key figures

- Land area, thousands of km²: 197
- Population, thousands (2005): 11,658
- GDP per capita, $ PPP valuation (2005): 1,745
- Life expectancy (2000-2005): 55.6
- Illiteracy rate (2005): 57.9
Senegal

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/213610378718
After decades of very average economic growth, Senegal has recorded annual increases slightly above 5 per cent for several years now, largely due to macroeconomic policies and structural reforms. Linked to a generally calm transition of power following the democratic elections of 2000 and to ongoing institutional reforms, this relatively high growth makes the country an interesting case of socio-economic development in Sub-Saharan Africa.

Nevertheless, even with growth of 5 or 6 per cent per year, Senegal will remain among the “least developed” countries in 2015. This observation has stimulated the development of a new Accelerated Growth Strategy (AGS) to complement the Poverty Reduction Strategy Paper (PRSP), which is likely to become the key document for development policy in Senegal.

The AGS is still being developed, but an interim planning document has been produced, enabling commentary and analysis. The World Bank and the IMF (International Monetary Fund) have therefore been able to approve the general approach.

Through dialogue with various economic actors, five economic “clusters” perceived as driving forces for faster and more diversified growth have been identified:

i) agro-industries and food processing;
ii) fisheries;
iii) tourism, crafts, and cultural industries;
iv) cotton, textiles, and clothing; and
v) information and communication technologies (ICT), as well as teleservices. Before the AGS is put to the vote at the National Assembly in June 2006, technical groups will outline action plans for each cluster. They must address difficult questions, such as identifying which sub-sectors and which options to support in the large agricultural sector, or how to respond to the problem of depletion of fishery resources. The ability of the Senegalese government and of its private sector and civil society partners to resolve these questions, and other equally difficult questions, will indicate the strength of their commitment to economic reform.
Recent Economic Developments

Since the devaluation and the extension of reforms in 1994, growth in Senegal has been nearly 5 per cent a year, with the exception of 2002, which was affected by an agricultural crisis. After two years of dynamic growth in 2003 and 2004 (6.5 and 6 per cent respectively), Senegal recorded growth of around 5 per cent in 2005. This slowdown is strongly linked to the rise in oil prices and its impact on the world economy. According to forecasts, the current reforms should facilitate growth of the order of 5.2 per cent in 2006 and 6 per cent in 2007.

The primary sector – which contributed 4.3 per cent to GDP growth in 2004 – continues to be an important source of income for the majority of Senegalese households. The relatively weak growth of the sector in 2004, especially in comparison with the 19.8 per cent recorded in 2003, is due mainly to external shocks (such as the acridian threat that affected particularly the maritime regions in the north of the country), but also to other unexpected climatic events that hampered agriculture. Cereal production dropped significantly in 2004, by 21 per cent, largely due to a migratory locust invasion, particularly in the areas of Louga, Thiès, Fatick and Diourbel. Despite a drop of 9 per cent, cotton production was on the whole satisfactory, particularly if the exceptional performance of 2003 (46 per cent higher than the average production of the five last years) is taken into account. Groundnut production reached a record 572 789 tonnes in 2004, representing a 30 per cent increase. This remarkable performance of the groundnut sector, as well as the sound results recorded in sesame production (+57 per cent) and manioc production (+121 per cent) meant that agriculture grew by 6 per cent.

Livestock grew by 4 per cent in 2004, largely due to the policy of promoting local meat production. In the fisheries sector however, growth fell to 2.4 per cent (compared to 4.9 per cent in 2003), due to the reduction of catches in the inshore region of Thiès, one of the major fishing zones. In 2005, this sector is expected to experience growth estimated at 1.9 per cent, sustained by a 12 per cent increase in landings of local fishing (particularly in the regions of Louga, Ziguinchor, Saint-Louis, Dakar and Thiès) which has partly compensated for the decline in industrial fishing.

Overall, primary sector growth is estimated at 7.4 per cent in 2005. This figure is comprised of the following sectoral increases: +10 per cent agriculture; +5 per cent livestock; +3.2 per cent forestry; and +1.9 per cent fisheries’. Agricultural production in 2005 benefited from good rainfall and the absence of phytosanitary threats. The growth in agriculture is strongly linked to the exceptional 43 per cent rise in groundnut production, which reached 820 000 tonnes, according to estimates of the national statistics department, DPS (Direction de la prévision et de la statistique) and the DAPS (Direction de l’analyse, de la prévision et des statistiques) in November 2005. Cereal production rose by 113 per cent even though the prices of cereals in Senegal remain below those of other WAEMU (West African Economic and Monetary Union) countries. Although food processing and fisheries are the pillars of the new AGS, their growth is still below that of other agricultural sub-sectors.

In 2004, the industrial sector again accounted for 20 per cent of GDP. The manufacturing sub-sector is composed principally of processing activities of phosphates, groundnuts, and fishery products. Its growth of 5.6 per cent in 2004, compared with 6.4 per cent in 2003, was determined largely by international oil prices, which affected the Senegalese economy along with that of other WAEMU countries. On the whole, the secondary sector is characterised by high production-factor costs, the dependence of production on a limited number of products, weak investment, and a limited domestic market.

For several years, the industrial chemicals company ICS (Industries chimiques du Sénégal) has been in crisis. This is due to the impact on prices in euros of the appreciation of the euro against the dollar, to the high cost of inputs for developing phosphates and acid,
and to the difficulty of transporting phosphate stocks by rail (see box). Nonetheless, manufacturing and construction upheld industrial-sector growth, with performances of 7 and 13 per cent respectively in 2004. These results are explained by public investment in basic infrastructure and by housing construction by households. Oil refining and food industries also contributed to growth. For 2005, growth in the industrial sector is expected to be considerably weaker than in 2004, at around 3 per cent. This slowdown is principally attributable to the high cost of oil, which had a direct impact on the oil refining and energy sub-sectors, but also a negative effect on other industrial activities.
While the tertiary sector suffered less from the rise in oil prices, sectoral growth should not exceed 5.3 per cent in 2005, compared with 7.7 per cent in 2004. The dynamism of the transport and telecommunications sub-sectors (13.3 per cent in 2004 and 10.4 per cent in 2005) explains this growth in part. Telecommunications have particularly benefited from the development of mobile phone services and the liberalisation of teleservices, one of the clusters identified by the new AGS. For 2005, growth of the priority sectors of health and education should be around 4 and 7 per cent respectively. Though the trade sector increased by 6.1 per cent in 2004, it is expected to show only 4.6 per cent growth in 2005. This slowdown is largely attributable to the price of oil. The performance of tourism is perhaps disappointing, particularly given that the sector is among the five clusters of the AGS: although 434,825 tourists entered the country in 2004-05, compared with 413,763 in 2003-04, the occupancy rate fell from 40 to 34 per cent, and the duration of stay fell to 3.5 days in 2004-05 compared with 3.8 days in 2003-04. Nevertheless, significant measures have been adopted: the SAPCO (Société d’aménagement et de promotion des côtes et zones touristiques du Sénégal) will raise 30 billion CFA francs to develop three new tourist areas in Joal-Fadiouth, Mbodiène and Pointe Sarène; this project began in 2005. Nevertheless, the goal set by the government of 1.5 million tourists in 2010 could appear over-ambitious, given the deficiencies of the sector in terms of basic infrastructure and transport, and in the light of the competition from North Africa.

In 2004, total consumption and private consumption increased by 5.1 and 5 per cent respectively, compared with 7 per cent for private consumption in 2003. The growth of private consumption is primarily due to the increase in public-sector salaries, where a revision of salaries began at the end of October 2005 and will continue over a period of three years, resulting in a budgetary cost of 14 billion CFA francs. Private consumption was also boosted by the hiring of public-service employees under the plan to recruit 15,000 staff in the 2003-05 period. Public consumption grew by 5.3 per cent in 2004, compared with 0.5 per cent in 2003. Public investment remained highly dynamic in 2004, growing by 9 per cent, leading
Senegal

to a level of gross fixed capital formation of 23.1 per cent of GDP. Public investment should remain fairly high in 2005 due to extensive public works, and also due to investments in infrastructure linked to regional development. Moreover, the upcoming elections should encourage the authorities to invest even further. Private investment also remained dynamic, with a 6.1 per cent growth rate in 2004 that is expected to continue in 2005. Foreign trade, which is structurally negative, is hampered by the negative effects of poor export diversification and by the country’s dependence on food and oil imports.

Macroeconomic Policies

Fiscal Policy

In 2004 — and this should remain true in 2005 — Senegal respected the three first-level convergence criteria of WAEMU, as well as three of the four second-level criteria. The basic budget balance was hence 0.6 per cent of GDP in 2004, and public debt as a ratio of GDP was 39.1 per cent. These indicators conform to the rates set by WAEMU, at 0 and 70 per cent respectively. Furthermore, in 2005, as in 2004, inflation is expected to remain below the 3 per cent ceiling set by WAEMU. The wage bill to tax revenue ratio was slightly below 30 per cent in 2004, that is, lower than the WAEMU criterion of 35 per cent. The ratio of domestically funded capital expenditure to tax revenue was 29.3 per cent in 2004 — in other words, it was well above the floor of 20 per cent fixed by WAEMU. Finally, the tax burden nears 18.3 per cent in 2005, which is slightly above the 17 per cent criterion. Only the criterion of the balance of current account excluding grants as a ratio of GDP, in showing a deficit of 8.3 per cent, failed to meet the limit set at 5 per cent.

The general situation of Senegalese public finances attests to satisfactory tax collection and cautious management of expenditure. The fiscal deficit reached 2 per cent of GDP in 2004, compared with 1.1 per cent in 2003; it is estimated at 3 per cent of GDP in 2005. Total revenue (excluding grants) rose by 8 per cent in 2004. It reached 442 billion CFA francs in the first six months of 2005, thus rising by 12.5 per cent over the same period of 2004. For the year 2005, total revenue is expected to be 863.2 billion CFA francs. This rise follows the 9 per cent increase in tax revenue from 677 billion CFA francs in 2003 to 738.5 billion CFA francs in 2004. Direct and indirect taxes increased in 2004, by 12.3 and 7.4 per cent respectively, compared with 2003. In the first six months of 2005 compared with the same period of 2004, they increased respectively by 19.9 and 13.6 per cent. These results are largely due to higher tax revenue (income and company taxes) as well as to increased taxes on goods and services. In 2005, tax revenue is expected to grow by 11.6 per cent and to reach nearly 824.3 billion CFA francs. This is linked to good fiscal yield in the informal sector (due to the combined company tax), to increased direct and indirect taxes and to the very strong performance of Senegalese customs. Tax revenue did not suffer from the reduction in company taxes, from 35 to 33 per cent at present.

Table 1 - Demand Composition (percentage of GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>1997</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005(e)</th>
<th>2006(p)</th>
<th>2007(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross capital formation</td>
<td>14.6</td>
<td>16.7</td>
<td>19.4</td>
<td>23.1</td>
<td>24.1</td>
<td>24.5</td>
<td>24.6</td>
</tr>
<tr>
<td>Public</td>
<td>5.4</td>
<td>8.0</td>
<td>8.4</td>
<td>10.1</td>
<td>10.6</td>
<td>10.9</td>
<td>11.0</td>
</tr>
<tr>
<td>Private</td>
<td>9.2</td>
<td>8.8</td>
<td>11.0</td>
<td>13.0</td>
<td>13.5</td>
<td>13.6</td>
<td>13.6</td>
</tr>
<tr>
<td>Consumption</td>
<td>92.0</td>
<td>93.0</td>
<td>92.8</td>
<td>90.3</td>
<td>91.0</td>
<td>90.5</td>
<td>90.3</td>
</tr>
<tr>
<td>Public</td>
<td>15.0</td>
<td>11.2</td>
<td>10.6</td>
<td>10.4</td>
<td>10.8</td>
<td>10.8</td>
<td>10.7</td>
</tr>
<tr>
<td>Private</td>
<td>77.0</td>
<td>81.8</td>
<td>82.1</td>
<td>80.0</td>
<td>80.2</td>
<td>79.7</td>
<td>79.6</td>
</tr>
<tr>
<td>External sector</td>
<td>-6.6</td>
<td>-9.8</td>
<td>-12.2</td>
<td>-13.4</td>
<td>-15.0</td>
<td>-15.1</td>
<td>-14.9</td>
</tr>
<tr>
<td>Exports</td>
<td>28.9</td>
<td>30.5</td>
<td>28.8</td>
<td>27.8</td>
<td>27.8</td>
<td>27.7</td>
<td>26.4</td>
</tr>
<tr>
<td>Imports</td>
<td>-35.5</td>
<td>-40.2</td>
<td>-41.0</td>
<td>-41.2</td>
<td>-42.8</td>
<td>-42.7</td>
<td>-41.3</td>
</tr>
</tbody>
</table>

Note: National accounts were revised on the basis of the 1993 national accounting system, and were published in April 2003.
Source: DPS data; estimates (e) and projections (p) based on authors’ calculations.
Total expenditure rose by 14.7 per cent in 2004 and is expected to reach 115.4 billion CFA francs in 2005. Current expenditure, which accounts for 56 per cent of total spending, increased by 5 per cent between 2003 and 2004 and by 15 per cent between 2004 and 2005. Capital expenditure increased by 21 per cent owing to investments in the PRSP priority sectors of health and education. The wage bill for 2005 is predicted at 249.3 billion CFA francs, representing an increase of 14.6 per cent over 2004. This is primarily due to the programme to recruit public-service employees and to the improvement in public-service salaries.

The 2006 Finance Act which was passed on 10 December 2005 states the priorities identified by the AGS and the PRSP. It also makes advances and improvements in the management of budgetary procedures, public spending efficiency, and public procurement. The government has already launched a number of reforms to these ends. These include: adopting an MTEF (Medium-Term Expenditure Framework) for each sector; harmonising nomenclature in order to improve the integration of public investment into the general budget; decentralising the budget; reforming the public procurement system; reorganising administrative control; strengthening structures for budgetary execution control; and modernising the information system. An action-plan framework for budgetary preparation, execution and control was already implemented in 2005 in four “pilot” ministries: health, education, environment and justice. This framework advocates two major steps: 1) the formulation of ministerial budgets in relation to sectoral programmes; and 2) the decentralisation of expenditure payments, along with improved management and control of public finances.

With the support of funding bodies (notably the World Bank, the ADB (African Development Bank), the EU (European Union) and other bilateral cooperation agencies), the Senegalese government is seeking to reform public procurement procedures, a key area in the fight against corruption and in encouraging transparency. The cap of 20 per cent of the financial volume of the market which may be awarded by private contract – a restriction imposed by the IMF – will be applied to all levels of the public sector, in both ministries and independent agencies. Given the recent tensions between the IMF and the Senegalese government on the subject of these administrative reforms, these criteria appear ambitious. In a Letter of Intent and Memorandum of Economic and Financial Policies sent to the IMF in December 2005, the Minister of the Economy and Finance in fact acknowledged that compliance with the private-contract criterion had not been achieved.

**Table 2 - Public Finances (percentage of GDP)**

<table>
<thead>
<tr>
<th>Year</th>
<th>1997</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005(e)</th>
<th>2006(p)</th>
<th>2007(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total revenue and grants</strong></td>
<td>19.3</td>
<td>20.9</td>
<td>21.8</td>
<td>21.2</td>
<td>21.2</td>
<td>21.5</td>
<td>21.5</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>15.6</td>
<td>18.1</td>
<td>18.5</td>
<td>18.1</td>
<td>18.3</td>
<td>18.4</td>
<td>18.3</td>
</tr>
<tr>
<td>Grants</td>
<td>2.5</td>
<td>1.8</td>
<td>2.1</td>
<td>2.2</td>
<td>1.9</td>
<td>2.2</td>
<td>2.3</td>
</tr>
<tr>
<td><strong>Total expenditure and net lending</strong></td>
<td>18.8</td>
<td>21.0</td>
<td>22.8</td>
<td>23.2</td>
<td>24.2</td>
<td>24.1</td>
<td>23.6</td>
</tr>
<tr>
<td>Current expenditure</td>
<td>12.3</td>
<td>13.2</td>
<td>13.9</td>
<td>12.8</td>
<td>13.1</td>
<td>12.9</td>
<td>12.5</td>
</tr>
<tr>
<td>Excluding interest</td>
<td>10.1</td>
<td>12.1</td>
<td>12.7</td>
<td>11.7</td>
<td>12.1</td>
<td>12.1</td>
<td>12.0</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>6.2</td>
<td>5.7</td>
<td>5.5</td>
<td>5.3</td>
<td>5.3</td>
<td>5.3</td>
<td>5.1</td>
</tr>
<tr>
<td>Interest</td>
<td>2.3</td>
<td>1.1</td>
<td>1.2</td>
<td>1.1</td>
<td>1.0</td>
<td>0.8</td>
<td>0.5</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>6.4</td>
<td>7.9</td>
<td>9.1</td>
<td>10.1</td>
<td>10.6</td>
<td>10.9</td>
<td>10.9</td>
</tr>
<tr>
<td><strong>Primary balance</strong></td>
<td>2.8</td>
<td>-1.0</td>
<td>-0.1</td>
<td>-0.8</td>
<td>-2.0</td>
<td>-1.9</td>
<td>-1.6</td>
</tr>
<tr>
<td><strong>Overall balance</strong></td>
<td>0.5</td>
<td>-1.1</td>
<td>-2.0</td>
<td>-3.0</td>
<td>-2.7</td>
<td>-2.1</td>
<td></td>
</tr>
</tbody>
</table>

a. Only major items are reported.

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

Monetary Policy

Senegal’s monetary policy, like that of other WAEMU members, is directed by the BCEAO (Central Bank of West African States). Currency pegging to the euro leads the Bank to practise a policy on rates which
is largely in line with that of the European Central Bank (ECB). Senegal’s money supply rose by 15.6 per cent in 2004 and by 11.2 per cent in 2005 (BCEAO data). Moreover, domestic credit rose in 2004 and 2005 by 4.1 and 7.1 per cent respectively. Net external assets increased by 128.5 billion CFA francs in 2004 and by 82.1 billion in 2005. At the end of 2005, inflation was estimated\(^2\) at 2.3 per cent, compared with 0.5 per cent in 2004, due particularly to the effect of the rise in oil prices, which was however cushioned by the depreciation of the dollar against the euro. Adjustment for the inflationary effects of higher oil prices began late, partly due to government price controls: the rise in prices only began to be felt after the beginning of September 2005. In the same month, consumer prices went up by 3.3 per cent compared with those of September 2004 (year-on-year), corresponding to an average increase of 1.4 per cent over the first three-quarters of 2004. This increase can be attributed to the 3.4 per cent increase in the price of transport, especially — in that same month — of road passenger transport, as a direct result of the rise in retail petrol prices.

**External Position**

The 1994 devaluation failed to eliminate the trade deficit which has existed in Senegal’s local economy since Independence. This deficit deteriorated further in 2004. According to BCEAO figures, it increased from 12.6 per cent of GDP in 2003 to 13.1 per cent in 2004. The 2005 deficit is projected at 14.6 per cent of GDP. This growing deficit is attributable to an increase in imports (which went up by 8.9 per cent between 2003 and 2004) compared with exports, which only went up by 6.0 per cent. Although projections for 2005 predict that exports will increase by 8.5 per cent during 2004, growth in the value of imports is expected to remain higher, at 9.6 per cent.

Oil prices certainly played a role in the deterioration of the balance of trade, but their impact was cushioned by the existence of considerable capacity for processing crude oil destined for re-export after refinement. Hence Senegal also benefited from the rise in export prices of refined products. The oil trade balance – that is, the difference between the value of imports of crude oil and other petroleum products, and that of Senegalese exports of petroleum products – rose only by 7 billion CFA francs, while the overall trade balance deteriorated by 63 billion CFA francs. Among traditionally important Senegalese exports, fishery products and phosphoric acid rose substantially between 2003 and 2004.

Negotiations aimed at an economic partnership agreement (EPA) are presently under way between the EU and ECOWAS (Economic Community of West African States) plus Mauritania. These are expected to be concluded in 2008. The EU, which co-ordinates the project, has expressed disappointment at the “integrated framework” process that seeks to develop a plausible trade strategy, particularly because of the lack of enthusiasm expressed by other funding agencies\(^3\).

<table>
<thead>
<tr>
<th>Table 3 - Current Account (percentage of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
</tr>
<tr>
<td>Trade balance</td>
</tr>
<tr>
<td>Exports of goods (f.o.b.)</td>
</tr>
<tr>
<td>Imports of goods (f.o.b.)</td>
</tr>
<tr>
<td>Services</td>
</tr>
<tr>
<td>Factor income</td>
</tr>
<tr>
<td>Current transfers</td>
</tr>
<tr>
<td>Current account balance</td>
</tr>
</tbody>
</table>

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

2. Authors’ estimates.

3. The integrated framework is a joint co-ordinated initiative of several international institutions aimed at strengthening the trade capabilities of developing countries; efforts focus on supply-side factors.
Senegal

FDI (foreign direct investment) is not an important source of financing for fixed capital formation in Senegal. More recently, FDI has been strongly linked to privatisations. French investments are historically the largest, but their relative importance began to decline in the 1990s. According to BCEAO figures, FDI towards Senegal reached 0.9 per cent of GDP in 2002, 0.8 per cent of GDP in 2003, and 1.5 per cent of GDP in 2004. The country’s policy regarding FDI continues to be very active: some features of this policy will be briefly outlined in the section relating to structural issues.

Remittances from Senegalese abroad are, and have traditionally been, also a very important source of external financing for the country. As many of these remittances are made through informal and poorly identified channels, their precise amount is unknown. If the national accounts of the BCEAO are to be believed, remittances from migrants abroad rose from 7.0 per cent of GDP in 2003 to 7.7 per cent of GDP in 2004. Projections for 2005 predict a rate of 7.4 per cent of GDP.

The share of external public debt owed to bilateral creditors was considerably reduced in 2004, following the attainment of the completion point of the HIPC (Heavily Indebted Poor Countries) Initiative in April and the decision of the Paris Club creditors to grant supplementary relief in June. HIPC relief reached 1.8 per cent of GDP, or 9.5 per cent of exports. At the end of December 2004, the stock of external public debt was 1 865.1 billion CFA francs (46.2 per cent of GDP); in June 2005, this figure was estimated to have reached 1 903.5 billion CFA francs (43.6 per cent of GDP), 80 per cent of which is multilateral debt. Debt servicing accounted for 6.0 per cent of GDP in 2004, or 16.4 per cent of exports. The cancelling of the multilateral debt which was decided at the G8 summit at Gleneagles in July 2005 brought Senegal’s external debt to below 10 per cent of GDP.

Official Development Assistance (ODA) has long been an important source of financing for Senegal, which was one of the first sub-Saharan African countries to benefit from it. According to DAC (Development Assistance Committee of the OECD) figures, Senegal received more than 400 million dollars a year between 2000 and 2003. In 2004, this amount rose substantially, reaching 1 052 billion dollars (13.7 per cent of GDP). This increase is principally attributable to debt relief.

Source: IMF and World Bank.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) and Debt Service (percentage of exports of goods and services)

![Graph showing the stock of total external debt and debt service over time.](image-url)
Almost two-thirds of PDA to Senegal is bilateral: the major sources of funding are, in order of importance, France, Japan and the United States. The PDA disbursement rate – an imperfect measure of aid efficiency – is rising. USAID posted a 94 per cent disbursement rate in 2004, while other funding bodies were more circumspect, citing far lower rates: that of the World Bank was 9 per cent in 2001, and it reached only 20.4 per cent in 2004. Disbursement of EU aid, however, rose sharply, from 7 per cent in 2001 to more than 70 per cent in 2004.

**Structural Issues**

**Recent Developments**

Following the devaluation in 1994, Senegal launched an ambitious extended privatisation programme that was almost completed by 2005. Some of these privatisations, particularly in the water and telecommunications sectors, have been considered a success, judging by the performance of privatised companies, by the fact that they are no longer a drain on public finances, and by the lower prices offered for better quality services. At the beginning of 2005, two privatisations – both economically and symbolically significant – remained to be carried out. The first is that of Senelec (the national electricity company), which was privatised in 1999, re-nationalised in 2000, and then underwent a second, unfruitful privatisation attempt in 2002. A new management team, which won the support of public opinion and funding agencies, undertook a fiscal stabilisation programme and the construction of new production facilities, as a prelude to another privatisation attempt. Two power stations are being built in Kounoune, one of which by the Japanese company Mitsubishi. A call for tenders was launched at the end of 2005 for a third power station: together, these three stations will supply more than 180 MW to the network, or more than 45 per cent of its current capacity. Senelec is criticised nonetheless, for its relatively frequent selective power cuts, partly, but not exclusively, due to the exceptional falls of rain of August 2005. Its high tariffs also bring it under criticism, as they create problems of competitiveness for companies.

The second privatisation on hold is that of Sonacos (Société nationale de commercialisation des oléagineux du Sénégal), which transforms groundnuts into oil and oilcakes. Long scheduled for privatisation by the authorities, it too has been the subject of several aborted efforts, through lack of investor interest. It was eventually privatised in March 2005, with the French company Advens now holding 67 per cent of the capital. The privatisation and reorganisation of Sonacos, particularly of the “carreau-usine” system of collecting and marketing groundnut seeds (where payment is made only when goods have arrived at the factory), gave rise to difficulties in several factories (lock-outs and strikes). More than 40 per cent of the company’s employees took voluntary redundancy in return for compensation of five years’ salary from the State. This could cost the State almost 11 billion CFA francs.

According to the IFC (International Finance Corporation) publication *Doing Business in 2005*, Senegal ranks 132nd out of 155 countries in terms of business environment. This indicator nevertheless hides some significant variations. In terms of licensing and permit procedures, Senegal ranks 68th; and it is 46th in terms of the costs and procedures involved in importing and exporting goods. In other words, it is on a par with some OECD countries. On the other hand, the country’s performance in property registration (137th), obtaining credit (136th) and tax payment (137th) was very mediocre.

The creation of APIX (the national agency for investment promotion and major building works) several years ago, as well as the meetings of the Presidential Council for Investment, signal a desire to improve the business environment. The 2006 Finance Act adopted far-reaching fiscal reforms. The most important reduces the company tax rate from 33 to 25 per cent. In reality, companies will pay a fixed rate of 30 per cent. Revenue earned from the tax deductions not granted to companies (in the range between 25 and 30 per cent) will be directed to a private sector support fund. Another reform aims at abolishing the equalisation tax, a sort of “lease premium” much criticised by the private sector. The government has also promised to revise the tax on oil. Other reforms designed to improve
the business environment in Senegal include: the promulgation of an Act modernising investment procedures that will oblige the authorities to respond to accreditation requests within five days, with the file going directly to the Prime Minister’s Office (the Primature) if necessary; and the adoption of 30 or so Presidential decrees in application of the labour code4.

Despite this movement towards institutional reform, some problems remain, as for example, the continually perceived lack of transparency in the allocation of public contracts. The press, several entrepreneurs, the political opposition and other observers have pointed out that the private awarding of contracts remains common, and this leads to socio-economic and political tensions. This is particularly the case in the fast-expanding construction sector. The political scandal of the Thiès contracts (see following section) is symbolic of the problem.

The Senegalese financial sector remains sound. It is composed of a dozen banks, three of which are major in terms of net banking product, net results, overall balance, and jobs and resources: SGBS (Société générale de banques au Sénégal), CBAO (Compagnie bancaire de l’Afrique occidentale) and BICIS (Banque internationale pour le commerce et l’industrie du Sénégal). Although the sector is characterised by relatively strong competition, most businessmen complain of caps on loans to SMEs (small and medium-sized enterprises) and on long-term credit. Banks also tend to invoke BCEAO prudential provisions as obstacles to short-term lending. The introduction of new banking regulations in line with the Basel II Agreements5 could bring about changes in this area.

Transport Infrastructure

Given its favourable geographic position, Senegal could become the West Africa’s window on the rest of the world, and so take a strategic role in both the region and the continent. Indeed, several international airlines use the international airport of Dakar as a hub for the African continent: the total annual number of arrivals and departures at the Léopold Sédar Senghor airport is estimated at 20,953, with 1,442,284 passenger transits.

Apart from the airport however, the current transport system is obsolete and poorly distributed throughout the country, with 80 per cent of infrastructure concentrated on 20 per cent of the territory. Because of this, some regions are poorly linked with the rest of the country, and domestic transport of agricultural and industrial goods is difficult. This situation also restricts the movement of goods and people between Senegal, the sub-region and the rest of the African continent. In addition, Dakar urban area has a serious problem of traffic congestion and anarchic urban development which is exacerbated by the absence of an urban development plan. With the crisis in Côte d’Ivoire, the port of Dakar could have temporarily replaced the port of Abidjan and become the hub for products bound for, or arriving from, West Africa. However, in fact, this substitution effect was quite limited. Dakar’s ability to play a greater and more lasting role, even after neighbouring Côte d’Ivoire again finds stability, will depend on the progress made in key infrastructure sectors, particularly in transport.

The entire Senegalese economy suffers greatly from the traffic problems in the Dakar urban area, as it is here that 70 per cent of the country’s economic activity takes place. The city of Dakar has in fact neither the necessary infrastructure nor an adequate urban development plan for managing this volume of activity, nor for channelling the population movements that it entails. Last August’s floods – with their devastating effects on transport, trade, and the lives of Dakar residents in general – provide a glaring illustration of this.

The importance of the transport system for trade in goods and services and for access to markets, as well as for access to basic services — which is an element in the fight against poverty — has convinced the

---

4. The labour code was passed in 1997, but not implemented, which created legal difficulties for many companies.

5. These agreements aim at international convergence in the revision of the capital adequacy rules for international banks.
Investing in transport infrastructure, land settlement, and congestion in Dakar is a priority issue both for the government and for funding agencies. The latter are therefore supporting the authorities in their infrastructure investment efforts. The PST-2 (2nd transport sector programme) negotiated between the State and its development partners (specifically, AFD [Agence française de développement], NDF [Nordic Development Fund], the EU, and the World Bank) should come to a close at the beginning of 2007, 18 months behind schedule. It will be replaced by the PST-3. The key support project of the PST-2, which was signed in 1999, was the rehabilitation of a section of the asphalted road network — 174 km have already been completed and 50 km are under construction, out of a total 225 km — as well as a maintenance objective for 161 km of earth roads. The PST-2 also provided for institutional efforts to reform and strengthen capacity in the sector. Road needs are very high given that in 2002, 43 per cent of asphalted roads were in poor or very poor condition, and for unsurfaced roads, the percentage was 86 per cent.

Future projects include a public-private partnership to develop a new airport at Ndiass, situated at 45 km from Dakar, with a capacity of 3-5 million passenger transits. The cost of this BOT (Build-Operate-Transfer) project is estimated at 200 billion CFA francs. On the maritime front, the launch of the “Willis” on the Dakar-Ziguinchor line has not managed to meet demand for passenger and goods transport between the capital and Casamance. The “Willis” replaces the “Joola”, which was tragically shipwrecked in September 2002, resulting in the death of almost 2,000 people. Other projects are under way in the sector: the extension and modernisation of the port of Dakar; the construction of a mining port at Bargny; the rehabilitation of the port of Kaolack; and the construction of a bridge over the Gambia River. In terms of rail transport, the gradual conversion of rail gauges (the distance between the rails) from the existing metric gauge to the 1.435 m standard is the priority. This should lower the costs of constructing new lines and purchasing new wagons. Also scheduled are: the construction of a third railway line between Dakar and Thiès; the re-opening of the Dakar-Saint Louis line; the construction of new lines for the exploitation of the iron mines at Falémé and the phosphate mines at Matam; and the gauge conversion of the main Dakar-Tambacounda-Kidira route.

In the Dakar urban area, a new urban transport council, CETUD (Conseil exécutif des transports urbains de Dakar), has been given responsibility for implementing an urban renewal programme aimed at reorganising urban transport with the support of development partners, particularly AFD, the World Bank and the Nordic Development Fund. The strategy of the CETUD focuses on five key areas: infrastructure; security and traffic management; renewal of high-speed buses and suburban trains; improvement of air quality; and capacity development. The first batch of replacement high-speed buses (“Ndiaga Ndiaye”) was planned to come into service at the end of November 2005. The buses will cover a large part of Dakar’s fragmented transport market. The project for a major toll-motorway linking Dakar to Diamniadio and serving the new Millennium Platform includes plans for an extension towards the town of Thiès: this project forms part of the urban area renewal programme. In November 2005, APIX organised a round-table meeting with development partners to present the final phase of the construction of the Dakar-Diamniadio section and, in particular, to put the case for its funding. A public-private partnership is envisaged, with the State participating at 64 per cent.

### Political and Social Context

The floods of August 2005 in Dakar had serious social and economic repercussions. Though beneficial...
to agriculture, the heavy falls of rain showed up the extreme vulnerability of the transport networks, the deficiencies of urban planning, and the anarchic nature of the development of Dakar. The government has announced a 52 billion CFA franc Jaxaay (“eagle”, in Wolof) plan for the rapid construction of housing for those left homeless and for improvements intended to reduce vulnerability to this type of disaster in the future.

Arguing that the expenses related to the floods have affected election financing, the government is seeking to defer the legislative elections scheduled for 2006 until 2007, so that they coincide with the presidential elections. These wholly budgetary concerns are not stripped of political considerations, as coupling the elections will give the president time to strengthen his coalition and so improve his chances of re-election.

More than in previous years, 2005 was one of ministerial reshuffling and political and partisan repositioning, both in the majority and among the opposition parties. Most of these were linked to the split in President Wade’s PDS (Senegalese Democratic Party) between the supporters of the president and those of the former Prime Minister Idrissa Seck. Still mayor of Thiès, Seck was investigated for irregularities in procurement contracts for works carried out for the Independence celebrations in Thiès in 2004. The investigation’s findings led to Seck’s imprisonment for a good part of 2005. It is unlikely that he will be able to challenge President Wade in the upcoming presidential election, though it is imperative that the president consolidate his support, both inside his party and out. Leaving aside the confrontation between these two figures of the political party in power, the Thiès building works affair has called into question the ability of the State to manage major projects with transparency.

After a long process of internal consultation, social policy in Senegal is adhering to the PRSP framework approved in December 2002 by the Bretton Woods institutions. Control mechanisms for PRSP implementation were established at the same time, and to this end, a unit was created within the Ministry of the Economy and Finance. Around 40 indicators to measure progress under the programme have been identified. Since no new data on indicators have become available since the publication of the ESAM II Senegalese household survey (2001/02), the most recent data are from 2003 at best. According to this survey, literacy was 51.1 per cent for men, but only 29.2 per cent for women. Overall school enrolment was 37 per cent for girls, and 43 per cent for boys. Life expectancy was estimated at 55.6 years, and the infant mortality rate was 78 for 1 000 live births.

The Joint Staff Advisory Note (JSAN) prepared by the IMF and the World Bank in December 2004 on the first year of PRSP implementation is generally positive, although it considers that much progress remains to be made in terms of budgetary transparency, of decentralising and distributing resources, of selecting urban infrastructure projects, and of monitoring PRSP goals. Nevertheless, despite a relatively high economic growth rate, UN personnel expressed doubts in 2005 that Senegal was able to reach the MDG (Millennium Development Goals). Since analysis of the ESAM II data revealed strong poverty elasticity in relation to economic growth, the new AGS is targeting accelerated growth in order to reduce poverty even more rapidly.

---

7. Most of the figures have been extracted from the 2005 edition of the UNDP Human Development Report.