Senegal

key figures

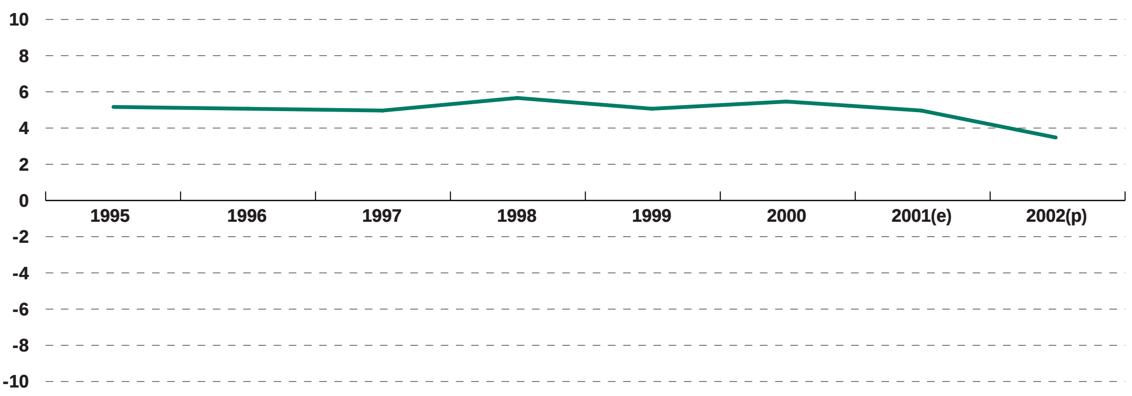
- Land area, thousands of km²: 193
- Population, thousands (2000): 9 421
- GDP per capita, $ (2000): 464
- Life expectancy (1995-2000): 52.3
- Illiteracy rate (2001): 61.7

Senegal

SENEGAL'S ECONOMY HAS FORGED ahead since devaluation of the CFA franc in 1994. In this context of sustained growth, 2000 was a transition year, when a peaceful transfer of power boosted confidence in the future even as the changeover and electoral uncertainties affected economic decision-makers in the short term. But the landslide victory of the Democratic Party (PDS) at the April 2001 parliamentary elections, along with the lifting of some financial restrictions thanks to efforts in recent years to restore public finances, should give the government the necessary leeway to carry out major reforms needed for growth and fighting poverty. In the short term, sturdy export performances and very good investment inflow, helped by the successful political transition and a good relationship with international funding agencies, suggests GDP growth of 5.0 per cent in 2001. A return to normal in groundnut production in 2002 will probably mean slower growth of 3.5 per cent. A more energetic growth policy would destabilise public finances.

The peaceful transfer of political power boosted confidence in the future of Senegal

Figure 1 - Real GDP Growth



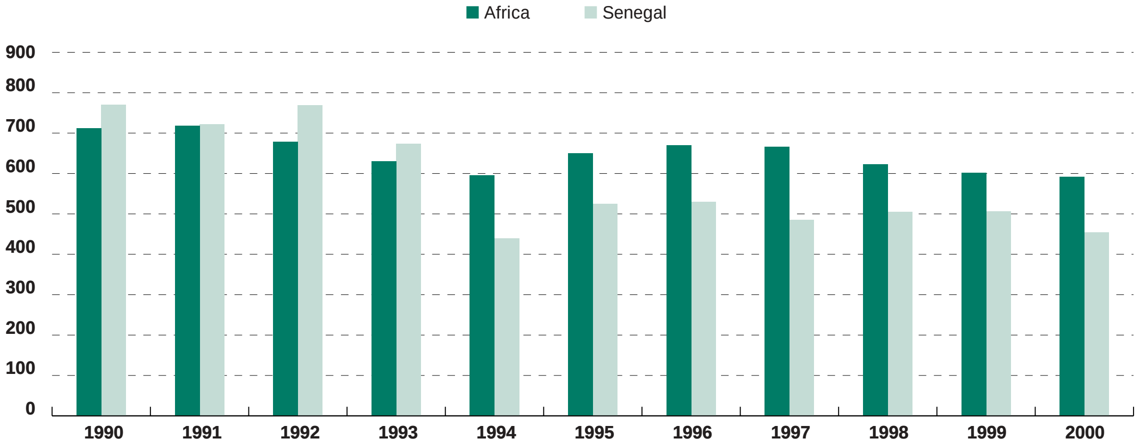
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Recent Economic Developments

Senegal has displayed great economic vigour since the 1994 devaluation, with annual GDP growth of around 5 per cent — a per capita growth of 2.5 per cent taking into account population increase of about 2.5 per cent over the period.

Since the early 1990s, the primary sector's share of GDP has shrunk significantly while remaining the source of income for three-quarters of the working population. It fell from 21 per cent at that time to 18 per cent in 2000, broadly reflecting the decline of the farm sector (from 11 per cent in 1990 to 8 in 2000). Agriculture, mostly subsistence crops and groundnuts, was hit by bad weather in 1997 and 1998 which good results in the livestock and fishing sectors did not make up for. However, well-distributed rainfall and more intensive use of fertiliser in 1999 and 2000 again turned farming into a motor of the economy and it contributed an estimated 1.8 percentage points of the 5.5 per cent volume GDP growth in 2000. But the sector still has problems that make for very erratic performances. Apart from dependence on the weather, these include groundnut marketing problems and policies that harm potentially profitable crops such as rice.

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



Source: Authors' estimates based on IMF data.

The secondary sector has grown strongly in recent years and is now the second biggest GDP contributor at 20 per cent. Senegal's industrial base is more diverse than other sub-Saharan countries but is still mainly based on the processing of food and minerals, such as chemical phosphate plants, and is structurally outdated. From 1995 to 2000, the construction sub-sector provided a boost, driven by remittances by Senegalese abroad and expanding public investment. In 2000, government projects slowed down because of uncertainty about the PDS's chances of electoral victory and turnover in the sector's businesses fell by a third.

Senegal stands out in sub-Saharan Africa because of its dominant tertiary sector, which grew rapidly during the 1990s and now accounts for more than 60 per cent of GDP. It was fuelled by steady migration from the countryside and growth of small businesses arising from urbanisation. So the sector has an extensive informal side to it, though a relatively visible one because of being mostly organised into an association (Unacois) and paying a certain amount of taxes. Telecommunications, commerce and tourism grew strongly because of devaluation and the government's liberalisation measures. But the sector, along with industrial activity, slowed down sharply in 1999 and 2000 because of breaks in electricity supply, with some firms having to use private generators.

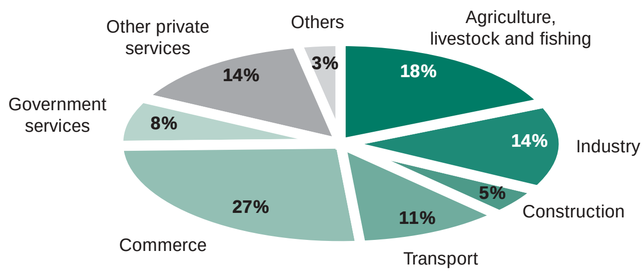
Public consumption fell from 15 per cent of GDP in 1990 to 12.5 in 1999 as investment rose from 4 per

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**16.7**	**19.9**	**19.3**	**19.9**	**20.9**	**21.1**
Public	4.4	8.1	8.3	7.4	8.4	8.5
Private	12.3	11.8	11.1	12.4	12.5	12.6
Consumption	**91.3**	**87.2**	**87.5**	**88.2**	**88.2**	**89.2**
Public	12.4	11.8	12.5	13.7	12.5	11.9
Private	79.0	75.4	74.9	74.5	75.7	77.4
External sector	**-8.0**	**-7.1**	**-6.8**	**-8.0**	**-9.1**	**-10.3**
Exports	32.2	30.0	29.8	30.9	28.5	25.9
Imports	-40.2	-37.1	-36.6	-38.9	-37.6	-36.1

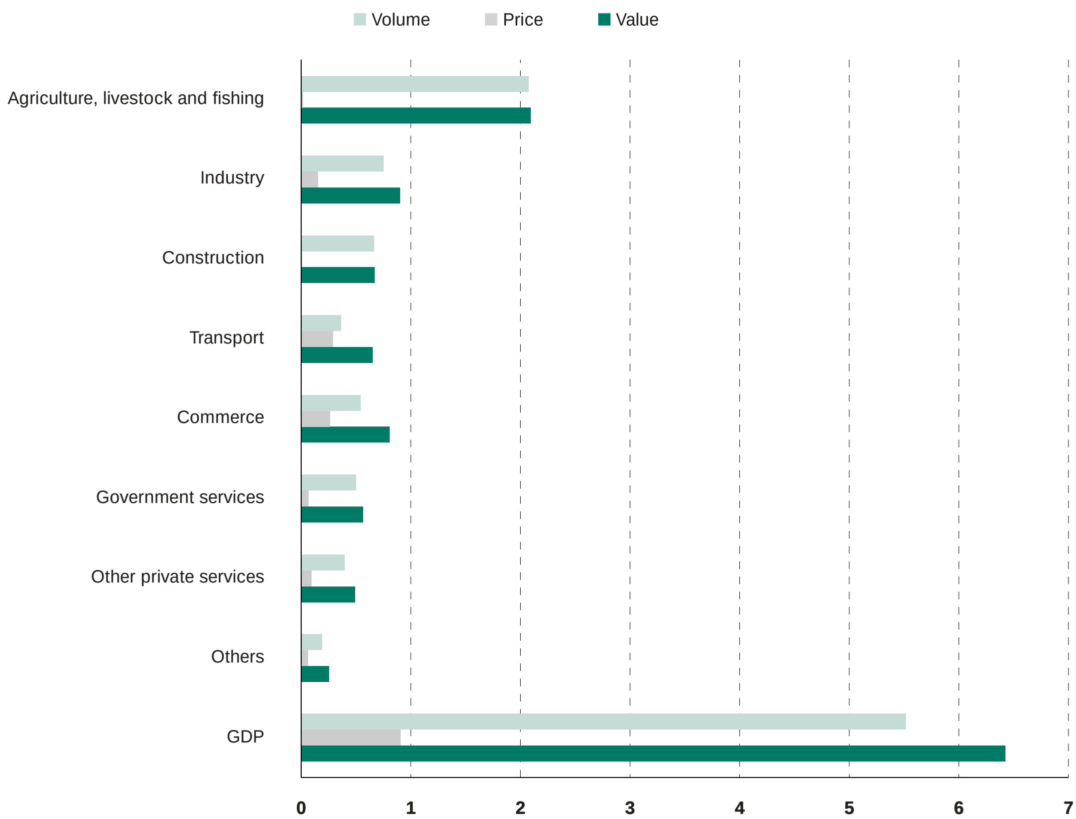
Source: Authors' estimates and predictions based on data from the *ministère de l'Économie et des Finances.*

Figure 3 - GDP by Sector in 2000



Source: Authors' estimates based on data from the *Direction de la statistique.*

Figure 4 - Sectoral Contribution to GDP Growth in 2000



Source: Authors' estimates based on data from the *Direction de la statistique.*

cent (1990) to 7 per cent (1999). This was because wages and salaries were kept under control and public investment revived after devaluation. The budget balance allowed the government to spend more on investment, but private investment was affected by constraints on production, the fairly low domestic savings rate and the virtual absence of foreign direct investment. The relative stagnation gave way in 1998 to recovery as domestic savings conditions improved (the savings rate rose from 12.3 per cent in 1997 to 14.3 in 1999). In 2000, public investment was overtaken by private investment, which grew at 12 per cent that year.

Macroeconomic Policy

Budgetary and Monetary Policy

In February 2001, the IMF approved the third year of a poverty reduction and growth facility launched in 1998, evidence of the international funding agencies' satisfaction with Senegal's on-target macroeconomic performances and well-controlled budgets since 1995. After devaluation in 1994, the country began a period of budgetary restraint to restore balance to public finances and since 1998, the government has had no internal or external arrears. In 1998, to stabilise the tax structure of the budget, a common external tariff (TEC) was introduced at the behest of UEMOA and the oil price stabilisation mechanism was replaced by indirect taxes. Thanks to a strong showing by the value-added tax, loss of revenue from the lower customs duties was not as great as expected. But the oil bill continued to be a burden on the budget in 2000 because of the new government's bigger subsidies to head off higher pump prices. However, the same budget showed a healthy increase in tax revenue — which reached 17 per cent of GDP for the first time — due to greater efficiency by tax and customs officials. Expenditure also slowed, but to the detriment of public investment.

Table 2 - Public Finances (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Total revenue and grants[a]	**19.7**	**19.8**	**19.4**	**19.8**	**19.7**	**19.7**
Taxes	14.8	16.0	16.8	17.3	17.3	17.3
Grants	3.3	3.0	2.1	1.7	1.9	1.8
Total expenditure and net lending[a]	**19.9**	**20.1**	**20.8**	**20.0**		
Current expenditure	14.2	11.3	12.0	13.2		
Excluding interest	*11.3*	*10.0*	*10.5*	*11.7*	*11.0*	*10.4*
Wages and salaries	7.1	5.8	5.7	5.6	5.4	5.1
Interest payments	2.9	1.3	1.5	1.5		
Capital expenditure	5.3	7.2	8.3	6.2	7.0	7.0
Primary balance	**2.7**	**1.0**	**0.1**	**1.2**	**-3.1**	**0.9**
Overall balance	**-0.2**	**-0.3**	**-1.4**	**-0.2**		

a. Only major items are reported.
Source: Authors' estimates and predictions based on IMF data.

The government plans to encourage these trends in 2001 and 2002 by continuing to reform the tax administration. Efforts to fiscalise some of the informal sector have included a new 5 per cent levelling tax on imported goods used mainly in the informal economy, issuing a single identification number and opening advice centres to help firms do basic accounting. The country also adopted a single VAT of 18 per cent in September 2001 under an UEMOA agreement.

The 2001 budget has been affected by several special events. Three elections were to be held in 2001/02, which, apart from the cost of staging them, included the danger of budgetary excesses (though this did not happen with the parliamentary election in April at least). The renationalisation of the electricity company Senelec, whose privatisation had run into problems, cost 40 billion CFA francs ($56 million) in the first quarter. The government planned to absorb the reimbursement during the year using revenue surpluses and leftover proceeds of earlier privatisations. The IMF strongly criticised the management of some public enterprises whose accumulated deficits could be a considerable burden on the state. By the end of June 2001, the energy sector had built up a shortfall of about 40 billion CFA francs ($56 million), mainly from the freeze in petrol and electricity prices, and the groundnut sector owed about 60 million CFA francs ($84 million), partly because prices to the farmer were pegged at 145 CFA francs ($0.20) per kg.

The combined increase in revenue and expenditure is expected to keep public finances steady, and perhaps slightly improve them, in 2001 and 2002. Deterioration of the current deficit and overspending by state firms could be a problem however.

The 2001 budget takes a very vigorous approach to fighting poverty, with 26 per cent more for education and an extra 2.5 billion CFA francs ($3.5 million) for health care. Money to fight HIV/AIDS and malaria has been further increased. The goal is to be spending 2.9 per cent of GDP on health care by 2002 and to achieve full school enrolment by 2010.

Like other UEMOA countries, Senegal's currency is pegged to the French franc and its monetary policy is conducted by the BCEAO, which leaves budget policy as the government's main economic instrument. Since devaluation, inflation has been kept below 3 per cent. A rate of 3.6 per cent is however expected in 2001 before inflation recedes around 3 in 2002.

External Position

Senegal's trade is more diverse than its neighbours. At the end of the 1980s, fishing products replaced groundnuts as the country's main export, with phosphates and chemicals extracted from them in second place. These three headings account for just over half of all exports. Re-exports are also important (11 per cent of total exports) and go mainly to West Africa, illustrating Senegal's role as a transit point in the sub-region. Since 1995, some trade has shifted away from European Union countries towards Africa (with Mali becoming the third biggest partner, taking 8 per cent of Senegal's exports) and Asia. Over 80 per cent of imports are food products, semi-processed consumer goods or oil products, mainly from Europe (including France, which supplies a third of all imports).

Senegal's trade pattern makes it vulnerable (though less so than its neighbours) to ups and downs in the three major export sectors, which in recent years have suffered from a shrinking European market and internal problems with outdated infrastructure and dwindling raw materials. This gives Senegal a structural deficit in its trade and current account balances. In addition, the trade balance deteriorated between 1997 and 2000 as imports grew faster than exports and terms of trade sharply declined. Predicted growth in 2001 and 2002, as well as an expected big fall in groundnut exports, should accentuate this trend.

A third of the Senegalese economy's funding needs are met by aid to projects from bilateral and multilateral sources, with the rest coming from long-term soft loans. Private sector lending and foreign direct investments are on the up, encouraged by the government's privatisations[1] and the country's political and economic stability.

The external debt in 1999 was 78.3 per cent of GDP at nominal value (47.4 per cent NPV because of the large number of soft loans). In 1998, the debt to public

Table 3 - Current Account (percentage of GDP)

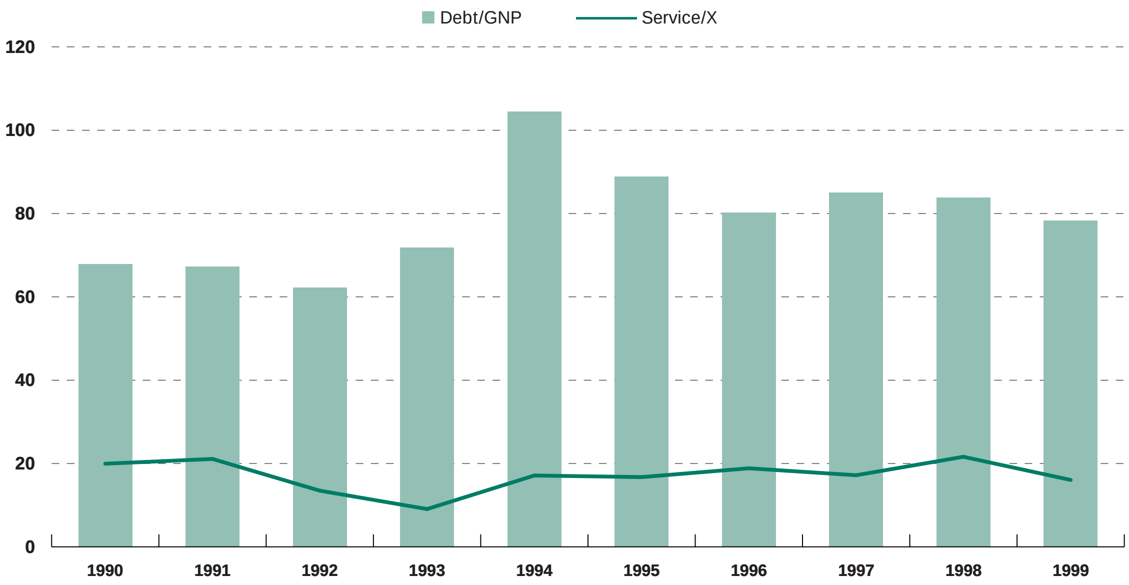
	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	-5.6	-6.7	-7.3	-8.7	-9.0	-9.8
Exports of goods	21.6	20.8	21.6	21.9	20.7	18.8
Imports of goods	-27.2	-27.6	-28.9	-30.6	-29.7	-28.5
Services balance	-0.5	-0.2	-1.0	-0.9		
Factor income	-3.1	-1.3	-1.2	-1.4		
Current transfers	3.8	3.7	3.3	4.5		
Current account balance	**-5.3**	**-4.6**	**-6.1**	**-6.5**		

Source: Authors' estimates and predictions based on IMF data.

1. 2000 should however register a net capital outflow as a result of the renationalisation of Senelec.

revenue ratio was 305.3 per cent NPV, inside the range for eligibility for the Heavily Indebted Poor Countries (HIPC) Initiative[2]. Senegal should start getting debt relief under this scheme in December 2001 if it submits its written plan for poverty reduction by then[3]. This will trigger the right to relief of $800 million (450 million NPV). The country has already had debt relief even before completion point from the Paris Club (after a dozen reschedulings between 1987 and 1998, the terms of the Naples Agreement were applied in June 1998) and through bilateral agreements with creditors. The commercial debt was entirely paid off in early 1997 with the help of the World Bank through the International Development Association.

Figure 5 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

Structural Issues

Senegal has worked with the IMF and the World Bank since 1980 to implement structural adjustment programmes. In 1994, the country began a three-year poverty reduction and growth programme (renewed in 1998) and pledged to liberalise domestic prices, foreign trade and the labour market. Plans for agricultural reform and privatisation were also drawn up. The World Bank and the IMF expressed their general approval, although privatisation continues to stir up much political debate in Senegal.

The government began privatising in 1987, starting with trade and moving on by 1995 to infrastructures. Water supply was privatised in 1996, although the water and equipment remained state property. In 1997, the national telecommunications authority, Sonatel, was put on the regional stock exchange, where it is one of the most robust stocks. Fifty-one per cent of Air Senegal was bought by Royal Air Maroc in January 2000. The first companies privatised were those in healthy condition, in which the government had invested to make them more attractive, so they were a success.

2. In the case of Senegal, debt reduction is based on the ratio over public revenue rather than the ratio over exports, which would allow less relief.

3. A household survey is being done to evaluate the efforts made to reduce poverty and work out suitable goals.

However the government's holdings, of which a full inventory has not yet been made, include problem firms such as the electricity company Senelec, whose privatisation was abandoned by both parties involved (the government and Hydro-Quebec/Elyo), and is back on the market. A new call for tenders on 10 July 2001 drew eight bidders in ten days. The new opening of bids was set for 1 October the same year. Privatisation of the vegetable oil marketing body Sonacos, has been suspended for lack of a buyer. These firms are hampered by lax accounting and very antiquated structures, mostly due to lack of public investment. The government has also been vague about its privatisation strategy and the private sector has been wary, especially of foreign investors seeking shares in the privatised firms. As well as these privatisations, begun in 1999 and not yet complete, the government plans shortly to sell off the port of Dakar, the city's airport, the company running the Dakar-Bamako railway line and the textile firm Sodefitex.

Senegal's banking system has much improved since structural reforms in 1989 and 1990[4]. The financial sector also benefited from adoption by the UEMOA council of a new set of prudential ratios effective from January 2000. But the sector's performance is still mixed. Its loans are more diverse than in neighbouring countries, where all funding goes to the country's main product (cotton in Mali and Burkina Faso and cocoa in Côte d'Ivoire). The sector is also considered fairly healthy since, encouraged by the BCEAO, the number of non-performing loans has fallen dramatically[5] while the banks have increased their own funds.

However, the financial sector is still mostly underdeveloped considering the economy's need for funding. Many economic operators continue to cite the difficulty of obtaining credit as the main obstacle to private initiative. The banks complain about the level of debt — especially with rural loans and the effect of related political decisions — which encourages them to increase their profit margins and so exclude some potential customers. Only large firms in the modern sector of the economy have the means and credibility to get loan bargains by making banks compete for their business. To cater for the rest of the economy, a parallel system has grown up of mutual benefit societies providing small short-term loans, but there are no such facilities for medium-sized firms.

Senegal is geographically better disposed than other West African countries and its infrastructure is quite developed. Most roads and railways converge on the port of Dakar with its advantage of being the westernmost point of Africa and a transit point for the entire region. The rest of the country has quite good roads serving the groundnut-farming regions, but generally the network is unevenly distributed and badly maintained, so many regions are still isolated and links with neighbouring countries virtually inexistent. The antiquated port of Dakar and the decrepitude of the Dakar-Bamako rail link are persistent problems the government hopes to solve through privatisation. With a World Bank loan, the government adopted a road, rail, sea and air transport development plan in January 1999. Most public investment projects were suspended in 2000 but were expected to resume as soon as the series of elections had taken place.

Political and Social Context

Senegal was one of the first African countries to introduce a multiparty system, with the government recognising opposition parties in 1974. But there was no democratic change of power until March 2000, when the opposition Democratic Party (PDS) leader Abdoulaye Wade won elections and the presidency in place of the socialist Abdou Diouf, who was praised by all for organising the handover. Wade's election inspired great hopes among Senegalese, but the new head of state had little room for manoeuvre until April 2001 as his

4. These reforms led to closure of six banks, consolidation by the BCEAO of non-performing assets and the setting up in 1991 of a national debt-collection agency.
5. Although in June 1999 it was still more (at 19.8 per cent of all credits) than the 18.9 per cent average in other UEMOA countries.

party did not have a parliamentary majority. The uncertainty made all sides cautious. The government froze some public investments and major projects (such as the 20/20 Initiative) and firms slowed down their activities because the future was not clear. New government officials and post-election decisions meant the private sector lost their old contacts. The economic players have not yet taken to new bodies, such as the Apix agency (to promote investment and major works), which as a result have so far not been able to operate. The 29 April 2001 parliamentary elections clarified the situation by giving the president the majority he needed to end the uncertainty.

Relations with neighbouring countries are difficult and conflict is frequent between people on both sides of the border with Mauritania. These clashes led in 1989 to the deportation of 200 000 black Mauritanians to Senegal, which replied by expelling Mauritanian traders and taking over their shops. The southern border is also sensitive and separatists from Casamance province have taken refuge there. Since the 1980s, episodes of violence have erupted in Casamance, aggravated by land reform dating from the 1970s, but have died down since Senegalese troops destroyed the bases of the Casamance Movement of Democratic Forces (MFDC) in 1997 and 1998. Negotiations between President Diouf and the MFDC began in January 1999 and President Wade has said he is determined to end the conflict.

The Senegalese government pledged in 1998 to push for greater transparency and fight corruption. An anti-fraud plan was set up in the customs service and various audits were undertaken, including one of the Economic Promotion Fund. The legal system was strengthened with more training for judges and the government promised public opinion surveys to help make the public sector more efficient. Decentralisation was also begun in 1995, enabling better distribution of wealth and making institutions more democratic. These reforms show a gradual change in attitudes even though in practice little has changed.

Despite good economic performances since devaluation, Senegal's social indicators show persistent poverty and many deficiencies in the education and health care sectors. Infant mortality is lower than in neighbouring countries (57 per 1 000 compared with about 80 for the rest of the sub-region), but life expectancy is still less than 55 years. The percentage of the population vaccinated has fallen in recent years and is now only about 45 per cent. However, Senegal stands out from its neighbours on account of its fairly effective HIV/AIDS prevention programme, which has given it the lowest rate of the disease in the region.

Health care is a government priority, as shown by the modest but steady growth of its share in the budget, (from 6 per cent in 1997, to 6.3 in 1999 and 7 in 2000). The government hopes to reach the World Health Organisation target of 9 per cent by 2002. The state has also shown its commitment to the sector by helping to build new primary health care centres, whose number rose from 920 in 1996 to 1 200 in 1999, reducing the ratio of population to clinics from 8 236 to 7 694 (well within the WHO target of one clinic for every 10 000 people). The sector has also benefited greatly from the drop in the price of medicine through widespread adoption of generic drugs.

The education sector has serious shortcomings centred on low enrolment and literacy rates. Only 38.3 per cent of the population is literate, one of the lowest rates in West Africa, and gross primary school enrolment is 70 per cent , on a par with Côte d'Ivoire and Ghana, but well below the figure for much poorer countries such as Benin and Togo[6]. These bad performances are striking because Senegal spends much more on education than other sub-Saharan countries, but the poor result is because money is systematically channelled to university education to the detriment of primary education, which traditionally gets only about a third of the total education budget. The government's new education programme, drawn up with the schools themselves and with the international funding agencies, plans to

6. However, this is a significant improvement over the early 1990s, when gross primary enrolment was only 57 per cent .

increase primary education's share to 44 per cent by 2003 and eventually to 50 per cent.

As well as poor social indicators, Senegal has very sharp social inequalities visible in urban-rural differences and between Dakar and provincial towns. Nearly 80 per cent of people in the countryside live below the poverty line, compared with less than a third of those living in Dakar. These gaps are made worse by unequal distribution of infrastructure throughout the country and ineffective decentralisation. Provincial towns get very little public investment while skills and funding have still not been transferred by the central government to local authorities. This has speeded up rural migration to Dakar, which swells the ranks of the informal sector, where incomes are very much lower than in the formal sector. Poverty is expected to increase in the capital, mainly because infrastructure (housing, water supply, electricity and sewage) does not keep abreast of the growing population, and because of flaws in the education system, in the shape of newcomers to the informal sector who are young and among the least educated.

