Senegal

key figures

- Land area, thousands of km$^2$  197
- Population, thousands (2006)  11,936
- GDP per capita, $ PPP valuation (2006)  1,735
- Life expectancy (2006)  56.8
- Illiteracy rate (2006)  60.7
After reaching 5.5 per cent in 2005, growth might only have barely reached 3 per cent in Senegal in 2006, owing to a conjunction of unfavourable factors. These include difficulties encountered both by the agricultural and industrial sectors and the rising cost of energy. Congestion in Dakar, which already posed serious problems, has been exacerbated during approximately the last two years by the simultaneous implementation of several large-scale road works. This has not contributed to facilitating private-sector activity. The uncertainties preceding the presidential election of 25 February 2007 brought about additional difficulties. Certainly, a recovery in growth is expected in 2007 (5.6 per cent) with lower energy prices and the resolution of some of the problems encountered in 2006, beginning with the crisis in the chemical enterprise, Industries Chimiques du Sénégal (ICS).

Beyond the conjunctural dimension of these difficulties, the problems Senegal faced in 2006 reflect its vulnerability and structural weaknesses. Of note in particular, is the lack of buoyancy of its export sectors – groundnuts, fishing and phosphates – on the international level. These weaknesses could themselves be attributed to a lack of diversification in the economy and a business environment still too unfavourable to investment, and particularly, to foreign direct investment. In this context, the development of new

Figure 1 - Real GDP Growth and Per Capita GDP
($PPP at current prices)

Source: IMF and national sources data; estimates (e) and projections (p) based on authors’ calculations.

http://dx.doi.org/10.1787/252616550808

© ADB/OECD 2007

African Economic Outlook
sectors is difficult, although possible, as a few examples in the domain of new information technology attest. Growth then remains fragile in Senegal, which, as in 2002, is facing an economic crisis, albeit to a lesser degree. Insufficiently strong and regular growth in turn explains the slow progress in sanitation and social sectors, notably towards the Millennium Development Goals (MDGs). In fact, and despite a positive intermediate evaluation of the implementation of the Interim Poverty Reduction Strategy Paper (I-PRSP), progress on the sanitation and social fronts remains inadequate.

Aware of these weaknesses, the government announced a number of strategies and action plans designed to stimulate and stabilise growth at around 7 per cent. The backbone of this series of measures is constituted by the Accelerated Growth Strategy (AGS), based on the identification of promising clusters for the Senegalese economy and on the improvement of the business environment, and the PRSP-II, both unveiled in 2006. However, the fulfilment of the AGS could appear much too ambitious, given the number of goals listed and, above all, the difficulties encountered in 2006. For example, the same year the AGS was presented, a condition as fundamental as reliable and affordable energy did not exist. The effective implementation of these strategies, that is, defining them coherently and developing a clear vision of what is realistic, should thus be central in the activities of the government resulting from the 2007 election.

Recent Economic Developments

The Senegalese primary sector, which accounted for approximately 14.4 per cent of GDP in 2005, experienced a difficult year in 2006. With the notable exception of cotton (6 per cent growth), nearly all crops recorded lower production despite overall satisfactory rainfall. Agriculture suffered from insufficient supply of fertilizers, which was linked to the difficulties of the ICS. More structurally, it suffered from a falling trend in yield, reflecting the declining quality of available seeds and soil degradation.

Within this framework, estimates at end-2006 counted on a 24 per cent contraction in cereal production. The groundnut sector, which drives the Senegalese economy, recorded production of 494,000 tonnes in 2006, which is a 30 per cent drop and well below the average of the last five years. This fall attests to the structural difficulties of Suneor (formerly Sonacos, Société Nationale de Commercialisation des Oléagineux du Sénégal), the largest enterprise in the country milling groundnuts and processing crude edible oil. Suneor was privatised in 2003 but it is still heavily supported by the Senegalese state. Upstream, suppliers of inputs to groundnut producers benefit from a very large public subsidy (5 billion CFA francs, around EUR 7.62 million). Prices offered to producers are also highly subsidised. Thus, in 2006, the producer price of 150 CFA francs per kilogramme of groundnuts included 40 CFA francs of public subsidy (representing a total of 9 million CFA francs), with Suneor having assessed that it could not be competitive on the international market by offering a price above 110 CFA francs. Still, the price of 150 CFA francs remains unattractive for producers. Suneor’s inability to offer higher prices is certainly due to low international prices, but it is also due to the uncompetitive nature of the enterprise, which suffers from obsolete grinding equipment and precarious finances. In this context and invoking the World Trade Organization (WTO) safeguard clause, Suneor is calling for the maintenance of the high customs protection from which it benefits for its crude-oil refining activities. It argues that only this protection enables it to maintain the profitability of its refining activities, which in turn make it possible to offset the losses of its milling activities. At end-2006, a technical and financial audit of Suneor was underway in order to determine if the WTO safeguard clause, which was to expire in March 2007, was justified. Whatever the outcome, Suneor’s modernisation and eventual diversification towards other oils, the development of groundnuts for consumption, and the strengthening of cross-professional entities are imperative.

Fisheries, another driving force of primary sector, also had a difficult year: cumulative off-loadings for the
first nine months of 2006 were down by 17.7 per cent over the same period in 2005. The sub-sector suffers from structural depletion of halieutic resources due to overexploitation. In 2006, it also suffered from the high price of fuel and possibly from the amplification of illegal emigration, which is significant amongst young fish workers.

In this gloomy context, the government launched a wide-reaching initiative, the Reva (return to agriculture) plan, designed to re-energise the agricultural sector, henceforth a priority. The government sees agriculture as the engine for Senegal’s economic renewal, less for its weight in the GDP than for the number of households depending on it. This change in government priorities – agriculture was not initially high amongst its concerns – also signals a desire to keep in the country young people who might be tempted by emigration. Reva provides for the establishment of agricultural zones of excellence heavily equipped with technical production methods and irrigated land, some of which will be aimed at export, and others at food self-sufficiency. This plan is set out as the set of different actions expressing the priorities listed in the AGS, in the agriculture, forestry and pasture framework law (LOASP) of May 2004 and in the PRSP-II presented in 2006. Indeed, the aims of Reva are in line with the food-security issues outlined in the PRSP-II. That said, at end-2006, the link between the objectives of Reva and those of the AGS was still far from perfect. The plan has also met with scepticism due to its highly administrative and proactive nature, its great ambition (“the return to agriculture”) and the amplitude of funds to be raised (237 billion CFA francs in the 2006-08 pilot phase). Above all, the Reva plan makes only marginal progress on the path to socially difficult but imperative reforms to modernise Senegalese agriculture and fisheries, in particular the reform of land laws provided for in the LOASP and reforms for the efficient regulation of the over-sized small-scale fishing sector that is exhausting the country’s halieutic resources. More generally, the Reva plan hesitates between the development of competitive, productive and export-oriented agriculture and the promotion of food security, thus risking a contradiction impossible to manage.

The secondary sector (21.7 per cent of GDP in 2005, including construction) failed to make up for the weakness in the agricultural sector. It posted a contraction of 6.6 per cent during the first three quarters of 2006 over the same period in 2005. The key sub-sector of phosphates was particularly damaged by the catastrophic financial situation of the ICS, which at end-2006 posted 65 billion CFA franc in annual losses and 215 billion in debts (80 billion of which was held by the local banking sector). These difficulties adversely affected both exports and the state budget, and led to concerns about the stability of the local banking system. Added to these problems were those of the energy sector: cumulatively, over the first nine months of 2006, chemical industries recorded a 51.6 per cent fall compared with the same period in 2005 due to the drop in oil-refining activity. For its part, electricity generation was riddled with numerous load sheddings in 2006. These problems arose out of the difficult financial situations of the oil-refining enterprise Société africaine de raffinage (Sat) and the national electricity utility, Senelec, which can themselves be attributed to an
Senegal

Incomplete pass-through of the rise in oil prices to consumer prices for electricity and butane, and to a price structure that is not adapted to fluctuations in world oil prices. Compensatory government subsidies were both inadequate (only covering around 50 per cent of Senelc and Sar’s foregone earnings) and disbursed late. A dispute between Senelc and the American independent power producer GTI also penalised electricity generation.

Finally, the chief drivers of economic activity were construction and the tertiary sector (44.3 per cent of GDP in 2005). The former (cumulative growth of 9.9 per cent over the first nine months of 2006) was sustained by ambitious public-investment programmes and by non-residents’ transfers, which continue to feed property demand, particularly in Dakar. This contributed to the buoyancy of services (20.8 per cent growth in turnover), whether in telecommunications, real-estate services or insurance. Only trade suffered from the erosion of household purchasing power linked to the difficulties in agriculture, with trade margins down 3.4 per cent.

The conjunction of unfavourable factors in 2006 and its very strong negative impact on the contribution of exports to growth was only partly offset by the good performance of public and private consumption and by vigorous public investment. The effects of this latter on the local fabric remain limited, as it was mostly foreign public-works enterprises that benefited from large state infrastructure contracts. Sector difficulties, worsened congestion in Dakar and pre-electoral uncertainties all weighed on private investment. Domestic demand was sufficiently robust against the backdrop of a weak increase in national revenue to corrode the national savings capacity and to make the deficit much deeper, estimated at 13 per cent of GDP in 2006. Overall, the economy should not grow more than 3 per cent in 2006.

However, the Senegalese economy could rebound in 2007, when growth could reach 5.6 per cent. The cash-flow problems of ICS are on the way to being solved: the state has reassured the banking sector by guaranteeing its debt and an agreement for the enterprise’s durable financial rescue will necessarily have to be concluded between the chief shareholders, the Indian Farmers Fertiliser Cooperative Limited (IFFCO) on the one hand, and the Senegalese state on the other. In the energy sector, a recovery is in sight: the dispute between Senelc and GTI was on the point of being resolved at the end of 2006, while the second unit of the Kounoune power station should be commissioned in 2007. Since October 2006, Sar and Senelc have also been authorised to pass on, gradually, to consumers the rises in the price of oil. In 2007, and in the longer term, the continuation of large projects under the Organisation of the Islamic Conference (OIC) and the implementation of ambitious

Table 1 - Demand Composition (percentage of GDP)

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>2005</th>
<th>2006(e)</th>
<th>2007(p)</th>
<th>2008(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross capital formation</td>
<td>15.5</td>
<td>23.7</td>
<td>6.1</td>
<td>5.1</td>
<td>5.1</td>
</tr>
<tr>
<td>Public</td>
<td>5.1</td>
<td>8.1</td>
<td>10</td>
<td>7.0</td>
<td>7.0</td>
</tr>
<tr>
<td>Private</td>
<td>10.4</td>
<td>15.6</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Consumption</td>
<td>91.1</td>
<td>91.5</td>
<td>7.6</td>
<td>3.3</td>
<td>5.4</td>
</tr>
<tr>
<td>Public</td>
<td>12.8</td>
<td>13.9</td>
<td>14.0</td>
<td>0.4</td>
<td>4.4</td>
</tr>
<tr>
<td>Private</td>
<td>78.3</td>
<td>77.8</td>
<td>6.7</td>
<td>3.8</td>
<td>5.6</td>
</tr>
<tr>
<td>External sector</td>
<td>-6.6</td>
<td>-15.4</td>
<td>-9.4</td>
<td>9.8</td>
<td>2.4</td>
</tr>
<tr>
<td>Exports</td>
<td>27.7</td>
<td>28.1</td>
<td>-6.8</td>
<td>2.3</td>
<td>4.0</td>
</tr>
<tr>
<td>Imports</td>
<td>-34.3</td>
<td>-41.5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: DPFE data; estimates (e) and projections (p) based on authors’ calculations.

http://dx.doi.org/10.1787/432752372853
investments scheduled under the AGS and PRSP-II should sustain domestic demand. PRSP-II financing amounts to 3,553 billion CFA francs (approximately EUR 5,416 billion) between 2006 and 2010, 1,736 billion CFA francs of which are already to have been granted under the 2006-08 three-year public-investment programme. To this could be added the start of work on the industrial and technological platform in Diamniadio if the financing earmarked under the Millennium Challenge Compact funded by the United States is obtained in 2007. The country’s capacity to absorb all of these investments, however, remains questionable. The 7 per cent growth objective set out in the PRSP-II for the coming years is thus highly ambitious.

**Macroeconomic Policies**

Measured against the West African Economic and Monetary Union (WAEMU) convergence criteria, Senegal’s performances are traditionally the best in the sub-region. In 2005, the country fulfilled seven of the eight criteria: only its current deficit of 8.4 per cent of GDP was above the 5 per cent ceiling. Notably, it is the only WAEMU country to have respected the higher than 17 per cent tax-to-GDP ratio criterion by posting 19 per cent. Still, in 2006, its performance deteriorated: the criteria for current deficit, basic fiscal balance and non-accumulation of domestic payment arrears were not expected to be met.

**Fiscal Policy**

Although the Senegal’s fiscal position actually remains healthy, the country has nonetheless experienced a strong deterioration in public finances at end-2005 and in 2006. Yet, public revenue performed well: for the whole of 2006, total revenue and tax revenue are expected to be, respectively, at the level of 960 and 927 billion CFA francs, a 9 per cent increase in each, compared with 2005. This rise is due to the exceptional increase in indirect taxes, which accounted for one-third of revenues during the first nine months of 2006, particularly customs duties (17.3 per cent growth) and value-added tax on imports (15.4 per cent). These exceptional results are due to the soaring price of crude-oil imports as well as to an increase in the volume of refined products arising from the problems encountered by Sar. Enterprise-tax revenues remained stable, against the backdrop of the implementation of the reduction of the tax rate applied to enterprises from 33 per cent to 25 per cent, thus attesting to progress made in widening the tax base.

In reality, the sizeable drifts in the execution of the 2006 finance act can be attributed to public expenditure. For all of 2006, expenditure is estimated to have risen by more than 19 per cent over 2005, and current expenditure is expected to have increased by 23 per cent. Human-resources expenditure rose significantly in 2005 and 2006 (5.7 per cent of GDP in 2007 against 5.2 per cent in 2004). Current expenditure was

<table>
<thead>
<tr>
<th>Year</th>
<th>Total revenues and grants (%)</th>
<th>Tax revenue (%)</th>
<th>Grants (%)</th>
<th>Total expenditure and net lending (%)</th>
<th>Current expenditure (%)</th>
<th>Excluding interest (%)</th>
<th>Wages and salaries (%)</th>
<th>Interest (%)</th>
<th>Capital expenditure (%)</th>
<th>Primary balance (%)</th>
<th>Overall balance (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>18.3</td>
<td>14.9</td>
<td>2.8</td>
<td>18.6</td>
<td>10.4</td>
<td>9.3</td>
<td>5.4</td>
<td>1.2</td>
<td>6.6</td>
<td>0.9</td>
<td>-0.3</td>
</tr>
<tr>
<td>2003</td>
<td>20.0</td>
<td>17.0</td>
<td>1.9</td>
<td>21.6</td>
<td>13.3</td>
<td>12.2</td>
<td>5.1</td>
<td>1.1</td>
<td>8.5</td>
<td>-0.5</td>
<td>-1.6</td>
</tr>
<tr>
<td>2004</td>
<td>20.5</td>
<td>17.5</td>
<td>2.1</td>
<td>23.1</td>
<td>13.1</td>
<td>12.0</td>
<td>5.6</td>
<td>1.1</td>
<td>9.7</td>
<td>-1.5</td>
<td>-2.6</td>
</tr>
<tr>
<td>2005</td>
<td>21.1</td>
<td>18.8</td>
<td>1.7</td>
<td>24.3</td>
<td>13.9</td>
<td>13.0</td>
<td>5.2</td>
<td>1.0</td>
<td>10.0</td>
<td>-2.3</td>
<td>-3.2</td>
</tr>
<tr>
<td>2006 (e)</td>
<td>21.8</td>
<td>19.4</td>
<td>1.7</td>
<td>27.2</td>
<td>15.9</td>
<td>15.2</td>
<td>5.7</td>
<td>0.8</td>
<td>10.9</td>
<td>-4.7</td>
<td>-3.4</td>
</tr>
<tr>
<td>2007 (p)</td>
<td>21.8</td>
<td>19.3</td>
<td>1.8</td>
<td>26.1</td>
<td>14.9</td>
<td>14.0</td>
<td>5.6</td>
<td>0.9</td>
<td>11.0</td>
<td>-4.3</td>
<td>-3.5</td>
</tr>
<tr>
<td>2008 (p)</td>
<td>21.8</td>
<td>19.4</td>
<td>1.8</td>
<td>26.2</td>
<td>14.8</td>
<td>13.9</td>
<td>5.5</td>
<td>0.9</td>
<td>11.3</td>
<td>-4.4</td>
<td>-4.4</td>
</tr>
</tbody>
</table>

*Source: DPEE data; estimates (e) and projections (p) based on authors’ calculations.*

http://dx.doi.org/10.1787/356552653348
significantly higher than the amount initially approved in the 2006 finance act. This strong rise in current expenditure is principally due to consumer price subsidies for electricity and butane, which amounted to 103 billion CFA francs, or nearly 10 per cent of the state’s resources (against 5 per cent in 2005 and 1.5 per cent in 2004). It could also be put down to the 2003/05 programme to recruit 15,000 civil servants, the implementation of which carried over to 2006, as well as to unscheduled re-evaluations of the wages of certain categories of state employees. In 2006, the state budget also had to bear a strong increase in investment expenditure, estimated at 14.2 per cent.

This drift in public expenditure resulted in a strong deterioration of the fiscal balance. Not only should the basic fiscal deficit, as defined by WAEMU, be in the order of 2.2 per cent of GDP in 2006, but the overall deficit, including grants, could reach 5.5 per cent in 2006 (7.5 per cent of GDP excluding grants), rising from 3 per cent in 2005 (4.7 per cent excluding grants). In addition, this deepening deficit is accompanied by an accumulation (difficult to assess precisely) of non-payments and arrears on domestic debt that might have reached between 0.5 per cent and 1 per cent of GDP in 2006.

In 2007, the overall fiscal deficit is expected to contract to 4.3 per cent of GDP in spite of increased expenditure on personnel and investments, the amounts of which voted in the 2007 finance act are much greater than those contained in the 2006 finance act (+16.4 per cent and 6.3 per cent, respectively). This contraction is partly explained by a lightening of the burden of the public subsidies for the price of electricity and butane. Since the second quarter of 2006 – and belatedly – the increase in energy prices is effectively being passed on gradually to the consumer. Since October 2006, the price of electricity has been adjusted upwards by 15 per cent per month and the price of butane by 15 CFA francs per month. At the same time, the price structure of oil products (including gas at the pump) was reviewed and is now propped on a new reference market (Northwest Europe) that is more representative of the behaviour of the oil market from which Senegal is supplied. Against this backdrop, the activity of importing unprocessed hydrocarbons should once again become profitable. In 2007, improvement of the fiscal position will also depend on the resolution of the crisis in ICS, since the state has guaranteed the enterprise’s bank debt.

Management of public finances in Senegal has made significant progress over the last years. The tax base has continuously grown and tax revenues, which accounted for 16 per cent of GDP in 2001, are now more than 19 per cent of GDP. The proportion of current expenditure in the budget shrank from 69 per cent in 2001 to 60 per cent in 2006, while capital expenditure increased measurably (from 31 per cent to 40 per cent of the budget between 2001 and 2006). These adjustments are in line with the government’s ambitious investment programmes, notably defined in the framework of the previously mentioned three-year public investment programme. The concentration sectors identified in the latter and in the PRSP-II are agriculture, energy, road transport, water and sanitation, as well as housing, health and education. Further, in June 2003 the authorities adopted two action plans to improve budget procedures, one for financial management (CFAA) and the other for public procurement (CPAR), both supported by development partners who made their implementation a condition for increased disbursement of public development aid (PDA) in the form of budget support. However, although advances have been made in this domain, reform of budget procedures remains timorous overall, as highlighted by the 2006 public-expenditure review conducted by the World Bank. To the credit of the authorities, authorisation of expenditure has now been decentralised to six technical ministries, and the spreadsheet of the state’s financial operations is now produced more rapidly thanks to the computerisation of expenditure management (with the Sigfip system). Frameworks for medium-term sector expenditure, though imperfect, have been drawn up for the education, justice, health, environment, agriculture, livestock and tourism sectors. On the other hand, after-the-fact control of budget execution, whether internal (by the audit authority) or external (by parliament), remains almost non-existent. For example, never once has a bill regarding budget rules been submitted to
Moreover, the government has not respected its commitments in this area to development partners. The latter also showed concern over financing outside of normal frameworks (the three-year investment programme, in particular), infrastructure investments and the proliferation of para-governmental bodies (Apix, Anoci, etc.) that have no clear legal standing and nonetheless receive budget transfers. Finally, they regretted that at the end of 2006, the new public-procurement code had still not been adopted.

**Monetary Policy**

Senegal belongs to the CFA franc zone and its monetary policy is thus set by the Central Bank of West African States (CBWAS). Aside from the developments in the activity and prices in the WAEMU zone, CBWAS decisions are largely influenced by the pegging of the CFA franc to the euro, and thus by European Central Bank decisions. In line with the tightening of monetary policy in the euro zone since end-2005, the CBWAS increased its key interest rates on 24 August 2006 for the first time since 22 March 2004, bringing its discount rate from 4.5 per cent to 4.75 per cent, and its repurchase rate from 4 per cent to 4.25 per cent.

The impact of the word increase in energy costs on inflation in Senegal was contained by public price subsidies for electricity and butane. In this environment, the rise in the harmonised index of consumer prices should be close to 2 per cent in 2006 (against 1.7 per cent in 2005), that is, in compliance with the WAEMU convergence-criteria ceiling of 3 per cent. Nonetheless, household spending for those most exposed to soaring oil and gas prices rose significantly, all the more that the administered prices for goods sold in shops such as butane were not respected. Thus, the price of transport increased by 17.7 per cent during the first nine months of 2006, that of gas by 9 per cent, and that of liquid fuels by 21.6 per cent. The evolution of prices in 2007 will depend on the cost of energy, but should remain close to 2 per cent.

The weak increase in credits to the economy (3 per cent) between December 2005 and September 2006 is partly explained by the gloomy economic environment.

**External Position**

The problems encountered by the driving forces of the Senegalese economy, particularly the sectors that contribute significantly to exports (phosphates, fisheries and groundnuts) combined with the rising cost of energy imports to further deepen the trade deficit, which rose by 127 billion CFA francs over 2005 to reach 19.3 per cent of GDP in 2006 (against 15.4 per cent in 2005). In fact, exports fell by nearly 5.5 per cent in 2006, those of ICS plummeting from some 100 billion CFA francs under normal circumstances to 30 billion CFA francs. Imports grew by 5.5 per cent in 2006.

This deficit in the balance of goods was partly offset by a rise in recorded current transfers, notably private ones, of 80 billion CFA francs. In all, the current deficit widened from 8.4 per cent of GDP in 2005 to 12.9 per cent in 2006. The evolution of Senegal’s current account is a subject of concern. Certainly, the aggravation of external imbalances in 2006 was due to a conjunction of...
of highly unfavourable factors, specifically detrimental to the country’s external performance. In 2007, the current deficit could be reduced to around 11 per cent of GDP if ICS exports recover and if oil prices remain at their level of end-2006. The fact remains that Senegal’s trade deficit has more than tripled as a percentage of GDP since the end of the 1990s, a progression that points to the weak fabric of the local economy, starting with its poor diversification. The sectors that drive Senegalese exports (groundnuts and fisheries) are becoming exhausted and/or are not supported by dynamic international demand. They are thus confronted with badly positioned world prices (groundnuts and phosphates). With weak national savings, this deterioration also underscores the importance of the public-investment effort. It is thus imperative that growth relays should be identified that will channel the foreign resources necessary to finance the country’s development. Recovery of the tourism sector should be a priority, for example (particularly holiday tourism) while the emergence (already visible) of new activities should be encouraged, in information technology, for example.

The current deficit was more than financed by the combination of debt relief, in particular 34 billion CFA francs obtained for 2006 under the Multilateral Debt Relief Initiative (MDRI), and new public and private financing. In 2006, net public financing was 272 billion CFA francs, while private financing amounted to 283 billion CFA francs, 73 billion of which was foreign direct investment (FDI). This latter remains modest as GDP ratio (1.5 per cent), and financing of the large current account deficit is highly dependent on public development aid: net external public financing accounted for almost 65 per cent of the current deficit in 2006. Thus, not only must the current deficit be reduced, but the entry of foreign investors liable to invest should be facilitated by an improved business environment.

In the context of weak FDI, the existence of a large current account deficit could lead to the country’s debt dynamics’ being questioned again in the future. On this subject, the improvements recorded in the past years have been spectacular: in 2006, Senegal benefited from debt relief totalling 1 026 billion CFA francs under the MDRI. This resulted in its outstanding foreign debt being reduced from 1 855 billion CFA francs at end-2005 to 860 billion CFA francs in September 2006 (or around 17.8 per cent of GDP end-2006, against 41 per cent of GDP end-2005).

Moreover, the country’s financing profile is strongly concessionary: the average rate of concession of the existing debt stock is close to 33 per cent, in compliance with the commitments made to development partners; on average, it is also long-term (29 years) and characterised by a high average deferral of 7.2 years. As such, debt servicing is less than 1 per cent of GDP. The sustainability evaluation most recently conducted by the World Bank and the International Monetary Fund (IMF) was positive, anticipating public debt of 26 per cent of GDP by 2026, though it stressed the risks induced by a succession of very large current account deficits.

Relations between Senegal and development partners are good and the country is the region’s biggest recipient of PDA ($440 million in 2005) after Ghana. It has successfully completed the debt discharge process under the Heavily Indebted Poor Countries (HIPC) Initiative, having reached its completion point in April 2004. Senegal is no longer under an IMF programme since April 2006. The sluggishness of reforms in some areas, for instance in the area of transparency in budgetary procedures and public procurement, explains the weakness of budgetary support to Senegal: it only accounts for 5 per cent of PDA allocated to the country (against 25 per cent of that allocated to Ghana, for example). Development partners have proven reluctant to increase this volume rapidly without greater transparency in public finances. For the same reason, the World Bank has delayed the release of the second phase of a poverty-reduction budget support, whereas the improvement of budgetary procedures will certainly be a key element in a non-financial monitoring arrangement that the authorities are seeking to negotiate with the IMF at the start of 2007. This arrangement, an IMF Policy Support Instrument, is important because, at end-2006, several bilateral donors held it as a condition for disbursing
funds. In parallel, the review of 2006 public expenditure has highlighted the very poor co-ordination of development partners in Senegal. While unified action frameworks exist (as for the water domain) or are being developed (for education), they are scarce and only one project out of four financed by PDA is jointly financed. Progress must also be made by development partners in terms of forecasting the resources put at the disposal of the Senegalese authorities to enable better medium-term budget programming.

**Structural Issues**

**Recent Developments**

Senegal is going through a very dynamic period regarding structural reforms. All the same, even if improvements have taken place, notably in the business environment and infrastructure, the process is proving to be more-or-less chaotic. The pre-electoral climate, combined with the economic difficulties the country is confronting, has certainly contributed to this situation.

The privatisation process in Senegal was initiated immediately following the 1994 devaluation and in 2005, practically all of the large transactions had been realised. The last of these, Sonacos, which became Suneor in January 2007, launched operations as a private enterprise in March 2005. Only the privatisation of Senelec – scheduled for 2006 – is unresolved having been postponed owing to difficulties in the local energy sector.

Senelec, which was privatised in 1999 and renationalised in 2000, is currently suffering from serious cash-flow problems in large part due to the increase in the price of oil and the impossibility of passing it all on to consumers. This situation has resulted in serious electricity-supply problems in Dakar and led to frequent load sheddings throughout 2006, which seriously impaired the industrial fabric and led to significant interruptions in production. In October 2006, the managing director of Senelec resigned, and it is expected that relations between the new management and private suppliers (including GTI with whom Senelec has accumulated debts) will
improve, in keeping with the sector policy promised by the government. The Senelec crisis also affected Sar, charged with importing, processing and distributing oil products in the country. Senelec’s arrears, the rising price of crude oil and a badly adjusted oil-price structure all explain why Sar could not be supplied with raw materials and had to cease its refining activities (which were producing a deficit) for ten months, causing a severe shortage of gasoline and butane throughout the country. Against this background, Senelec received temporary permission to buy refined gasoline directly on international markets.

Furthermore, access to energy services remains a problem in Senegal despite an increasing rate of rural electrification, which rose from 6 per cent in 2000 to 12.5 per cent in 2004. The forecast for the coming three years is for production capacity to expand, with increased production at the Manatali plant and the construction of two new power stations at Fellou and Gouna. The Islamic Development Bank has also signed an agreement worth 19 billion CFA francs (nearly EUR 29 million) for the construction of a new 60 megawatt power station in Dakar.

In 2006, Senegal launched a series of large public works in transport, notably on major roads leading into the capital. The widening, with new intersection-free road junctions, of the VDN (northern distribution road), the major road linking Dakar to its suburbs, is planned for the OIC in 2008. Other works have been scheduled to make the RN 1 (called “la Pénétrante”), the sole road giving access to the Dakar peninsula, into a widened toll freeway. It has also been planned to renew the access roads to Dakar’s new districts, particularly Ngor, Yoff and the Almadies. These works did not fail to affect the life of Dakar residents by rendering traffic around the city very difficult and hindering life in the capital, where 80 per cent of economic activity is concentrated. The second phase of the urban mobility programme, Pamu-II, will be discussed in 2007 and implemented in 2008. It sets out the reactivation of Dakar’s rail transport, linking the capital to its suburbs (the “blue train”) as well as the development of public transport. The construction of a new international airport is still on the agenda, as is the construction of roads linking Dakar and Bamako (Mali) and Senegal to Guinea.

The business environment is perceived today as one of the chief obstacles to the development of the Senegalese private sector, in particular with continued administrative obstacles to the creation and operation of enterprises, the slowness and uncertainties of legal and judicial procedures, and the difficulties in access to financing and real estate. The latter is still lacking a solid legal framework. Improvements have certainly been observed for some of the indicators of the World Bank survey, Doing Business, particularly for closing business and paying taxes. The enterprise tax rate has thus been revised from 33 per cent to 25 per cent. Senegal’s ranking, however, remains disappointing (146 out of 175 countries ranked). With a view to improving the business environment, a new government-contracting code – subjecting all government contracts to rules of transparency and instituting tender bidding for every contract – has reached the signature stage by the president of the republic. It follows up on the code promulgated in 2002 but its content – completed after eight years of work – was already outdated on publication. Hence, and given the dissatisfaction of the private sector and civil society with its anti-corruption measures, its review was initiated. This led to concerted consultation with all concerned parties, including partners such as the World Bank and the Agence Française de Développement (AFD). Approval of the code remains one of the prerequisites for any agreement with the IMF and the World Bank.

The Senegalese financial system exhibited its weakness in 2006 following the cash-flow problems in the country’s largest enterprises, and, as a result, the magnitude of bad bank debts. The situation was remedied near the end of 2006, when the government began to reimburse Senelec’s debts and guaranteed ICS’s bank loans. Otherwise, the financial system remains characterised by the abundance of liquidities and has grown with three new banks that began operations in 2006. Still, despite the expansion of the financial system, access to credit remains restricted, especially for small enterprises and the informal sector.
Long-term credit still accounts for only 5 percent of all credits to the economy.

**Access to Drinking Water and Sanitation**

Senegal has large water resources (surface and groundwater) but it must address a distribution problem, as these resources are either far from the large centres of consumption or are difficult to harness to meet population needs. Thus, water management is featured amongst the key challenges for the country and for its strategy of human and economic development. Improving access to water has been a government priority since 1995, when the strategic orientations were formulated and included in the first PRSP of 2002.

In line with the poverty reduction strategy, the government’s sector policy is targeted at improving the access to water of the poorest. It has set up a system of differentiated pricing for water consumption through individual connections as well as a huge programme of social connections. Between 1996 and 2005, the government put up 105,000 individual social connections in the peri-urban zones of Dakar. The aim is for 88 percent of the population of Dakar and 79 percent of households in other towns to be equipped with an individual connection by 2015. Nonetheless, 24 percent of the inhabitants of Dakar and 43 percent of the residents of other urban centres still only have access to standpipes, where the price of water is as much as four times higher than with an individual connection. In the poor districts of Dakar, water consumption is no more than 30 litres per person per day, or half of the average consumption of Dakar as a whole.

In rural areas, the Pepam programme (national drinking water and sanitation programme), planned to massively expand as from 2005 a pilot programme for the management of rural motorised wells (Rogefor) that was initially implemented between 1996 and 2004 with financial assistance of the AFD. The programme focuses on collective wells, each of which will be capable of supplying several villages or a total of 3,000 people. It also envisages the appropriation of the management and maintenance of water points by local communities, the withdrawal of the state and an increasing role for the private sector, particularly in terms of maintenance and repairs. The stated aim is to obtain by 2015 a coverage rate of 82 percent and individual daily consumption of 35 litres.

The sub-sector of urban sanitation, previously the domain of the national water enterprise, Société nationale d’exploitation des eaux du Sénégal (Sonees), is now managed by a public independent body, the Office national de l’assainissement du Sénégal (Onas), that was specifically set up for this purpose by a 1996 reform. Before the Onas, only five cities possessed a sanitation system; there was no clear perspective as to how the sector would develop, and its financial viability was weak and based on resources that were largely insufficiently for its needs. Since the institution of the Onas, the situation has improved significantly in terms of expanding the network, renewing equipment and putting in place household connections (with 63,000 individual connections set up in the peri-urban zones). Still, huge financial problems remain: the proportion of water fees devoted to financing Onas barely covers 65 percent of its needs.

The ongoing and extended effort to improve coverage, which is based on exemplary co-ordination between the various agencies, clear aims, a long-term perspective and a successful public-private partnership, has enabled the country to post a national access rate of 70 percent at the beginning of 2007, one of the highest in sub-Saharan Africa. This gives hope that Senegal will reach the MDG for water by 2015. Nonetheless, disparities between urban and rural areas persist, with respective access rates of 90 percent and 64 percent in 2004. This variation is related to the overwhelmingly urban focus of the sector reform. As a result, in 2004, nearly all of the urban population had access to a source of drinking water, in 71 percent of cases through individual connections (76 percent for Dakar) and for the rest through standpipes. In contrast, the development of the rural sector is the subject of neither formal plan and schedule nor strategic vision. Thus, 64 percent of the rural population had access to drinking water in 2004, but only 10 percent had an individual connection, the rest being supplied by standpipes and protected wells. Consumption per
Successful Reform of the Water Sector in Urban Senegal

The deep financial crisis of the water enterprise, the Société nationale d’exploitation des eaux du Sénégal (Sonees), provoked by excessively low prices and a weak rate of invoice recovery, was the impetus behind the 1995 reform. This entailed a vast institutional change, separating the activities of sanitation and drinking-water supply, and establishing a partnership amongst the state, a public enterprise, the Société nationale des eaux du Sénégal (Sones), and a private enterprise, the Sénégalaise des eaux (SDE), as well as the implementation of a succession of investment programmes. The financing of new infrastructure was covered for the most part by development partners, under the water-sector project (1995/2001) and its successor, the long-term water-sector project (2002/07). In 2005, a new sector policy and a new investment programme (of 241.4 billion CFA francs) were set out under the Programme national d’eau potable et d’assainissement du millénaire (Pepam). They cover the renewal of the network and the construction of social connections, as well as the development of a new series of so-called “second generation” institutional reforms, aiming to address the challenges raised by the sanitation and expansion of Dakar.

From the institutional perspective, the law of 7 April 1995 replaced the Sonees with two separate enterprises, governed by two different types of contracts: on the one hand, the Sones is a public enterprise linked to the state by a concession contract, the prerogatives of which are approving three-year investment programmes and to be the contracting authority for the new investments; on the other hand, the SDE is a private enterprise (belonging to the French group Saur) charged with the technical and commercial exploitation of the network through a contract with the state and the Sones. This contract is rounded out by a performance contract with the Sones. Given its success over the last ten years, the management contract with SDE was renewed in 2006 for five years, with the goals of financial stability and improving access to water for the poorest.

The success of this public-private partnership can be primarily attributed to three factors: the choice of a suitable institutional framework; the introduction of appropriate incentives; and the important role played by the state, which was able to gain the confidence of its partners. The SDE invests in renewing the distribution network under its contractual obligations, but it is also motivated to do so by the higher profits the enterprise will earn from increased user consumption. The main actors were also careful to establish good dialogue, with an implementation control committee conducting a biannual review of contracts based on an assessment of the SDE’s performance. This assessment is constructed from 18 indicators set out in the performance contract between SDE and Sones. The fulfilment (or non-fulfilment) of objectives fixed for each of these main indicators entails financial rewards or sanctions for the enterprise (a type of bonus-surcharge system). This system has brought about an improvement in the efficiency of SDE, which increased its client base by 69 per cent between 1996 and 2005. At the start of 2007, it posted a proportion of water produced/volume sold of 80.5 per cent (68.2 per cent in 1996), a network profitability rate of 80 per cent (the target is 85 per cent) and financial balance since 2003. Finally, the state was careful to take a strong role in regulation and co-ordination and honoured it commitments, particularly in settling invoices, enabling the SDE to have a 98.3 per cent invoice recovery rate. Furthermore, the administration was care to apply necessary and planned rate adjustments set out in the contract between it and the Sones.

A series of new measures expected under Pepam, christened “second generation reforms”, are being examined. These include the development of organisation and institutional frameworks for water and sanitation, the implementation of a new pricing system that would increase the resources devoted to sanitation, and the search for new water-supply sources for the principal urban centres to replace the costly exploitation of Lake Guiers.
person and per day is 25 litres, below the level recommended by the World Health Organisation.

With access to sanitation in the order of 56 per cent in urban areas in 2004, the goal of 78 per cent coverage by 2015 appears difficult to achieve. In rural areas, 28 per cent of the population were without access to sanitation infrastructure in 2004; 40 per cent had access to simple latrines, and barely 17 per cent to ventilated latrines. The goal by 2015 is to raise this figure to 50 per cent.

In view of the enormous lag developed in the sub-sector, sanitation has become a priority for the government, and it occupies a central position in the Pepam. This increased interest has been formalised by the institution of a ministry of sanitation and by the allocation of greater budgetary resources to investment expenditure. A price study is also being carried out under the second generation reforms, a sanitation code is being drafted and a performance contract between the Onas and the state being drawn up. The Pepam strategy in urban areas is to focus on the construction of individual rather than collective connections, these latter being more costly and dependent on an urban plan. In rural zones, the programme allows for the construction of 355 000 independent household connections and 3 360 public lavatories.

The Differential Pricing System

The pricing system put in place following the reform is differentiated, with prices varying according to the capacity of users to pay. In fact, a single category of user is the net contributor to the system, that of “non-household” users (public administrations, schools, industries, etc.), which consume 27 per cent of the overall volume and provide 41 per cent of the revenue. In contrast, market gardeners are highly subsidised, and there is a very low social price for household users for all consumption equal to or less than 20 m³. Overall, the prices applied reflect the reality of the cost of service, permitting the water sector to break even and making Senegal an example for other African countries. Prices have risen by 3 per cent each year and have been frozen since 2003, but a review process is underway with a view to raising prices beginning in 2008.

Political Context and Human Resources Development

Abdoulaye Wade was re-elected as president of Senegal in the first round of elections in February 2007. While it would appear since the 2000 election that democratic change-over is an accepted part of Senegalese society, the political climate hardened considerably in the months preceding the election. Significant tension followed several episodes of violence, threats and arrests against various political opponents, including the principal rival of the president, the former prime minister and mayor of Thiës, Idrissa Seck, now president of the Front Pour le Progrès et la Justice. Further, the decision of the party in power, the Parti Démocratique Sénégalais (PDS) to postpone the legislative elections of April 2006 in order to combine them with the presidential election elicited great protest. This date change, officially argued by the desire to reallocate the funds earmarked for the organisation of the elections to compensate the victims of the 2005 floods, was perceived by part of the population as a political manoeuvre. Government detractors argued that the real motive of this decision was to allow the PDS to emerge from a period rendered difficult by internal dissension and by the negative impact on the government of problems in the industrial and energy sectors. At the beginning of 2007, the legislative elections were again postponed without further clarification, following a High Court ruling striking down a presidential decree regarding the distribution of local members of parliament, which had been contested by the opposition.
Despite a 2004 agreement signed between the government and separatist rebels, the Mouvement des Forces Démocratiques de Casamance (MFDC), peace has not yet been consolidated in Casamance and awaited negotiations have twice been postponed. In August 2006, the Senegalese army launched a military campaign against the rebels of Salif Sadio, the head of the MFDC, leading to new confrontations in the region. Occasional clashes continue as well as refugee movements to neighbouring countries, particularly Gambia. The president of the regional council of Ziguinchor, Oumar Lamine Badji, was murdered by unknown assailants in December 2006, in the middle of Aid el-Kebir, the Muslim feast of sacrifice.

Senegal has historically experienced large waves of emigration abroad, particularly to Europe. On this subject, 2006 was an exceptional year with this movement taking on unprecedented proportions: the number of illegal immigrants to the Canary Islands reached 30 000, sparking diplomatic tension with Spain, which was resolved by the repatriation of several hundred emigrants. In response, the Senegalese government announced the June 2006 launch of the Reva project, while the new PRSP also includes the development of income-generating activities and employment opportunities in small urban centres. It remains to be seen whether these activities will be able to offer a real alternative for young Senegalese prepared to undertake a highly dangerous journey towards a hypothetical better future. In addition to the high price paid in human lives, this exodus seriously risks hampering the development of a country already strongly limited by human resources in key sectors. On the other hand, the flow of emigrant workers represents an essential source of funding through foreign remittances.

The government approved the new PRSP for 2006-10, which was strengthened by the recommendations of work commissions responsible for progress and mid-course evaluation reports of the previous PRSP. Four strategy lines were decided. The first, already included in the I-PRSP, focuses on the generation of wealth and growth in favour of the poor, and includes the AGS. The second focuses on accelerating access to basic services and reflects the priorities and objectives already included in the I-PRSP. The third aims at promoting social protection, risk prevention and management, and replaces the strategy line of improving the lives of the vulnerable sectors of the population. The last focuses on good governance and on decentralised and participative development.

Although public expenditure devoted to social sectors, particularly education and health, is sizeable (50 per cent of the state budget according to the new PRSP), its effectiveness remains weak judging by the slow progress that has been recorded. Above all, these sectors appear crippled by the limited and inadequate quality of available human resources. Amongst other things, this results in worsening disparities between rural and urban areas in access to social services.

With a 37.8 per cent literacy rate amongst adults, the majority of the Senegalese population is still illiterate. Resources allocated to education have continued to increase to the point of reaching, in 2005, almost 40 per cent of the state budget. As a result of this effort, undeniable progress has been made, particularly in primary education. Between 2000 and 2005, the number of functional schools grew from 4 751 to 6 460, which is a 36 per cent increase, and the gross enrolment rate rose constantly, from 69.4 per cent to 82.5 per cent for the same period. Still, these improvements remain inadequate: access to teaching is difficult for a great majority of the population owing to the distance to schools, the high cost of schooling and problems in obtaining the school material necessary for learning. The quality of teaching remains mediocre due to the lack of qualified personnel and their insufficient supply in light of the education demand, as attested to by the very high number (55) of pupils per teacher. This is certainly the
source of a high primary-school repeater rate (14 per cent in 2005), the low enrolment rates (less than the average for sub-Saharan Africa) and a significant dropout rate (46.1 per cent).

Since 2000, the government’s sector development strategy for education is part of a ten-year education and training programme called the Programme Décennal de l’Éducation et de la Formation, which is part of the poverty-reduction strategy. In the framework of the MDGs and the 2003 Rome Declaration on the effectiveness of aid, initiatives have been put in place to improve the sector strategy and to initiate true cooperation between the government and its partners in this domain. In 2005, for the first time, the government drew up a medium-term sector expenditure framework called the Cadre de dépenses sectorielles de moyen terme. For their part, development partners are focusing on establishing with the relevant ministries a framework for co-operation and co-ordination including, amongst other things, the institution of a joint fund to ensure the consistency of initiatives in which several development partners are associated. In this context, and following the assessment of the government sector strategy in 2006, the country was judged eligible for the Education for All – Fast Track Initiative, which aims at fulfilling the MDGs in terms of access to primary school and universal completion of elementary schooling by 2015.

In the health sector, resources are increasing and in 2005 these constituted 10 per cent of the national budget. Though these resources were employed to recruit qualified personnel (515 officers in 2005), the sector remains highly constrained by the insufficiency of health and social infrastructure and by the inadequacy of the services offered. Health workers are very poorly distributed throughout the country, with doctors unwilling to leave the capital or other major urban areas. In this context, access to care in isolated areas and for the poorest remains difficult: the Senegalese household survey Esam-II shows that only 57.4 per cent of the population is located less than 30 minutes from a health service.

Despite everything, progress has been made these past few years in the area of maternal and child health. According to the 2005 demographic and social survey, EDS-IV, in 2004/05, 93 per cent of pregnant women received care during their pregnancy, while this rate was 87.5 per cent in 2001/02. The maternal mortality rate fell from 540 per 100 000 live births to 434 per 100 000 between 1992 and 2004 and infant mortality fell from 68 to 61 per thousand live births. Within the expanded vaccination programme, the rate of vaccination against the main childhood diseases grew from 44.7 per cent in 2004 to 80 per cent in 2003.

Senegal has an HIV/AIDS prevalence rate of 0.7 per cent (EDS-IV), one of the lowest in sub-Saharan Africa. This was made possible by an early and effective prevention strategy, which from the beginning of the epidemic was careful to get relays involved, such as traditional healers, within the different communities. In all likelihood, this measure contained both the spread of the virus as well as discrimination against HIV-positive individuals. To confront the threat of a pandemic, the government has facilitated access to antiretroviral treatment since 2003.