	1.8	1.3	2.8
(Changes in percent of beginning-of-year broad money, unless otherwise indicated)				
Money and credit				
Net domestic assets	12.8	4.3	-6.4	5.4
Domestic credit	15.5	6.6	-4.9	5.7
Credit to the government (net)	-4.0	2.7	-8.3	-4.3
Credit to the economy (percent growth)	28.6	4.9	4.7	14.2
Broad money (M2)	10.7	14.5	7.6	14.6
Money market rate	4.95	4.95	4.95	4.95
(In percent of GDP)				
Government financial operations				
Overall fiscal surplus or deficit (-)				
Commitment basis, excluding grants	-1.9	-3.9	-1.9	-3.5
Commitment basis, including grants	0.1	-2.1	-0.1	-1.4
Basic fiscal balance 1/	1.2	-0.8	1.9	0.6
External current account deficit (-)				
Excluding current official transfers	-8.5	-6.5	-8.0	-8.5
Including current official transfers	-6.1	-4.9	-6.0	-6.4
External public debt	67.6	63.2	62.8	50.7

Sources: Senegalese authorities and staff estimates.

1/ Defined as revenue minus total expenditure and net lending, excluding externally financed capital expenditure and on-lending.

5. **The financial sector has expanded but remains small in absolute and relative terms**. At the end of 2003 total assets amounted to CFAF 1,568 billion (or roughly US$3 billion), the majority represented by the banking system. The state continues to have minority equity stakes in 7 banks (of which the biggest stake is 25.6 percent), and BCEAO in 2 banks.[1] While the microfinance sector represents only a small part of the system, it has contributed to about one-third of the increase in the ratio of total assets to GDP. The dynamism of MFIs operating in Senegal is also reflected in an expansion of outstanding credit by MFIs at a rate 3.3 times faster than that of bank credit in the last 4 years, and a growth of deposits at a rate 2.7 times faster than M2. In spite of these positive developments, financial intermediation in Senegal is low, as evidenced by a ratio of M2 to GDP of about 30 percent, though still above the WAEMU average (25.7percent).

Table 2. Structure of the Financial System

	Assets Billions CFAF		Percent of Assets		Percent of GDP	
	2001	2003	2001	2003	2001	2003
Banking[1/]	1,087	1,391	89.5	88.7	32.5	37.3
Insurance	114	137	9.4	8.7	3.4	3.7
MFIs	14	41	1.1	2.6	0.4	1.1
Total	1,215	1,568	100.0	100.0	36.3	42.1
Memorandum items						
M2					24.8	30.0
Claims on private sector					19.6	21.1
Claims on central government					5.1	1.7

Sources: BCEAO Dakar and staff estimates.

1/ Including financial establishments.

6. **Large excess reserves of banks in Senegal, and more broadly in the WAEMU, have distorted the development of financial markets.** This excess liquidity has resulted in fierce competition among banks for lending to large corporations, with some commercial banks offering spot credits well below their prime rate, and at times close to the average cost of funds. By making bank credit inexpensive and readily available for large corporations compared to recourse to the capital market, such market practices could lead to imbalances in corporate balance sheets, indirectly weakening the quality of bank portfolios. **Financial market deepening is therefore contingent on establishing stable liquidity conditions,** in particular to support the smooth operations of financial markets, and therefore effective transmission of monetary policy. In this context, mopping up excess liquidity would not only strengthen the effectiveness of the regional monetary policy (Box 2), but also support the mobilization of long-term resources and the development of the financial market.

7. While no aggregate data is available on the respective cost of bank credit to SMEs and to large corporations, **anecdotal evidence suggests that SMEs have not benefited to any great degree from the abundant liquidity conditions**. As discussed later, SMEs access

[1] The recommendations of the 2001 FSAP included divestiture of BCEAO equity participation in those banks (See IMF Country Report 01/189 and Appendix).

to credit is largely contingent upon action to address the structural factors that constrain the provision of bank credit.

Box 2. Assessment of Regional Monetary Policy

Historically, there has been a high level of excess liquidity in the WAEMU banking system, primarily due to the lack of attractive investment opportunities, combined with conservative policies in the banks vis-à-vis credit risk (banks' reserves grew from 16 percent of deposits to 21 percent between end-December 2002 and end-September 2003). The authorities noted that the absence of investment opportunities has provided an incentive for banks to hold funds in their correspondent accounts abroad and has reduced the pressure for speedy repatriation of export proceeds.

The Fund staff has recommended the sale of central bank bills to reduce excess liquidity. However, the BCEAO authorities believe that excess reserves would be reduced over time as the governments in the region sell treasury bills to repay the central bank's statutory advances. They ruled out selling central bank bills because it would entail costs for the BCEAO. The authorities also believe that changes in the central bank's interest rates can provide a signal to borrowers to ask banks for lower rates, eventually affecting their interest rates. The Fund staff cautioned that, to the extent that banks may react to the BCEAO's interest rate policy by reducing deposit rates, the reduction in BCEAO's interest rates could engender capital outflows. Therefore, the authorities have to ensure that the differential between the interest rates in the region and the euro interest rates remains large enough to preempt such developments.

Source: SM/04/202.

8. **A recent survey suggests that SMEs finance most of their needs with own funds, and that structural factors (rather than cost) discourage bank credit.** Working capital is financed essentially with own funds (75.1 percent) and to a small degree by commercial banks (12.5 percent).[2] A similar pattern can be observed for investments, with commercial bank financing at only 17.7 percent. Insufficient collateral appears to be the main reason for SMEs failing to receive bank credit (80 percent of rejected applications). Other structural problems include lack of transparency in the enterprises themselves; poor quality of accounting (the practice of auditing accounts is limited); loopholes in laws dealing with protection of creditor rights and enforcement of guarantees. Monetary policy cannot act directly to improve SMEs' access to bank credits as selective credit policy and development banks have proven ineffective in the past, regardless of the country in question (competitive distortions, poor resource allocation, and failed banks).

[2] Data taken from a World Bank survey on the investment climate in Senegal of 211 enterprises (80 percent of existing enterprises) and 83 percent of those operating in the manufacturing sector.

III. Stability and Supervisory Issues

A. Stability and Robustness of the Banking Sector

9. **While financial stability indicators for the banking sector are better than the WAEMU averages, the capitalization of the sector has trended downward slightly since 2001**. At end-March 2004, ten banks with risk-weighted capital asset ratios (CAR) above the prudential norm of 8 percent accounted for approximately 80 percent of total assets. For the other two banks, the ratio was only slightly below the norm. The slight decrease in the aggregate CAR (Table 3) is mainly due to increased provisioning and strong growth of credit of certain banks which had an extremely high CAR, and therefore does not threaten the stability of the system. Gross nonperforming loans (NPLs) have decreased, and the provisioning rates have been maintained above 70 percent throughout the period.

Table 3. Selected Financial Soundness Indicators
(in percent)

	Senegal			WAEMU
	Dec. 2001	Dec. 2003	Mar. 2004	Dec. 2003
CAR	13.5	11.5	12.7	11.0
Gross NPLs/total loans	17.8	13.3	14.7	19.2
Provisioning rate	70.2	75.3	70.4	67.0
Net NPLs to total loans	5.6	3.6	4.4	7.3
Net NPLs to capital	34.3	28.4	34.4	44.5
Loans concentration[1/]	107.7	144.2	--	--
Liquid assets/deposits	--	81.0	82.0	66.6
Return on equity (ROE)	18.6	22.1	22.1	10.0

Source: Banking Commission.

1/ Loans to five largest borrowers to bank's capital.

10. **Since the 2001 FSAP, exposure of the banking sector to some large public enterprises has decreased; however, credit concentration, measured by total exposure to 5 largest borrowers remains high.** As a result of a budget transfer to SONACOS to pay back its bank debt, and a ceiling on total debt of SONACOS set under the PRGF-supported program, exposure of the banking sector to SONACOS decreased from 68 percent of capital in 2001 to 4 percent in 2003. However, exposure to other large enterprises increased, and total credit to 5 largest borrowers went from 108 to 144 percent of total capital of the banking system.[3] Credit concentration remains the largest source of vulnerability for banks operating in Senegal. This calls for close monitoring, in particular to ensure that the capitalization of banks does not drop.

11. **Financial margins have allowed banks to support a relatively high level of loan loss provisions, while maintaining comfortable return on assets.** Credit operations, which represent approximately 75 percent of net bank earnings, are the primary source of revenues. With an average cost of resources slightly above 2 percent, the average cost to the borrower (including the 17 percent tax on bank operations—TOB) is slightly above 11 percent (Table 4).[4] The average financial margin is slightly lower than for banks of comparable size

[3] Five largest borrowers in 2001 were SONACOS, SENELEC, SAR, ICS, and SODIFITEX; in 2003, ICS, SAR, CSS, SENELEC, and SOCOSIM.

[4] Senegal's TOB (17 percent) is the highest in the WAEMU (5 percent in Côte d'Ivoire).

operating in Africa (i.e., small banks with assets of less than US$1 billion), as is the average return on assets.[5] Overhead costs absorb more than half of the financial margin, in line with results observed for similar banks in Africa, but loan loss provisions are significantly higher (20 percent of financial margin against 11 percent). Net returns on assets (ROA) are slightly below those observed in African banks of comparable size, while net returns on equity (ROE) are slightly above, suggesting that banks in Senegal are relatively less well capitalized that their African counterparts.

Table 4. Decomposition of Interest Rate Spreads

(in percent)

		Africa			
	Senegal (2002)	Small Banks	Medium Banks	Large Banks	All Banks
+ Average lending rate	11.3				
- Average cost of resources	2.2				
= Financial margin	9.2	10.7	5.0	4.4	4.9
- Tax on financial operations (TOB)	1.6 } 5.0	} 6.1	} 3.1	} 2.8	} 3.0
- Overhead costs	3.4				
- Loan loss provisions	1.8	1.2	0.7	0.6	0.7
- Tax on profits	0.5	0.9	0.2	0.3	0.4
= Return on assets (ROA)	1.9	2.5	1.0	0.7	0.8
Return on equity (ROE)	22.1	18.3	5.6	12.9	11.7

Source: BCEAO Dakar and staff estimates. Small banks have assets of less than US$1 billion; medium banks have assets of greater than US$1 billion; large banks have assets of more than US$10 billion. All banks in Senegal are small.

12. **The stress testing exercise confirms that the concentration of banks' credit in a few large enterprises remains the main source of vulnerability for the sector**:

- **Most banks (especially the five largest) have high provisioning rates, and will not be affected by an increase in provisioning requirements, or by an increase in the weight applied to housing credits in the calculation of the CAR.** An increase in provisioning rates to 75 percent (for those banks that are not already above 75 percent) would result in 5 banks having CAR below 8 percent (Table 5), but 4 of these banks are relatively small, and only one of them would have a CAR below 6 percent.

- **A default by one or several of the largest borrowers would have a significant impact on banks' solvency**. A loss of 25 percent of the outstanding loans to one single large borrower would result in a drop of the CAR of 7 banks (79 percent of total system assets) below 8 percent. In the event of a default by 4 large borrowers, 8 banks (80 percent of total system assets) would have capital adequacy ratios below 8 percent, and one bank would have negative capital.

[5] Typically, large enterprises can borrow at rates (4 to 6 percent) below banks' prime rate (8 to 9 percent).

- **The banking system would cope fairly well with a 25 percent increase in NPLs**. At end-March 2004, three banks accounting for 24 percent of the banking system assets would end up with a capital adequacy ratio below 8 percent. However, two of them had CARs below 8 percent even before the 25 percent increase in NPLs, and none of the banks would see its capital adequacy fall under 4 percent as a result of the shock.

Table 5. Stress Test Results

Scenarios	All Banks	Four Largest Banks	Five Largest Banks	All Other Banks	CAR < 8 Percent: No. of Banks	CAR < 8 Percent: Market Share
December 2003		Capital /Risk Weighted Assets (percent)				
Actual situation	11.5	9.2	9.5	17.6	2	23.5
Provisioning rate increases to 75percent	10.5	9.2	9.4	13.9	4	28.4
10 percent increase in NPLs	11.0	8.6	8.9	17.0	3	27.0
20 percent increase in NPLs	10.4	8.0	8.3	16.4	4	29.0
25 percent increase in NPLs	10.1	7.6	8.0	16.1	5	53.8
Default 25 percent of loans to A	11.0	8.8	9.0	16.8	4	28.4
Default 25 percent of loans to A+B	10.1	8.1	8.3	15.5	5	30.4
Default 25 percent of loans to C	9.9	7.3	7.7	16.7	7	78.7
Default 25 percent of loans to D	10.7	8.1	8.5	17.3	3	31.9
Default 25 percent of loans to A+B+C+D	7.7	5.1	5.5	14.4	8	80.2
2 percent increase in short-term interest rates	10.8	8.6	8.9	16.7	3	27.0
March 2004		Capital /Risk Weighted Assets (percent)				
Actual situation	12.7	9.7	10.3	18.5	2	20.3
Provisioning rate increases to 75percent	11.1	9.4	10.0	13.4	5	35.8
10 percent increase in NPLs	12.0	9.0	9.7	17.9	2	20.3
20 percent increase in NPLs	11.4	8.4	9.0	17.2	3	23.8
25 percent increase in NPLs	11.0	8.0	8.7	16.9	3	23.8
2 percent increase in short-term interest rates	11.9	8.9	9.6	17.7	2	20.3

Sources: BCEAO Dakar and Staff calculations.

- **The banking system appears resilient to changes in short-term interest rates**.[6] For the system as a whole, most interest-bearing liabilities are three months or less; 65 percent of credits are short term (less than 2 years), and a further 30 percent is medium term (2 to 10 years). However, many medium-term credits have variable interest rates. Given the lack of precise information on the maturity structure of loans and on interest rates, the interest rate stress test is based on the conservative assumption that all credits with a maturity of more than 2 years have fixed interest rates. None of the banks would see its CAR fall under 8 percent as a result of the shock, and banks with CAR already under 8 percent (accounting for about 20 percent

[6] One bank is exposed to interest rate risk due to the dominance of long-term fixed-rate mortgage loans in its portfolio mostly funded by short-term deposits. However, its strong capital position should allow the bank to withstand any realistic changes in interest rates.

of total assets of the system) would experience only a marginal deterioration of the ratio.

- **Risks to the banking system of an adjustment of the CFA franc parity are low.** Bank holdings of foreign currencies are restricted to working balances at overseas affiliates and correspondent banks. Most institutions appear to have a policy of maintaining positive working balances with their affiliates and correspondents abroad, to make sure they would not suffer in the event of significant change in the value of the CFA franc.

B. Prudential Norms for the Banking Sector

13. **Senegalese banks continue to find it difficult to comply with limits on large credit exposures**. Recourse to external financing by some large corporations has helped banks reduce their exposures to large borrowers. However, as of end-March 2004, 5 banks (accounting for 35 percent of sector assets) did not comply with the prudential norms limiting the exposure of a bank to a single borrower, although the limit in Senegal (75 percent of total capital) is much higher than the 25 percent limit that is recommended by the Basel Committee on Banking Supervision. Noncompliance reflects to a large extent the structure of the economy, and time will be needed before Senegal practices are in line with best practices. In the meantime, Senegal's specific banking risks point to the need for a higher capital base in the banks.

14. **The prudential norms fail to adequately differentiate real estate financing on the basis of the risks incurred by banks**. The current 50 percent preferential weight that is allowed to all types of bank loans collateralized by a mortgage (i.e., loans to home buyers, developers and to investors) is not consistent with the recommendations of the Basel Committee on Banking Supervision.[7] Furthermore, the two-year grace period for constituting provisions on such NPLs (provisions are supposed to be constituted over a four-year period) seems excessive in view of uncertainties and delays in judicial procedures for recovering claims and realizing collateral (see section IV A, below).

15. **In view of the above findings, a drop of the capitalization of Senegalese banks should be prevented**. A way to achieve this objective would be, in line with the recommendation of the Basel Committee, to set a minimum CAR above 8 percent.[8] In the case of Senegal the following specific factors would support such a policy action:

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[7] The Basel Accord allows for a 50 percent risk weight only for "loans fully collateralized by a mortgage on residential property that is or will be occupied by the borrower or that is rented."

[8] The Basel Committee recommends that capital charges in addition to the 8 percent minimum CAR may be applied based on countries' particular circumstances. A number of countries have followed the recommendation, including: Albania: 12 percent; Aruba: 10 percent; Azerbaijan: 12 percent; Bahrain: 12 percent; Bulgaria: 12 percent; Estonia: 10 percent; India: 9 percent; the Philippines: 10 percent; Kenya: 12 percent, Nigeria: 10 percent; Romania: 12 percent; and Russia: 10 percent.

(i) potential systemic risk due to the market distortions induced by chronic excess liquidity; (ii) persistent difficulties for complying with limits on loans concentration; (iii) lenient treatment reserved to mortgage loans; and (iv) dysfunction of the judicial system.

16. **Noncompliance of all banks with the portfolio structure ratio (Box 3) does not necessarily reflect high credit risk.** Senegal maintains an average ratio of about 12 percent (the minimum required ratio is 60 percent). The low level of the ratio may also reflect the banks' lack of incentive to require enterprises to comply with the reporting requirements,[9] and pressing for compliance may encourage banks to deny credit to enterprises, mainly SMEs, in order to satisfy the regulatory norm. Therefore, the regulatory requirement for banks to maintain a minimum portfolio structure ratio should be dropped. In this case, the bank supervisor could still monitor the percentage of assets covered by an *accord de classement*, together with relevant financial soundness indicators.

Box 3. Portfolio Structure Ratio and *Accords de Classement*

Banks must maintain a minimum ratio of 60 percent between loans having received an *accord de classement* from the BCEAO (and therefore eligible for its refinancing) and total loans to customers. This ratio, unique to the WAEMU, is not observed by any institution in Senegal (average ratio of about 12 percent), and has almost never been observed in the WAEMU. Noting this situation, the WAEMU Council of Ministers in September 2002 amended the terms governing the granting of *accords de classement*. The new mechanism eased the conditions governing the collection of information and the applicable financial criteria. Banks are now required, subject to financial penalties, to submit *accord de classement* requests for their 50 largest credit users.

17. **Senegalese banks are liquid and transformation of short-term resources into medium- and long-term loans is limited**. Only one bank does not comply with the liquidity ratio, and another one with the transformation ratio due to the high share of medium- and long-term mortgage loans in its portfolio.[10]

C. Stability and Prudential Issues in the Microfinance Sector

18. **Senegal's microfinance sector has experienced strong growth in the last four years, and a number of MFIs are now large enough to offer financial services to SMEs**. The penetration rate of MFIs rose from 16 percent of all households in 2000 to 25 percent in 2003 (i.e., from 3.2 to 5 percent of the population), and outstanding credit expanded 3.3 times faster than bank credit in the same period. Some networks are contemplating

[9] Excess liquidity eliminates the need for banks to seek refinancing from the BCEAO. As a result, the number of applications for the *accords de classement* submitted by banks is fairly low.

[10] The transformation ratio requires from banks that 75 percent of medium- and long-term assets be financed by resources of comparable maturity.

establishing commercial banks, and large MFIs are well positioned to compete with the commercial banks on providing financing to SMEs.

19. **The microfinance industry is highly concentrated, and the largest networks appear to be on a sound footing**. The six largest networks, representing 87 percent of customers and 90 percent of deposits and credit, have a ratio of NPLs to total loans below 4 percent.[11] Apart from these large networks, there are numerous small, independent institutions (approximately 10 percent of the market) which are structurally weaker and pose a real challenge to the consolidation of the sector: they rarely comply with reporting requirements, largely escape the attention of the supervisory authorities, and often have weak financial structures.[12]

20. **The surveillance unit under the Ministry of Finance lacks the necessary human and financial resources to supervise all MFIs. Therefore, current plans for an involvement of the BCEAO in the supervision of large networks are a positive development**. As a part of its 2004–08 strategy, the BCEAO plans to work more closely with national authorities and the Banking Commission to supervise large MFIs in the region. This is appropriate given the systemic risk for the sector posed by the large and medium-scale MFIs. Once a decision is made on the threshold for BCEAO involvement in the supervision of MFIs, the MOF will need to assess the human and physical resources that may be needed for the supervision of the remaining MFIs, and to develop priorities, as well as a simplified approach to the reporting obligations for the smallest MFIs.

IV. Increasing the Outreach of the Financial Sector

21. **Senegalese enterprises can avail themselves of a diversified range of financial services and players, but imperfect integration of the components limits its outreach.** On the positive side, the banking sector (the cornerstone of the system for the foreseeable future) appears to serve well large enterprises and seeks to increase its outreach to SMEs. MFIs show clear signs of maturity and dynamism, and they appear to serve well a growing fraction of households outside large urban centers. Finally, the establishment of a regional securities regulator and regional exchange has allowed the regional capital market to take hold. On the negative side, SMEs access to credit suffers from structural weaknesses in the credit environment, and results in a relatively high cost of financial intermediation.[13] Inefficiencies

[11] The three largest networks, representing about 70 percent of total loans, have a NPLs ratio of 3 percent; the next four largest networks, representing about 14 percent of the market, have a NPLs ratio of 4.3 percent.

[12] The 2001 FSAP noted the proliferation of small institutions with relatively weak structure, and recommended a slowdown in granting of new licenses. This recommendation was not implemented (see Appendix).

[13] The cost of financial intermediation also reflects the weight of the taxation of financial services. Therefore, the authorities should consider gradually phasing in a reduction of the TOB.

in the regional financial market have limited its contribution to the financing of large enterprises, contributing to an unhealthy concentration of risks in the banks. These weaknesses are preventing the emergence of a continuum between the banking sector and the capital market, on the one hand, and between the banking sector and the MFIs, on the other hand. **Increased outreach of the financial sector calls for a better integration of its components, with a view to create a continuum, that is a financial sector in which all constituents are interlinked.** The following sections discuss policy actions to improve the credit environment, encourage the financing of SMEs, modernize real estate financing, and support financial market development. A final section deals with recent official initiatives in the microfinance sector.

A. Improving the Credit Environment

22. **There have been no major changes in the legal framework since the 2001 FSAP, and a number of the recommendations made at the time are still relevant.**[14] **Access to financial services in Senegal continues to be difficult due to some additional weaknesses in the legal framework.** Key areas in relation to access to financial services are the following:

- **Systematic enforcement of the legislation governing the accounting profession is needed to improve the market's confidence in the financial data provided by businesses.** Senegalese companies are required by law to prepare financial statements. However, failure to fulfill this requirement is not sanctioned in practice, and financial statements, when available, are often prepared by unqualified professionals.[15]

- **The OHADA legislation should be amended to allow the registration of secured interests without loss of possession for movables by individuals not involved in commercial activities**. Much of Senegal's real property is not formally registered (i.e., ownership has not been formalized by a title). Such an environment, together with unreliable financial statements, leads banks to require mortgages in a very systematic fashion. The procedures for surveying, parceling, registering and allocating real property should therefore be reviewed. Furthermore, constitution of secured interests, particularly of pledges, raises difficulties, in particular registration of certain nonreal estate assets is only allowed for individuals involved in commercial activity. As a result, those individuals can only constitute a pledge with dispossession, resulting in the loss of usage of collateral. Progress in this area would facilitate access to credit to a majority of the population which does not own registered real estate properties.

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[14] See Appendix.

[15] The accounting profession is well organized, but enforcement of the laws governing the profession, in particular sanctions for illegal exercise of the profession of chartered accountant, is weak.

- **Simplification of enforcement procedures, in conjunction with a general improvement of the judicial system, would be desirable**. Access to credit is also impeded by constraints linked to the collection of claims and the enforcement of secured interests. Cumbersome and complex procedures relating to the enforcement of secured interests explain in part the lengthy delays, and are presented by banks as an important reason for their conservative approach to lending. Simplifying the collection of claims will contribute to reducing the relatively high level of loan loss provisions in Senegal (Table 4) and thereby the cost of credit.

- **The adoption of a legislation regulating the profession of receiver and the imposition of sanctions in cases of fraud has become necessary.** Insolvency proceedings are exceedingly lengthy and seldom fully completed. The impact on creditors' rights is significant because debt collections procedures are suspended during insolvency proceedings. In addition, there are no regulations in place governing the professions associated with insolvency proceedings, in particular the profession of receiver (*syndic*).

23. **There have been no major changes in the judicial system since the 2001 FSAP.** Justice in Senegal continues to suffer from a lack of personnel and material resources.[16] Since the 2001 FSAP some training sessions of judges in commercial and financial matters have been organized, but neither the quality nor the number have been sufficient. Poor ethical behavior is also reported as a source of uncertainty in the outcome of disputes, particularly due to the partisan nature of certain court-appointed expert reports, inasmuch as judges attach great importance to experts' conclusions. Therefore, in the eyes of the local banks, the Senegalese judicial system continues to be inefficient, nontransparent and unreliable. Consequently, it contributes to the creation of additional costs for banks, which are reflected in their margins. Therefore, the Senegalese authorities need to strengthen the training of magistrates in commercial and financial matters; reform the promotion system; regulate the procedures of court-appointed experts; and finally, establish commercial/banking divisions in the courts.

24. **A recently designed Justice Sector Program proposes a strategy for improving the judicial apparatus**. This carefully prepared and thorough report provides an analysis and inventory of existing resources, and proposes a ten-year action plan to reform the judicial apparatus. It will be useful to identify the priority measures to be implemented in that context, particularly to give precedence to establishing the efficient functioning of the justice system in the capital, since it is where the courts handle most commercial, banking, and financial cases.

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[16] The share of the budget allocated to the judicial area fell from 2 percent in 2000 to 1.41 percent in 2003. It is projected to decrease further to 1 percent in 2004. The timely implementation of the recruitment strategy for the Civil Service during the years 2003–05, including a more than doubling of the size of the staff of the Justice Department, should help to reverse this trend.

25. **In general, it would seem advisable for donors to focus on how the Senegalese authorities' agenda evolves with respect to the judicial sector**. The following three areas are particularly important: (i) increase the budget of the justice system in order to implement and successfully complete the Justice Sector Program; (ii) combat favoritism and corruption on the basis of indicators that have been jointly agreed upon; and (iii) ensure competent Senegalese management and coordination of the program. Once appropriate targets and objectives have been made in these areas, donor participation would be desirable in order to work with Senegal in the further detailed design and delivery of this program.

26. **The success of alternative methods for settling disputes, namely arbitration and mediation, rests also upon improving the judicial apparatus**. An Arbitration Center has been set up in the Dakar Chamber of Commerce, Industry, and Agriculture, and arbitration is gradually becoming accepted in Senegal. It remains necessary, however, to have recourse to the justice system to enforce arbitral awards in the event that voluntary compliance does not occur. Therefore, the problems in the functioning of the judicial system apply again.

27. **Regarding the microfinance sector, the Uniform Act on cooperatives and mutual benefit companies currently being prepared by OHADA should be streamlined and simplified.** The current draft presents several difficulties likely to adversely affect its practical value, such as its length and complexity (607 articles and 125 pages). Regarding secured interests, the scope of the draft provisions is vague, and it is unclear whether these provisions would be applicable to banks and all microfinance institutions. In addition, the registration and enforcement of secured interests remain far too complex, and not suited to the specific environment of microfinance. This could affect Senegal's future microcredit environment.

B. Encouraging the Financing of SMEs

28. **A better understanding of the SMEs financial structures is desirable.** There is a perception by some in Senegal (confirmed by a recent study of the World Bank) that the cost of credit does not explain the limited recourse of SMEs to bank credit.[17] However, no common view has yet emerged on the magnitude of the problem, including from a recent government-sponsored multi-partite meeting. The view expressed by some that SMEs face a scarcity of credit is neither consistent with the above-mentioned World Bank survey nor with the large excess reserves in the banks. The following actions could be considered as a way to enrich the public debate on the scope of the problem: (i) conducting surveys on the cost of credit; (ii) analyzing SMEs' financial structures to measure the relative weights of equity contributions, self-financing, supplier's credit, foreign remittances, and bank credit; and (iii) analyzing supplier credit chains that may function in some sectors. The objective of

[17] The World Bank survey on the investment climate in Senegal indicates that the reasons given by enterprises that do not borrow are the following: lack of collateral (21 percent), refusal to incur debt (31 percent), no financing needs (22 percent), and interest rate too high (12 percent).

these actions would be to assess the relative weight of supply constraints and weak demand on the SMEs' presumed lack of recourse to bank credit.

29. **Steps also need to be taken to reduce information asymmetries, which can limit (or drive up the cost of access to) bank credit to SMEs**. The fact that 80 percent of bank credit applications are reported to be denied because of insufficient guarantees, as indicated in the World Bank survey, confirms that bank's credit decisions remain primarily based on the capacity of borrower to provide collateral. The practice of collateralization may reflect the underdevelopment of professional credit risk management and the absence of reliable financial information (asymmetries of information). The development of professional credit risk management is a matter to be resolved by the financial institutions themselves. The lack of reliable and comprehensive financial information, however, is an area that the authorities can readily address, mainly through participation in the work of accounting standardization, to ensure that the standards meet the need for credit risk analysis and creditor protection, and also through actions to disseminate knowledge of accounting standards and to broaden the professional development of accounting personnel.[18] Downstream, the authorities can facilitate bank-enterprise relationships. In particular, the BCEAO managed financial databases should be upgraded and the work of establishing a corporate balance sheet database (*Centrale des Bilans*) should be expedited, to supplement the credit register (*Centrale des risques*) and the delinquencies register (*Centrale des incidents de paiements*).

C. Modernizing Real Estate Financing

30. **Senegal's Housing Bank (BHS) needs to reexamine its activities with a view to developing a new business plan**. As a result of prudent lending policies BHS enjoys a strong financial position. However, about half of its assets are invested in financial instruments outside the housing sector. The BHS is also exposed to a growing mismatch between abundant short-term resources and long-term mortgage credits, and it does not comply with the related prudential norms.[19] Furthermore, competition from commercial banks in housing finance can be expected to keep growing, which may lead to a drop in the traditional activity of the BHS. The authorities may envisage several strategic options, including: (i) expanding BHS activities to other banking products (consumer credit, automobile loans, and the like), which would require an amendment of its original status; (ii) expanding BHS housing bank activities geographically in the WAEMU and to residential rental investors; or (iii) redeploying BHS social housing credit operations which have nearly come to a halt in the recent years as eligibility thresholds for various housing subsidies have not been updated since 1994, and as a result of ineffective policy for land allocation and

[18] The establishment of the West African Accounting System (SYSCOA) is a step in that direction. See also section IV A for a review of the deficiencies in the enforcement of the accounting law in Senegal.

[19] The privileges associated to its short-term CEL saving products (*Compte Epargne Logement*) would be better transferred to longer-term savings through the PEL (*Plan d'Epargne Logement*).

titling that recently has discouraged public and private developers from producing eligible social housing projects.

31. **Senegal financial sector involvement in real estate financing has reached a point where a mortgage refinancing mechanism would be useful.** Commercial banks have assumed a growing role in commercial and residential housing finance, using for the most part short-term funds. Most banks active in real estate lending express the need for refinancing tools of the mortgage loans. Several approaches are possible:

- **Creation of a specialized mortgage refinancing company** to issue simple, secure, and liquid bonds, using the proceeds to refinance commercial banks which would be able to provide a guarantee in an oversized portfolio of eligible mortgages;

- **Issue of mortgage or cover bonds** by commercial banks to enable them to directly raise long-term resources on the regional market; and

- **Securitization of mortgages** by encouraging banks to sell blocks of mortgages, which have been converted to marketable securities, to institutional investors.

32. **For the immediate future, the authorities should facilitate the creation of a regional private mortgage refinancing company**, while working on the legal and regulatory framework for the issuing of mortgage bonds and the securitization of claims. The regional authorities (CREMPF, BRVM, and the BCEAO) and national authorities could study the various approaches to mortgage refinancing and organize a regional conference to identify preferences, obstacles, and develop a work plan.

D. Supporting Financial Markets Development

33. **Financial market deepening is contingent on forceful implementation of the corrective measures that have been identified to stimulate market development**.[20] The following recommendations to the authorities are of particular importance:

- **Move from issuing bonds in a system based on guarantees from specialized agencies to a system based on merit (rating of issuers**). The new system would require the entry of international rating firms and/or the emergence of national ones. Indeed, the current system in which public bond issues are guaranteed by a third party seems excessively strict, creates major distortions, and significantly increases the cost of raising capital. Moreover, the capacity of the existing set of guarantors, typically

[20] In December 2002, the WAEMU Council of Ministers adopted an action plan aiming at enhancing the regional capital markets. Furthermore, the World Bank group, with other bilateral donors, has just finalized a project to strengthen the regional market covering the period June 2004–September 2009 to support this effort. Bilateral donors include *Agence Française de Développement* (AFD), the Canadian International Development Agency (CIDA), and the French Ministry of Foreign Affairs.

specialized agencies, to provide guarantees has decreased, which could potentially bring corporate bond issuance to a halt;

- **Eliminate the tax distortions** preventing placements of private securities. Such distortions are caused by the lack of tax harmonization and coordination among WAEMU member countries (which can result in the double taxation of investment income), and the tax exemption on securities issued by the government of Senegal; and

- **Encourage the retirement funds** to invest on the financial market, provided they have the tools to manage a portfolio of financial assets.

34. **Strengthening public debt management in Senegal would also support financial market deepening.** The MOF has begun testing the market by issuing treasury bills in the WAEMU market. Implementing a program of regular treasury bill and bond issues would ensure the presence on the market of a top-rated issuer as well as increase the activity and the development of the WAEMU fixed income market. Moreover, without increasing its domestic debt, the MOF could issue debt to repay BCEAO statutory advances, which would have the added advantage of absorbing some of the excess liquidity in the system. The MOF could also repay by anticipation other types of domestic debt held by banks.

E. Official Initiative in the Microfinance Sector

35. As already mentioned, the microfinance sector in Senegal is dynamic, and it shows clear signs of maturity. **Looking forward, the main challenge facing the sector is to avoid an erosion of credit culture among clients**. Distortions and threats affecting the MFI sector include intended government credit lines, special funds proposed for microfinance and SMEs. In particular, it is most unlikely that concessionality (i.e., credit and guaranteed funds or interest subsidy programs) will solve structural problems. If not properly managed, in the long-term such schemes may even obstruct the sound development of MFIs owing to the distortions they create. To serve a useful purpose, such programs need to be targeted to well identified projects.

36. **Caution is also needed in the execution of projects promoted by the national or regional authorities** (Box 4) to ensure that these initiatives contribute to the dissemination of a sound credit culture, and that such involvement aims at satisfying a proven need in the financial sector. In particular:

- **Caution is warranted regarding the scope of activities of the financial institution that will take over the post office financial services**. Setting up a separate entity to take over the postal financial services, which reflects the government's concern with modernization and efficiency of public institutions, is an appropriate policy decision. However, until a strategic private investor assumes control over the management, and internal controls and credit analysis capacities are developed, the activities of the institution should be limited. These initial activities should probably include savings mobilization and placement of funds in the interbank and capital markets; and

- **There does not appear to be a proven need for setting up a subsidiary of the Regional Bank of Solidarity (BRS-SA) in Senegal**. As discussed above, the outreach of Senegal's MFIs has expanded greatly, to the point of accounting for almost one-half of the total number of MFIs in the WAEMU. Furthermore, commercial banks would be willing to provide refinancing to large MFIs. Finally, it is not clear how this project would fit within the strategy of the authorities for the reform of the financial services of the Post Office.

Box 4. Official Initiatives in the Microfinance Sector

Postal financial services
Currently the postal financial services contribute to the deepening and expansion of the financial sector into underserved areas by offering secure savings and money transfer services throughout the country. Deposit balances managed by the Post Office are about 2 percent of bank deposits, with 510,000 clients. The Post Office is planning to create a subsidiary to take over its financial services, and it has prepared an action plan that includes creating a bank, privatizing 75 percent of its capital, and offering retail lending and refinancing of MFIs. The difficulties in bringing together a sufficient number of private investors to privatize the new postal subsidiary were brought to the attention of the mission. It appears that in the short run, investors can be found for at most 45 percent of the capital of the new institution, and so far no private strategic investor has been identified.

Regional Solidarity Bank (BRS)
In line with strategic guidelines of the WAEMU Conference of Heads of States and government, it was considered appropriate to introduce a WAEMU-wide poverty reduction mechanism in the form of an all-purpose bank that would not operate primarily on the basis of collateral to secure its loans. Based on these guidelines, the BCEAO, together with the West African Bank of Development (BOAD) and the WAEMU High Commission, set up a multidisciplinary team in charge of a feasibility study, and it was decided to create a Regional Solidarity Bank that would be structured along the lines of a financial holding company (BRS-SA) with subsidiaries in each WAEMU member state to carry out full-fledged banking operations.

The general assembly establishing the BRS-SA took place in May 2004. BRS-SA has a capital of CFAF 24 billion fully subscribed and paid-up. Because it was not possible to initiate a public offering to create the capital base, the Regional Action Fund (*Fonds d'Aide et de Coopération*—FAC) set up by BCEAO to implement its strategy of participations, carries the shares to be sold to the public (45.7 percent of capital). Other shareholders include a group of strategic shareholders for 40 percent of capital (WAEMU States, BOAD, WAEMU Commission with FAC financing, and FAC directly), banks and MFIs (3.5 percent), post office and savings institutions (4.5 percent), and other investors (6.3 percent).

The purpose of the banking subsidiaries to be established in each of the WAEMU countries is to provide uncollateralized micro credits to a wide range of potential borrowers, including unemployed college graduates. To ensure the soundness of investments, they will rely on partnerships with private entities, leading to a system of credit risk management that will be based on "economic" mechanisms to guarantee and evaluate loans and their promoters. The promoters of the project consider that lending should expand rapidly: the business plan foresees that each banking subsidiary will extend about 200 loans per month in the first year of full activity.

Status of the Main Observations and Recommendations of the 2001 FSAP

Observation/Recommendation	Status
Banking Sector	
Monitor growth of the nonperforming loans (NPLs)	Ratio of NPLs has decreased; provisioning remains high.
High concentration of loans	Unchanged.
Divestiture of BCEAO equity participation in BHS and CNCA	Not implemented.
Introduce law on bank insolvency.	Not implemented.
Simplify formal procedures for obtaining authorization to operate in another WAEMU state under a single license procedure.	Not implemented.
Establish an efficient, quick, and secure payment system that conforms to international standards	Significant progress despite several delays vis-à-vis the original timetable. The RTGS system became operational on June 25, 2004 and electronic clearing is expected to become operational by year's end.
Microfinance Sector	
Proliferation of small MFIswith weak financial position.	Unchanged.
Slowdown the granting of new licenses	Not implemented.
Strengthen the microfinance unit within the Ministry of Finance.	Limited progress. However, progress was made in involving BCEAO for the supervision of large MFIs.
Weak financial position of some MFIs.	Improvement for large MFIs; smaller ones remain vulnerable
Legal and Judicial Framework	
Improve the efficiency of the judicial system.	A recently designed Justice Sector Program proposes a ten-year action plan to reform the judicial apparatus.
Conduct a study on the advisability of adopting a regional legislation on contracts and evidence	The study was conducted and an OHADA uniform act is being drafted.
Create commercial courts or special court divisions with specialized magistrates	Not implemented.
Promote arbitration and mediation in the banking sector to limit court cases	An arbitration center has been set up in the Dakar Chamber of Commerce, Industry and Agriculture, and arbitration is gradually becoming accepted in Senegal. However, enforcing arbitral awards is difficult due to weaknesses in the judicial system.
Intensify training of judges	Some training sessions have been organized, but neither the quality nor the number has been sufficient.
Improve judicial system infrastructures and resources	Not implemented. The share of the budget allocated to the judicial area fell from 2 percent in 2000 to 1.41 percent in 2003. The size of the Justice Department is scheduled to be doubled as part of the recruitment strategy for the Civil Service during 2003–05.