

Senegal

Sénégal



key figures

- Land area, thousands of km² 197
- Population, thousands (2004) 10 339
- GDP per capita, \$ (2003) 636
- Life expectancy (2000-2005) 52.9
- Illiteracy rate (2004) 58.9

Senegal

WITH A VIBRANT DEMOCRACY, relatively developed industrial sector and good geographic position, Senegal could replace pre-crisis Côte d'Ivoire as the motor for growth in French Africa.

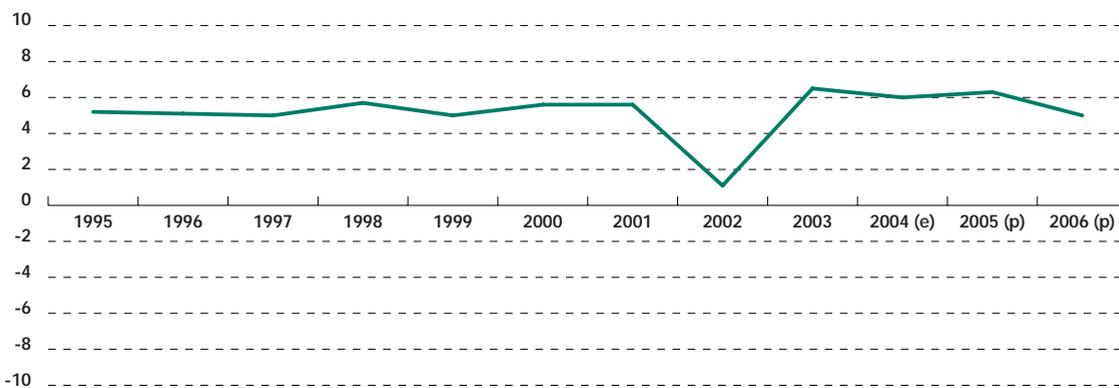
Following the collapse of agricultural production and a growth rate of just 1.1 per cent in 2002, the country has recovered with two consecutive years of marked economic growth: 6.5 per cent in 2003 and an estimated 6 per cent in 2004. Although partly due to exogenous factors (climatic conditions), this rebound is also explained by the implementation of efficient macroeconomic policies following the economic crisis of 2002. It is encouraging to note that the effects of the crisis were limited, attesting that two developments have enabled the country to absorb large external shocks:

space to manoeuvre has been created on the budgetary front – which must be however, used with caution – and a minimum level of economic diversification now exists. In April 2004, the country's financial partners acknowledged its good macroeconomic performance and its efforts on the structural front by announcing that Senegal had reached completion point of the Heavily Indebted Poor Countries (HIPC) Initiative. Recent progress in resolving the Casamance issue is also promising.

Modernisation and diversification of the economy is essential to maintaining strong macroeconomic performance.

Yet the economic, social and institutional challenges faced by the government in order to transform Senegal into an emerging economy are enormous. First, the

Figure 1 - Real GDP Growth



Source: Direction de la prévision et de la statistique data; estimates (e) and projections (p) based on authors' calculations.

economy must be modernised, diversified and decentralised in order to make it a tool for reducing poverty. This is an industrial challenge, not just in terms of large infrastructure projects, but also in terms of creating a network of small and medium enterprises (SMEs) both in and, particularly, outside Dakar. Foreign investment, with its attendant creation of value added, technology transfer and expertise and job creation, is also essential. The agricultural challenge also consists of modernising the sector and developing non-

agricultural activities in rural zones to absorb the “excess” active population resulting from this modernisation. Finally, there is the financial challenge, consisting of putting the Senegalese financial system at the service of domestic production.

Beyond this, it is necessary to improve public policy and to slightly modernise social relations and the institutional environment. It is important to ensure coherence in policies (industrial and agricultural

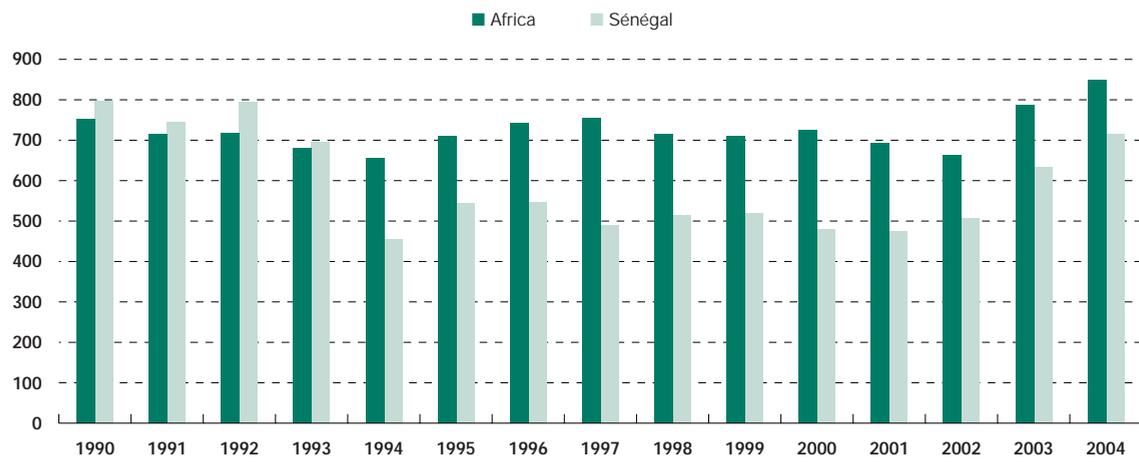
development, macroeconomic management, improving public and private governance, poverty reduction) and, above all, to ensure that implementation is continuously efficient, transparent and stable. Progress could be made in increasing transparency in budgetary management, while frequent changes in ministerial posts do not necessarily encourage continuity in policy implementation. Another major challenge is to modernise social relations in Senegal, specifically by creating a deeply rooted public policy dialogue between public powers, the private sector and civil society. Finally, the institutional environment, whether pertaining to business, the legal system or land reform must be modernised, though this entails difficult social choices (particularly in terms of rural land reform). These various dilemmas, without doubt, will be at the heart of the legislative and presidential election campaigns in 2006 and 2007, respectively.

Recent Economic Developments

While its part in the country's value added was only around 17 per cent in 2003, the primary sector (agricultural, livestock, forestry, fisheries) remains nevertheless a determining factor in the Senegalese economy's health, employing about two-thirds of the active population. In this respect, 2003 was a positive

year and the primary sector increased its contribution by 19.8 per cent. Agricultural production alone increased by 36.3 per cent due to an excellent winter rainy season, after having collapsed in 2002 (-32.2 per cent). The 2004/05 harvest took place under less favourable circumstances: overall rainfall in 2004 was largely inferior to that of 2003 and to 1971-2000 averages. In addition, while the threat posed by locusts was contained in the north of the country (Saint Louis, Matam and Louga), saving the country's groundnut production, the crop was nonetheless affected in some regions by pockets of infestation of grasshoppers and caterpillars. The relatively quick reaction by the authorities (who made 5 billion CFA francs, 9.4 million dollars, available in the 2004 budget) combined with international aid, contributed to containing the acridian threat in the country. Given these relatively unfavourable conditions, the provisional results of the 2004/05 harvest can be considered more or less satisfactory. Groundnut production increased by 30 per cent, with expanded cultivation and reinforced seed capital to farmers. Cereal production, however, fell by 21 per cent due to a reduction in cultivation and yields, while cotton production fell by 9 per cent¹. The good agricultural performances in 2003 and the relatively satisfactory performance in 2004 should not mask the structural problems of the Senegalese primary sector. These include insufficiently diverse agricultural production,

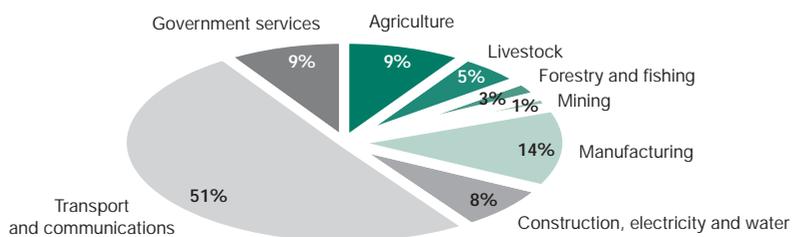
Figure 2 - GDP Per Capita in Senegal and in Africa (in current dollars)



Source: FMI.

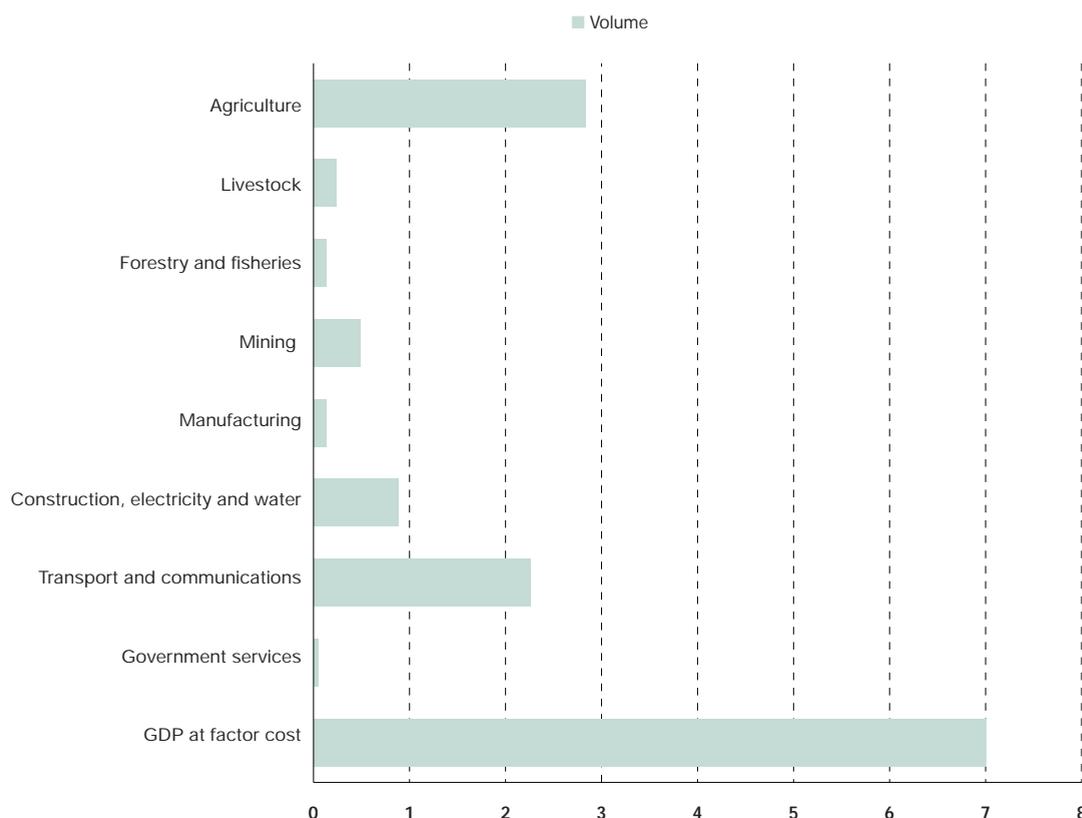
1. The continuous increase in cotton production and yields over the four previous years however, should be noted.

Figure 3 - GDP by Sector in 2003 (percentage)



Source: Authors' estimates based on *Direction de la prévision et de la statistique* data.

Figure 4 - Sectoral Contribution to GDP Growth in 2003 (percentage)



Source: Authors' estimates based on *Direction de la prévision et de la statistique* data.

inappropriate land laws lacking any real land rights and land transferability, and soil impoverishment. In May 2004, following an unprecedented consultation with stakeholders, Parliament adopted an agriculture, farming and forestry law (*loi d'orientation agro-sylvo-pastorale*) setting out the basic principles of government action. This aims at reforming family smallholdings and

promoting agricultural entrepreneurship, principally by diversifying crops, strengthening technical capabilities, land reform, supporting protection mechanisms against agricultural risk and improving the legal and social position of farmers. It remains to be seen, however, how these goals will be translated onto the legal and budgetary agenda.

On 12 January 2005, at the opening of the court and tribunal sessions, President Wade announced the launch of land reform in the course of 2005. Action should also be taken in fisheries, which suffers from overcapacity and from overindustrialisation (including in traditional fishing) resulting in declining catches and deterioration of the marine ecosystem. However, the rethinking of concession rights for small-scale fishermen and quotas for industrial fishing is progressing very slowly. During the first nine months of 2004, landings were almost stable compared to the first three quarters of 2003, having grown by 5 per cent in 2003.

At the sub-regional level, Senegal is an “industrialised” country, with its secondary sector accounting for about 23 per cent of GDP in 2003, and with more than 30 per cent of exports being manufactured goods. Industrial activity is concentrated in food-processing, construction materials, chemicals and textiles. While the policies of commercial openness, liberalisation and privatisation of the past decade aimed at stimulating the country’s industrial development, high factor costs, weak investment and the limited domestic market have hampered the realisation of these goals. The textile sector has difficulty coping in the face of competition from imports of second-hand clothes from Europe and products from Asia. Competition from the latter should become more pronounced with the end of the MultiFibre Agreements on 1 January 2005. Food-processing remains largely dependant on volatile groundnut

production, and phosphoric acid production is hampered by unfavourable world prices. The development of machine industries remains embryonic.

The project to construct an assembly unit for high-speed coaches by the Indian company, Tata, which was announced in 2003, is suffering from uncertainty in terms of identifying outlets. Senegalese transporters have been reticent to support the project of renewing the country’s high-speed coach fleet, which is backed by the World Bank. After the secondary sector grew by 6.4 per cent in 2003, the industrial index registered 11.4 per cent growth in the first three quarters of 2004. This reflects the strong dynamism of construction materials (+24.5 per cent) and of food-processing (+26.3 per cent) and the revival of phosphoric acid production (+15.5 per cent).

The tertiary sector grew by 4.4 per cent in 2003. During the first three quarters of 2004, this remained positive with the services index, the *Indice du chiffre d'affaires des services* (ICAS), increasing by 20 per cent. In particular, telecommunications grew by 29.3 per cent, reflecting the new dynamism of mobile telephony. The good quality of the telecommunications infrastructure has also enabled a significant increase in call centres over recent years (currently accounting for nearly 2 000 jobs). In the transport sector, the port of Dakar has begun to benefit from the redirecting of goods traffic normally transiting through Côte d’Ivoire. On the other hand, the 2004 tourist season was disappointing. Beyond the unfavourable international

Table 1 - Demand Composition (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006 (p)
Gross capital formation	13.4	18.3	16.7	19.5	20.2	20.6	20.4
Public	4.6	6.1	8.0	8.5	9.1	9.5	9.1
Private	8.8	12.2	8.8	11.0	11.1	11.1	11.2
Consumption	92.7	91.3	93.0	92.6	91.9	92.8	92.9
Public	14.6	14.8	11.2	10.6	11.0	11.2	10.9
Private	78.1	76.5	81.8	82.0	80.9	81.5	81.9
External Sector	-6.1	-9.7	-9.8	-12.2	-12.2	-13.4	-13.3
Exports	28.5	30.7	30.5	28.8	28.9	27.7	26.9
Imports	-34.6	-40.4	-40.2	-40.9	-41.1	-41.0	-40.1

Note: The national accounts were revised on the basis of the 1993 national accounting system, published in April 2003.

Source: *Direction de la prévision et de la statistique* data; estimates (e) and projections (p) based on authors’ calculations.

outlook, this reflects an ageing tourist infrastructure and inadequate promotion of Senegal as a tourist destination in the face of international competition, notably from the Maghreb.

After growth of 6.5 per cent in 2003, Senegal should register a growth rate of close to 6 per cent in 2004. Private consumption was relatively dynamic (estimated at +5.1 per cent), with demand sustained by increased incomes from the good harvest in the winter of 2003 and by the national programme of public-sector hiring (5 000 new jobs in 2003). Public investment was also a motor for growth in 2004 (estimated at 10 per cent) as, in accordance with the poverty reduction strategy paper (PRSP), social and infrastructure spending strongly increased. Private investment remained dynamic (growth estimated at 5 per cent), principally due to the construction sector. Transfers from the Senegalese diaspora, up strongly since the beginning of the 1990s, reached slightly over 233 billion CFA francs in 2003 (BCEAO figures), or 421 million dollars². These continue to play a key role in demand.

The contribution of the current balance to growth, though structurally negative, was reduced with exports increasing over imports (strengthened by phosphates and re-export of products imported in 2003). A fall in second-hand car imports followed the adoption of

more restrictive legislation, as well as a reduction in imports of foodstuffs in the wake of the good 2003/4 harvest. In 2005, growth should remain relatively dynamic with the hiring of 10 000 additional public-sector workers planned for 2004/5, and increased public investment in priority areas. However, the increase in the price of oil could darken the outlook. Though partly mitigated by the rise of CFA franc against the dollar, this will weigh particularly on energy dependent sectors such as chemicals, as well as on household consumption. There is also a risk that the implementation of public spending programmes could be delayed, both in terms of investments and hiring of new public-sector workers.

Macroeconomic Policies

Fiscal and Monetary Policy

In 2003, Senegal conformed to seven of the eight convergence criteria of the West African Economic and Monetary Union (WAEMU). In particular, the level of public debt as a proportion of GDP was 63.3 per cent (WAEMU figures), largely below the average of 70 per cent. Senegal is the only WAEMU country to register a tax burden of above 17 per cent (18.6 per cent). As in previous years, the country has not respected the

Table 2 - Public Finances (percentage of GDP)

	1996	2001	2002	2003	2004 (e)	2005 (p)	2006(p)
Total revenue and grants^a	20.2	19.9	20.9	21.4	21.7	21.8	21.7
Tax revenue	15.1	17.3	18.1	18.5	18.6	18.6	18.7
Grants	4.2	1.8	1.8	2.1	2.1	2.3	2.2
Total expenditure and net lending^a	20.3	21.9	21.0	22.8	24.0	24.5	23.7
Current expenditure	12.8	15.6	13.2	13.9	14.2	14.2	13.8
<i>Excluding Interest</i>	<i>10.5</i>	<i>14.7</i>	<i>12.1</i>	<i>12.7</i>	<i>13.1</i>	<i>13.2</i>	<i>12.9</i>
Wages and salaries	6.6	5.3	5.7	5.5	5.6	5.7	5.5
Interest	2.3	0.9	1.1	1.2	1.2	1.0	0.9
Capital expenditure	7.5	6.5	7.9	9.1	9.7	10.1	9.7
Primary balance	2.2	-1.1	1.0	-0.2	-1.2	-1.7	-1.1
Overall balance	-0.1	-2.1	-0.1	-1.4	-2.4	-2.7	-2.0

a. Only major items are reported.

Source: Direction de la prévision et de la statistique data; estimates (e) and projections (p) based on authors' calculations.

2. These figures, however, measure informal transfers very imperfectly.

criteria of maintaining balance in the current account excluding grants. The current account deficit is approaching 8.6 per cent of GDP (WAEMU figures), well above the average of 5 per cent. In 2004, the good performance of inflation and the satisfactory implementation of the state budget should permit Senegal to fulfil the same seven criteria.

In 2003, the overall budgetary deficit (including grants) reached 1.4 per cent of GDP, compared to 0.1 per cent in 2002. This relative deterioration reflects a rise in priority spending (in compliance with the PRSP goals) specifically, investments in health, education and infrastructure. Furthermore, the authorities hoped to give a boost to the economy to limit the effects of the poor 2002/3 harvest (via an emergency agricultural aid programme adopted in August 2003). The implementation of the 2004 budget took place smoothly.

In the context of ongoing budgetary discipline, the budget aimed to continue increasing spending in the priority areas identified by the PRSP and to increase capital spending. Capital spending was estimated to have increased by 10 per cent in 2004. This rise was attributable both to the fact that structural reform programme expenses initially scheduled for 2003 were carried over to the following year, and to a higher wage bill (partly attributable to the ongoing programme of recruiting 15 000 public service workers between 2003 and 2005) and it was expected to lead to an estimated overall budget deficit (including grants) of 2.9 per cent. This goal seems to have been attained, as the overall deficit for 2004 is estimated at 2.4 per cent. At the end of the first quarter 2004, half of income anticipated in the budget (particularly, taxes) had been collected. Corporate tax revenue, in particular, strongly increased (+28 per cent). The introduction of a universal company tax (*contribution globale unique CGU*) did not negatively affect revenue, as the widened fiscal base compensated for the lowering of the tax rate, from 35 to 33 per cent.

Caution seems to prevail in spending. At the end of the first semester of 2004, almost half of current spending scheduled in the budget had been committed.

By mid-2004 however, only 38 per cent of the year's capital expenditure had been disbursed (though public procurement procedures require that the good execution of investment expenses is considered only at the end of the fiscal year). Additional funds had to be spent to contain the locust invasion. These were included in the interim budget adopted on 25 October 2004: 3 billion CFA francs (5.7 million dollars) was committed to combating the acridian threat and 2 billion CFA francs (3.8 million dollars) to endow an agricultural disaster fund. Likewise, the expenses from investments in Thiès for the Independence celebrations in April 2004 (some of which were made outside regular budgetary procedures, see below), had to be budgeted retroactively in the interim budget. This also envisaged spending in priority sectors, specifically targeting the agricultural population, transport and education. These additional expenses are covered by 41 billion CFA francs (77.5 million dollars), of which 31.5 billion CFA francs is HIPC Initiative discharges obtained for 2004.

The 2005 budget should be coherent with the previous year, maintaining focus on the priority sectors of education and health (50 per cent of running costs) and agriculture and infrastructure (45 per cent of investment expenditure). The infrastructure construction goals proclaimed by the government, particularly that of improving urban mobility in Dakar, should lead to a budget deficit (including grants) of nearly 2.7 per cent of GDP, one point above the rate initially agreed with the IMF.

On completion of the first review of the three-year poverty reduction and growth facility (PRGF) initiated at the beginning of 2003, Senegal's fiscal discipline and adherence to nearly all performance indicators enabled it to obtain the disbursement of a second instalment of 5.2 million dollars in February 2004. A second review, scheduled for June 2004, had to be postponed due to lack of progress in privatising the national groundnut marketing company, SONACOS (*Société nationale de commercialisation des oléagineux du Sénégal*) (and until the bid was finally won by Advens in December 2004). The concerns about fiscal transparency expressed by the IMF due to irregularities

noted following Independence festivities³, also came into play. This review should eventually take place in the beginning of 2005. Good fiscal performances, however, should not mask structural weaknesses in public finances. While the last budgets reflect increased spending power in PRSP priority sectors, their sectoral budgetary allocation remains inadequate.

To remedy this, the 2005 budget will incorporate working plans for each sector, specifically regarding public investment. Executing public spending, particularly investment budgets, could also prove difficult if this involves external funding sources. The review of public investments made in 2002 revealed that the execution rate was below 73 per cent, while the examination of HIPC Initiative spending for 2003 pointed out that in mid-2004 almost 13.7 billion of a total 45.2 billion CFA francs (85.4 million dollars) available had yet to be committed. The execution rates for education and health were particularly weak (57 per cent). For these reasons, improving the chain of public spending must become a government priority. In this respect, the Senegalese government has promised to implement two action plans supported by the World Bank and the European Union. Their priorities are medium-term budgetary planning oriented towards following up on results, devolving and simplifying public spending channels, increasing transparency, improving control (particularly external) of budgetary execution and improving public procurement procedures.

As a member of the franc zone, Senegal's monetary policy is conducted by the West African Central Bank (BCEAO). The pegging to the French franc, and then to the euro – which resulted in mild inflation between WAEMU and the euro zone – led the BCEAO to adopt a rates policy largely aligned with that of the European Central Bank. In March 2004, BCEAO discount and special purchase and resale agreement (SPRA) rates went from 5 per cent to 4.5 per cent and from 4.5 per cent to 4 per cent, respectively. The good

2003/4 harvest and a strong euro resulted in consumer prices remaining stable in 2003 and rising slightly in 2004 (0.5 per cent). The strong rise in the price of oil, partly mitigated by the weakness of the dollar against the euro, had a restrained effect on the price index: in 2004, the transport index rose only 2.6 per cent over the previous year. Still, its development in 2005 remains uncertain: increases in the euro/dollar parity and the price of oil will once again be determinant. In 2005, excluding the possibility of an oil price shock (with the price per barrel remaining around 45 dollars), inflation could be around 2.1 per cent. Domestic credit increased by 3.4 per cent between September 2003 and September 2004, of which 7 per cent was credit to the economy.

External Position

Senegal's trade balance has been structurally negative since Independence. In 2003, the trade deficit deepened slightly over the previous year, going from 10.3 to 11.1 per cent of GDP. The country's external position in terms of trade in services was also negative in 2003 (contrary to 2002), thus increasing the current account deficit.

Exports fell between 2002 and 2003, from 661 billion to 657 billion CFA francs (1.25 to 1.24 billion dollars). Fishing exports, a key sector, on average accounting for one-quarter of exports, fell from 182 to 164 billion CFA francs during the same period. Exports of phosphates and phosphoric acid, more or less dynamic until 2003, significantly contracted, from 133 to 86 billion CFA francs. In 2003, the value of Senegalese exports to West Africa surpassed that of exports to the European Union for the first time, although European imports remained three times higher than those from the sub-region. India, which purchases almost all of Senegal's phosphoric acid, remains the country's biggest client. The mild contraction in exports was accompanied by a growth of imports from 1 364 billion to 1 370 billion CFA francs (from 2.58

3. In 2003, without Parliamentary approval, the government contracted entrepreneurs to undertake work for the Independence celebrations in Thiès with promises of payment against future budget resources. Letters of assurance were also given to these entrepreneurs in order to obtain bank loans.

Table 3 - Current Account (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Trade balance	-5.8	-9.3	-10.3	-11.1	-11.0	-12.1	-11.9
Exports of goods (f.o.b.)	20.6	22.0	21.8	20.5	21.0	20.1	19.5
Imports of goods (f.o.b.)	-26.4	-31.3	-32.2	-31.6	-32.0	-32.1	-31.3
Services	-0.4	-0.3	0.6	-1.0			
Factor income	-1.5	-1.9	-3.0	-1.6			
Current transfers	3.5	6.7	7.0	7.1			
Current account balance	-4.2	-4.9	-5.7	-6.7			

Source: Direction de la prévision et de la statistique data; estimates (e) and projections (p) based on authors' calculations.

to 2.59 billion dollars) between 2002 and 2003. This progression is partly due to the strong growth in value of petroleum imports (24.7 per cent over the period), linked to the rise in world oil prices begun in 2003.

During the first three quarters of 2004, Senegal's trade deficit reached 744.5 billion CFA francs (1.4 billion dollars). This figure is slightly down from the same period in 2003, when the deficit was 688.5 billion CFA francs (1.3 billion dollars). The trade deficit should remain at around 11 per cent of GDP throughout 2004. Of the largest exports, phosphoric acid, petroleum products and cotton grew quite vigorously in the first three quarters of 2004, while exports of unrefined oil and fertiliser were below their 2003 levels. The decline in value of rice, oil and sugar purchases during the first three quarters of 2003 was not sufficient to offset the rise in value of crude oil, wheat and manufactured goods.

Being a large exporter of petroleum products, the net impact of the rise in the price of oil on Senegal's balance of trade in 2004 and 2005 will depend on the relative evolution of the barrel price of oil, the price of petroleum products and the CFA franc/dollar exchange rate.

The process of regional negotiations of the Economic Partnership Agreements (EPA) with the EU, launched with the Economic Community Of West African States (ECOWAS) in October 2003, have led to concerns in several sectors of the Senegalese economy about future competition from European imports. At the same time, the process is leading to the implementation of large-scale aid to Senegalese producers from aid bodies (EU, *Agence française de*

développement, etc.), targeting improving the business environment or modernising companies.

Transfers from overseas Senegalese were measured (with the usual imprecision and underestimation associated with these statistics) at 233 billion CFA francs (421 million dollars) in 2003. Representing 6 per cent of GDP (BCEAO figures), this figure has risen strongly since 1999 (when it was 47 billion CFA francs or 88.8 million dollars).

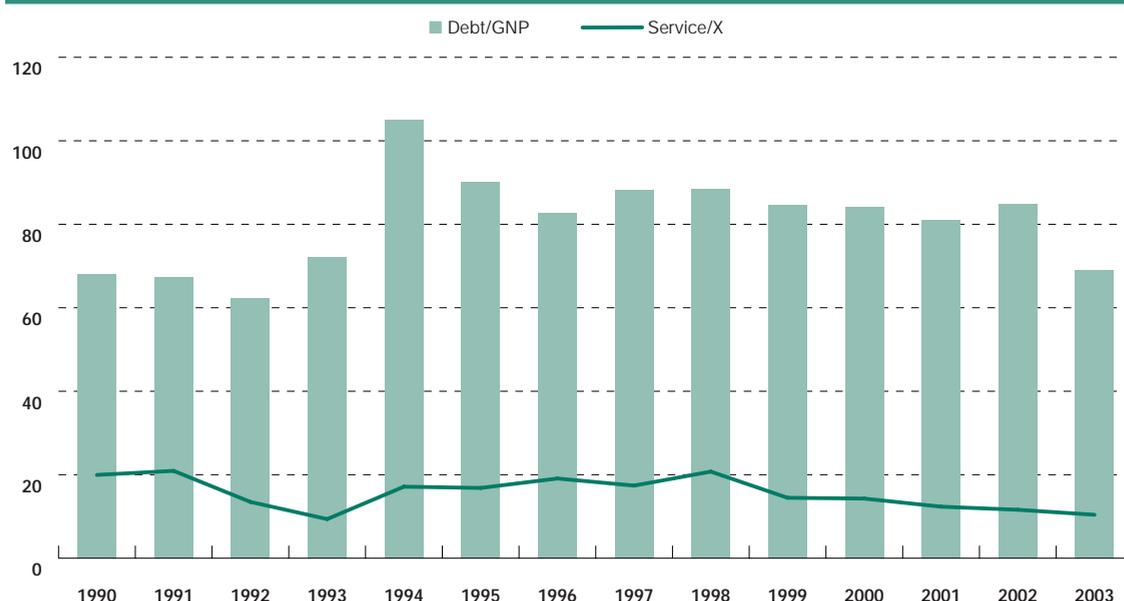
Public Development Aid (PDA), an equally important external flow for Senegal, also rose massively. In 2003, PDA reached 450 million dollars, or 44.7 dollars per inhabitant, compared to an average of 34 dollars in all sub-Saharan Africa. While the country's financial and technical partners continue to demonstrate their confidence in the Senegalese authorities – underlined by the country reaching the HIPC Initiative completion point – there are reservations regarding the country's capacity to absorb this foreign aid and some have highlighted some programmes' low absorption rate. Discussions are thus underway between the Finance Ministry and the funding bodies to harmonise and simplify these programmes' procedures and to better co-ordinate their actions. Certain aid donors, including the EU, are supporting the strengthening of capabilities to manage and absorb aid.

Senegal's external debt is primarily multilateral (67.5 per cent of the total) and was estimated at 2 083.6 billion CFA francs (3.94 billion dollars) at the end of September 2004. This is about 56 per cent of nominal GDP in 2003 (and 52 per cent of estimated

GDP for 2004). This should be significantly reduced with the attainment of the HIPC Initiative completion point on 19 April 2004. Within the framework of this initiative, Senegal is beginning to benefit from a nominal 850 million-dollar debt discharge (including interim discharges conceded since the decision point in 1998). This will reduce the Senegalese debt below HIPC Initiative levels, both in terms of the debt (in 1998 net present value) to export ratio (down to 143.9 per cent) and the income to debt ratio (down to 194.3 per cent). This compares to respective ratios of 165 and 310 per cent at the end of 1998. However, as export revenues

were less than forecast at decision point, the export to debt ratio remained high at completion point. Partly for this reason, on 9 June 2004 the Paris Club creditors decided to forgive an additional 336 million dollars (1998 NPV). Following this, the debt to export and debt to revenue ratios should be reduced to 116 and 157 per cent, respectively. Senegal's position coming out of the HIPC Initiative thus appears to be both healthy and relatively comfortable, and it should even be sustainable if export revenue or growth shocks occur. The country should nevertheless undertake to borrow on concessionary conditions.

Figure 5 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of export)



Source: World Bank.

Structural Issues

A large proportion of the structural limitations of the Senegalese economy are linked to the business environment. Two types of factors – infrastructural and institutional – contribute to this. In terms of infrastructure, production costs and transportation costs particularly are as high throughout the country as in Dakar. Moving goods and people is difficult, costly and slow. This factor notably has prevented Senegal from fully profiting from the crisis in Côte d'Ivoire by becoming an alternative export route for

goods previously transiting the port of Abidjan. The gridlock and inadequacy of the Dakar road infrastructure also contributes to reducing its attractiveness to investors.

There is near consensus between funding bodies and the government regarding the necessity of resolving the problem of urban mobility in the perimeter around Dakar. The government has taken some action, the most visible of which was to buy a fleet of second-hand buses several years ago. These are now the most common form of transportation in the capital. In partnership with several funding agencies, including the

World Bank, the *Agence française de développement* (AFD) and the Nordic Development Fund (NDF), the government has initiated an urban transportation improvement project (*Projet d'amélioration de la mobilité urbaine*, PAMU) in Dakar. Costing 103 million dollars, this provides for, among other measures, the renovation of the city's roads and suburban railroad lines, the creation of a system of commercial credit for small urban transport operators, application of anti-pollution measures and the launch of studies into building relief roads. The 2005 budget included other measures, such as installing traffic lights at central crossroads in the capital.

Measures to be taken in Dakar and the surrounding area go hand in hand with projects to improve the national transport infrastructure. These notably include a project (*Projet sectoriel transport 2*, Pst-2) managed in partnership with the World Bank, AFD, NDF and the African Development Fund⁴ (ADF, part of the African Development Bank), involving a total of 581 million dollars. The Pst-2 provides for the renovation and improvement of the road infrastructure, the modernising of rail (privatisation of the Dakar-Bamako line), air and maritime transport, as well as planning and financial management reforms of the sector. A complementary initiative is the construction of a so-called "millennium" project at Diamniadio (approximately 35 kilometres from Dakar). This aims at creating a new urban growth centre other than Dakar. In the first phase of the project, the government is undertaking to buy land and to lay it out as a multifunction urban centre so that – in the second phase – companies can be attracted to the area. Senegal requested 548 million dollars (of a total cost of 696 million dollars) in financing from the Millennium Challenge Account (MCA), a competitive foreign aid programme created by the United States. Of the hundred of so countries interested in the MCA, Senegal was one of only 16 deemed eligible for support on the basis of criteria of good governance, progress in health and education and economic management (particularly in terms of support for the private sector). The Diamniadio project was chosen as a finalist by the MCA, which is a very encouraging sign.

Less tangible and more difficult to reform, the institutional infrastructure also conditions the business environment. The International Finance Corporation (IFC) of the World Bank provides several quantitative and qualitative indicators on the subject. These include a measurement of the difficulties to create and launch a new company and hire or fire employees, rules regarding property transfers, protection for investors and bankruptcy resolutions. In the majority of cases, Senegal is very close to, or slightly above the average for sub-Saharan African countries. This mixed result gave rise to a meeting between national and foreign economic actors, which took place under the framework of the Presidential Investment Council. Their meeting brought about a number of recommendations, some of which have been at least partially followed through: reform of the mining and environmental codes, creation of a national commission to combat non-transparency, corruption and misappropriation of public funds, land reform, adoption of a new general tax code and complementary fiscal measures, changes to the legal framework of privately-funded infrastructure projects, launch of the PAMU mentioned earlier and, perhaps most important, adoption of a new investment code in February 2004.

In spite of these initiatives, the national body for promoting investment and public works (*Agence nationale chargée de la promotion de l'investissement et des grands travaux*, APIX) recorded a fall in regulatory approvals of new investments in 2004. This can be explained by the uncertainty that surrounded the adoption of the new investment code, which encouraged investors to postpone their activities. Moreover, the completion rate of authorised projects is comparatively low, estimated at just 46 per cent. APIX had noted, however, a qualitative increase in authorised investments in non-traditional and possibly more dynamic sectors (such as telecommunications).

Senegalese companies generally complain about backlog in the legal system in dealing with commercial and labour code matters. In this respect, neither the introduction of an extra-judicial means of conflict

4. AFD financing is around 61 million dollars, of which 23 million alone is for the Diamniadio-Mbour road.

resolution nor the creation of an arbitration council led to the anticipated interest or the expected results. Moreover, on the commercial front, the implementation, transparency and permanence of the courts' decisions are often problematic. Recent high-profile disputes regarding foreign companies in Senegal (such as the *Société Générale de banques au Sénégal* – SGBS) recently brought these problems to light.

Among other structural problems, access to land has also been highlighted. This is clearly a major challenge in the agricultural sector: farmers' difficulties in obtaining recognition of their property rights prevents them from using their land as collateral for loans, the corollary of which is low agricultural investment. However, it must be pointed out that the low market value of land in rural areas makes it difficult to use as collateral. In manufacturing and services, access to real estate is equally problematic, with similar consequences in terms of obtaining mortgages. In 2002, the government established an industrial support organisation (*Agence d'aménagement et de promotion des sites industriels*, APROSI), which aims at opening new industrial parks to house companies. This strategy seems to work well, but the existing parks are already full and those companies on industrial park land are seeking to expand. The Diamniadio project will help to make up for this deficiency. It would appear, however, that the demand for property seems to have enduringly surpassed supply.

Privatisation in Senegal has been confined to the ongoing sales of the national electricity producer (SENELEC) and of SONACOS. In the past, the privatisation of these two companies was closely scrutinised but it has proved very difficult to manage. The World Bank and the IMF both insist on the sale of these two companies. The privatisation of SONACOS in particular was among the completion requirements of the HIPC Initiative and the IMF listed it in the criteria of PRSP implementation in April 2003.

SENELEC has already been the subject of two unsuccessful privatisation attempts in the last few years, notably due to the poor state of its production machinery and distribution infrastructures. As a result, the government is henceforth focusing on improving the company and increasing its production capacities. As part of this, reforms such as the replacement of the management team in September 2003, the restoration of accounts and the announcement of new construction projects of production facilities with new partners such as Mitsubishi (on the technical front), have been well received by funding agencies. Uncertainty remains though about the government's intention of passing on the rise in oil prices to that of electricity, and on how this will affect SENELEC's accounts. The privatisation unit of the Finance Ministry is considering another attempt to privatise the company once a new power station has been connected to the network at the beginning of 2006. After long and difficult negotiations, on 22 December 2004 Advens became the acting winner of the SONACOS tender, by taking over 66.9 per cent of the shares held by the state. The question of whether or not the country will revive a high-technology oilseed industry remains unanswered however, as returns are on a downward trajectory in this sector.

Apart from SENELEC and SONACOS, the list of public companies initially earmarked for privatisation in the 1995 privatisation act, is now comprised of three firms, which are scheduled for sale in 2005: the Senegalese national lottery (LONASE), the centre for infrastructure research and studies (*Centre expérimental de recherches et d'études pour l'équipement*, CEREEQ) and the international centre for foreign trade (*Centre international du commerce extérieur du Sénégal*, CICES).

Despite their key role in the Senegalese economy (particularly in the tertiary sector), SMEs face big challenges in growing, investing, innovation or even, more simply, in managing their finances or meeting their tax obligations (once they are in the formal sector)⁵. The

5. No official single definition of an SME exists in Senegal: in addition, many operate in the informal sector, which contributes to making them difficult to survey. The country's investment code, for example, defines an SME as a company investing between 5 and 200 million CFA francs that enables the creation of at least three permanent Senegalese jobs. By compiling the different available sources however, SMEs account for around 90 per cent of formal Senegalese companies, 20 per cent of value added produced in the country and 30 per cent of jobs in the modern sector.

problems SMEs confront regarding financing, particularly in obtaining medium-to-long-term loans of amounts falling between microfinance (20-30 million CFA francs or 40 000-60 000 dollars) and bank loans (above 100-200 million CFA francs or 200 000-400 000 dollars) contributes to explaining this situation.

These difficulties are compounded by the problems faced by SMEs in many African countries: reluctance by the banking sector to finance “unbankable” and often “opportunistic” projects; financially weak companies (lacking private funding and guaranties, and inadequate initial outlay); problematic legal and business environment (despite the harmonisation of national legislation with OHADA⁶ measures), particularly in terms of compiling and exercising guarantees and land securities, of mortgage and property law (absence of a mortgage market, co-existence of

modern and customary land systems, weak land values) and of enforcing contracts (inefficient commercial judiciary). Nervousness on the part of banks could also be explained by the strict prudential environment necessary for juggling the risk systemic in WAEMU: the coefficient of the coverage of medium- and long-term jobs by stable resources set out by the BCEAO also highly constrains the transformation of short-term resources into medium-to-long-term loans, and thus the role of the banking sector as financial intermediary. In fact, Senegalese banks are highly liquid, though this is primarily in short-term resources. Furthermore, almost no alternatives to bank loans (such as risk capital) exist for middling sums.

The principal initiatives of the Senegalese authorities and international funding bodies focus upstream on consolidating the SME sector and, more directly, easing

Growth Possibilities of Micro-finance in Senegal

Senegal has the most vibrant micro-finance sector in the WAEMU zone. The country accounts for 21 per cent of the zone's micro-credit activity, and between 2000 and March 2004, the number of decentralised financial institutions (DFIs) in Senegal regularly providing financial information, grew from 121 to 305. At the same time, micro-credit activity increased three times faster than bank credit to the economy. Senegalese micro-credit also differs from others: *i*) by its relative concentration, as the three leading networks – CMS (*Crédit mutuel du Sénégal*), PAMECAS (*Programme d'appui aux mutuelles d'épargne et de crédit du Sénégal*) and ACEP (*Alliance de crédit pour la production*) – alone account for two-thirds of the client base, 75 per cent of deposits and 78 per cent of loans in the sector; and *ii*) by its financial soundness – the ratio of non-performing loans in the principal networks is low (2.9 per cent in March 2004). This situation is encouraging: the large micro-finance networks would appear to be in a position (and have already begun) to “grow with their customers” and to move from micro- to meso-finance, while benefiting from experience gained with their micro-enterprise clientele. Some of these organisations envisage creating specialist SME banks. To enable this development, the sector needs to consolidate further, and the supervision of the sector must be strengthened and legislation harmonised to allow banks to engage in micro-finance activities on the same favourable terms granted to micro-finance organisations.

More generally, the financing difficulties faced by SMEs reflect the lack of depth in the Senegalese financial and banking system. Bank loans granted to the private sector were only 21 per cent of GDP at the end of 2003. In March 2004, the twelve banks⁷ and three financial institutions in the Senegalese financial sector were reasonably robust, with a net non-performing debt ratio of 4.4 per cent and risk-to-reserves ratio of above 8 per cent for ten of the twelve banks, and slightly below this for the remaining two. The strong exposure of the banking sector to the booming Dakar property sector must, however, be closely watched.

6. Organisation pour l'harmonisation du droit des affaires en Afrique.

7. The Sahel-Saharan Bank began operations in 2004.

their access to financing. On the one hand, the creation of an SME minister in 2001 marked the beginning of a process of unifying and simplifying the institutional framework in which SMEs operate. The chief measures included instituting a single definition of an SME, which should be adopted shortly, and putting in place tools to survey companies and evaluate the support they receive, in addition to simplifying the tax system and procedures for establishing collateral. The general thrust of these was confirmed by the adoption in 2003 of an SME charter, which should lead to a vote in 2005 on an act to promote and develop SMEs in Senegal. These texts equally provide for SME-specific access to public markets and to public service concessions. Funding bodies such as the AFD, for example, are concentrating on improving SME capabilities even prior to the financing request (strengthening the management and quality of information systems, financial transparency, better formulated financing requests, etc).

In terms of access to actual financing, the initiatives aim at setting up new lines of soft loans provided for in the SME charter, and on perpetuating existing measures such as the economic promotion fund (*Fonds de promotion économique*, FPE) that unites a refinancing fund and a guarantee fund for financial institutions lending to SMEs. The private-sector support programme (*Programme d'appui au secteur privé*), which brings together several funding agencies (the African Development Bank, in particular), contains several measures pertaining to the reform and financial improvement of the FPE. Specifically, it aims to make the FPE a financing instrument for SMEs by diversifying the financial products available to them (for example, by using the savings of Senegalese immigrants). Certain funding bodies are also exploring accompanying the banking sector in studying and financing the SME sector (this includes for example, the Africa Project Development Facility, an initiative of the SFI). Lastly, the growing amounts lent by the local micro-finance sector, which is among the best structured in the region, is also worth exploring in the efforts to replace the SME link missing in the Senegalese financial system. In spite of progress, micro-credit accounts for only 5 per cent of bank loans (see box).

Political and Social Context

The organisation of legislative elections in 2006, followed by the presidential elections in 2007, which could see the current president, M. Abdoulaye Wade seek a second mandate, increasingly influence Senegalese political life. This is contributing to straining relations between the government and opposition and to creating a campaign atmosphere. Despite this polarisation, the opposition has not set out a clear alternative, being weak and divided by numerous defections to the *Parti démocratique sénégalais* (PDS), supporters of the president of the republic. In April 2004, Idrissa Seck was replaced by Macky Sall as the head of government. This was the fourth prime minister appointed since President Wade was elected in April 2000.

The arrest of the journalist Madiambal Diagne, director of *Quotidien*, in July 2004 had important international repercussions. Mr. Diagne, who had published articles denouncing corruption by customs officials, refused to name his sources. His arrest provoked a strong outcry in Senegalese and international media. The matter reached a peak during President Wade's July visit to Paris when the French president, Jacques Chirac mentioned the "Diagne" case. The Senegalese president committed himself to repealing the law authorising the journalist's detention, reminding others that he himself had been imprisoned under it when he was in opposition. While Mr. Diagne has been freed, the charges against him have not been dropped. In January 2005, the Ezzan law was adopted granting amnesty for political offences committed during election periods since 1983. This law, which applies to the assassins of Mr. Babacar Seye, the president of the constitutional council in 1993, was the subject of great controversy in Senegal.

The resolution of the long conflict in Casamance advanced significantly with the 30 December 2004 signing at Ziguinchor of a peace agreement between the government and the MFDC (*Mouvement des forces démocratiques de Casamance*). The two parties agreed to cease hostilities immediately and to undertake negotiations specifically aimed at demobilising and reinserting the rebel combatants into society, as well

as mine clearing and rebuilding Casamance. Economic and social activities will also be restarted in the region. Eighty billion CFA francs (151 million dollars) was earmarked to this effect.

Discussions about social progress in the country currently focus on the design and the revision of the PRSP, adopted in April 2002 and approved by the IMF and the World Bank in December 2002. Under this, the government committed almost half of its 2004 expenditure for education and health, notably scheduling an increase in the state's own resources devoted to the sectors. The PRSP establishes a base of indicators that makes it possible to follow economic and social progress in Senegal, particularly the realisation of the Millennium Development Goals. The Senegalese household survey (Esam-2) – which provided the initial values (2001 or 2002) for the majority of indicators – should assist in monitoring economic and social development.

The PRSP's starting point is that Senegal's health indicators are in line with the country's level of economic development. However, geographic distribution of access to care is uneven, while some indicators – such as vaccination coverage – have deteriorated since the 1990s. The adoption of the PRSP marks the launch of a new health strategy focusing on: *i*) improving access to services to reduce infant and maternal mortality and malnutrition, as well as the frequency and severity of contagious diseases; *ii*) increasing the human and material resources in isolated regions; *iii*) strengthening the administration and management at all levels of care; and *iv*) increasing the beneficiaries' contribution to care financing while preserving access for the poorest. Since the beginning of this decade, there has been a turnaround in certain indicators. The vaccination figures for 2001 and 2002 are promising: vaccination coverage for DTC3 (diphtheria, tetanus and whooping cough) increased from 44.7 per cent of the population to 59.9 per cent, while that of yellow fever went from 32.9 to 53.1 per cent.

Education is the second strategic axis of the PRSP. The allocation of resources is marked by the predominance of tertiary education to the detriment

of primary education. It also underlines regional inequalities in primary schooling funding. According to the poverty monitoring unit (*Cellule de suivi du programme de lutte contre la pauvreté*, CSPLP) of the Finance Ministry, primary school enrolment rates reached 85.1 per cent in 2003, while the percentage of school-age children in full-time primary education was 75.8 per cent. The goals for 2005 are to increase these to 90 and 80 per cent, respectively. The CSPLP is focusing on reducing inequalities in terms of access to primary education: enrolment of girls increased from 80 per cent that of boys' in 2000 to 88 per cent in 2003. Some regional differences are also being reduced: regions such as Ziguinchor and Kolda that are traditionally poorer, reported over 100 per cent registration in the first year of primary school. In wealthier regions, enrolment is largely below the national average (such as Diourbel, where enrolment is 43.5 per cent, or in Kaolack, where it is 69.1 per cent).

Adult literacy has increased, according to the CSPLP, from 39.1 per cent in 2001 to 40.2 per cent in 2003. This rate of progress, however, will probably not be sufficient to reach the goal of 45 per cent literacy in 2005. Also, it conceals great differences between male and female literacy. In fact, male literacy fell between 2001 and 2003, from 51.5 to 49.9 per cent, while female literacy increased slightly, from 28.9 to 30.8 per cent.

The process of collecting and analysing the demographic and socioeconomic data of the Esam-2 survey made it possible to measure the incidence of poverty in 2001/02 (48.5 per cent) and its geographic distribution (particularly high in rural areas and lower in Dakar and around Louga, for example). The poverty line is based on a minimum consumption of 2 400 kilocalories a day: a basket of 26 goods most consumed by households was defined and a monetary poverty line was fixed. The *Direction de la prévision et de la statistique* (DPS) in the Finance Ministry holds that economic growth between 2001 and 2003 should reduce the incidence of poverty in 2003 to 47.5 per cent.

In 2002, the DPS carried out a survey on the labour market in Dakar. This revealed that 51.1 per cent of the population over the age of ten was involved in the

labour market (62.1 per cent for men and 41.1 per cent for women). In the strict sense of the word, unemployment was estimated at 11.7 per cent of the active population (9.9 per cent for men and 14.1 per cent for women). However, the problem remains one of underemployment rather than unemployment. If the number of those working less than the official working hours and those working for less than the minimum wage is added to the number of unemployed, underemployment is nearly 72.5 per cent of the active population in Dakar.

The average salary is 58 200 CFA francs, or around 110 dollars, though this varies markedly according to sector. Of the employed, 7.5 per cent work in the

public or parapublic sector, where positions are more stable (average length of service is over 14 years) and better paid (149 700 CFA francs per month [283 dollars] in the administration and 134 700 CFA francs [254 dollars] in public companies). The proportion of workers in the formal private sector is 16.1 per cent, with average length of employment at 8.6 years and monthly salary averaging 113 100 CFA francs (214 dollars). The informal sector accounts for 76.4 per cent of workers, and the average salary is 39 000 CFA francs (74 dollars) per month, below the minimum wage. Workers in the informal sector also work longer (47 hours per week) than those in other sectors and have no social security benefits.