

Senegal: Rallying Support for Growth

Senegal has been growing steadily since January 1994 when the country devaluated its currency. GDP growth averaged 5 percent per year over the last decade and the proportion of the population living in poverty has decreased by more than 10 percentage points. Efforts to improve people's basic living conditions have also begun to show results: school attendance is up, immunization rates have increased and malnutrition has dropped in targeted regions. Senegal's success can be attributed to a combination of three factors: good economic management, political stability, and strong financial support.

Country Indicators	1994	2004
GNP per capita (Atlas method, US\$)	462	766
GDP growth, per capita (%)	0.1	4.0
Average inflation (%)	32.0	0.5
External debt (% of GDP)	100.3	64.3
Overall fiscal balance (exc. grants)	-6.1	-5.5
Poverty incidence (%)	67.9 (1994)	57.1 (2001)
Gross primary school enrollment rate (%)	53 (1991)	76
Under-five child mortality (per 1,000)	148 (1990)	121
Maternal mortality (per 100,000 live births)	510 (1990)	434
Population (millions)	8.1	10.5

Sources: Government and the World Bank.

The International Development Association (IDA), the World Bank's fund for the world's poorest countries, has supported Senegal's sound economic choices, lending US\$1.6 billion over a twelve year period (Fiscal Years 1994-2006). Seven policy loans helped steer Senegal's reforms and strengthen its approach to taxes, regulations and the private sector. IDA lending, backed by analytical work, has also supported key investments in rural and urban development, transport, water supply, energy, and the social sectors.

In spite of its significant achievements, Senegal has not yet met its full potential. Nor does it generate sufficient opportunities for the young men and women currently entering the job market. The government is aware that it needs to do more to fill gaps in infrastructure and human development to reach its Millennium Development Goals (MDG) and reduce poverty by half by 2015.



COUNTRY ACHIEVEMENTS

Senegal has achieved rapid, sustainable economic growth in the past twelve years.

Senegal faced an increasingly difficult economic and social situation before the devaluation of its currency. Real GDP growth had averaged 2.2 percent a year between 1985 and 1993, much lower than the annual population growth rate of 2.8 percent. Most of Senegal's social indicators compared unfavorably with those of other low-income countries. In 1994, 68 percent of the population lived below the poverty line; in rural areas, it was 71 percent.

Between 1994 and 2004, Senegal's economy grew at about 5 percent per year with no serious fiscal or external imbalances. This is a notable improvement over the period 1990-93 when per capita GDP declined by 1.6 percent a year. Senegal's fiscal position is strong, with an unprecedented low indebtedness and relatively high tax revenues.

The 2006 Multilateral Debt Relief Initiative (MDRI), by significantly lowering the portion of the budget devoted to debt service and debt repayment, is allowing Senegal to move forward on the implementation of its growth and poverty reduction agenda. After HIPC and MDRI debt relief, the stock of Senegal's public debt decreased to 13 percent of GDP from 30.9 percent, and the external debt service dropped to 71.1 billion CFA Francs from 138.9 billion. Its tax revenues increased from CFAF 17.6 billion in 2004 to an expected level of CFAF 19.3 billion in 2007.

Increased social cohesion.

Economic growth has led to poverty reduction and improvements in the delivery of basic social services. The proportion of the population living in poverty decreased to 57.1 percent in 2001 from 67.9 percent in 1994. As a percentage of households, the drop in poverty is slightly greater: from 61.4 percent in 1994 to 48.6 percent of households in 2001.

Income inequalities in Senegal are also lower than the Sub-Saharan average.

At the same time, Senegal's urban population is expected to rise from 40 percent today to 55 percent in 2012 and 62 percent in 2025. Rapid urbanization puts increased pressure on existing services and infrastructure. Strong emphasis is being placed on strengthening the management capacity of municipalities and on increasing the quality and accessibility of urban infrastructure and services.

Over the past years Senegal has enjoyed a stable political climate.

In April 2000, a new administration assumed office, representing the first peaceful transition to a competing political party since independence. A free and diverse media and an active civil society contribute to this stability. Senegal has also been able to preserve the historical social balance between modern institutions and its multiple religious communities.

A peace agreement between separatist rebels and the government was signed in Casamance at the end of 2004, generating donor support for the reconstruction effort in this once fertile but war-ravaged region wedged between Gambia and Guinea-Bissau. Although fighting still simmers, thousands of displaced people have started returning to their villages and the prospects for resolving this long-standing low-level conflict have improved.

Compared to other countries in sub-Saharan Africa, Senegal ranks favorably in international governance studies, both in terms of government effectiveness and voice and accountability. Mechanisms for policy coordination function effectively at the central level. For example, the government has reacted promptly to recent external shocks that included drought, locusts, and flooding.

However, the quality of Senegal's institutions still lags those of the most successful emerging economies and OECD countries. Governance indicators published by the World Bank Institute (WBI) show that government efficiency and respect for the rule of law have actually worsened between 1994 and 2004. The judiciary and legislative powers exercise weak control over the budget executed by the state, and public and quasi-public enterprises continue to be plagued by corruption.

IDA CONTRIBUTIONS

IDA has extended US\$2.94 billion in interest-free credits to Senegal since it began operations in the country in 1966. The main objective of the Bank's assistance strategy for Senegal has been to reduce the incidence of poverty and improve employment.

Its current country assistance strategy focuses on (i) developing country ownership through policy dialogue; (ii) using public expenditure reviews with a focus on impacts at the level of the consolidated central budget; (iii) monitoring linkages between implementation and aggregate results; and (iv) emphasizing investment in human capital through lending and advisory services.

Because of its strategic role, and its good development outcomes, Senegal's development program has benefited from large foreign aid support. It continues to be one of the most assisted countries in the world (the level of official aid per capita exceeded US\$100 in 2004). Most bilateral and multilateral development agencies have an active presence in Senegal, with the Bank, the European Union, France, and the United States being the largest contributors.

IDA lending to Senegal over the last twelve years (Fiscal Years 1994- 2006) totaled US\$1.6 billion. During that period, about one-fourth has been provided through seven policy operations that directly support the government's strong reform efforts, particularly in the areas of private sector development, agricultural sector, energy, trade, public expenditure management and delivery of social services.

IDA has also provided 37 investment projects that focus on rural and community development, health, education, nutrition, private sector development, energy, water supply, transport, urban development.

IDA has been particularly effective in the following areas:

Providing continuous support for policy reform.

Government officials and other stakeholders note that IDA played a major role in Senegal's economic recovery following the devaluation in 1994. The ensuing recovery of economic growth reflected the combined impact of improved policies, especially macroeconomic, increased donor aid, and help boost the competitiveness of formal sector firms by improving the investment climate and providing financial support to exporters and small and medium companies. IDA has worked closely with the IMF to ensure a consistent and stable macroeconomic framework.

IDA's seven adjustment credits included two poverty reduction support credits which have addressed key constraints to growth. Senegal has made progress toward fiscal consolidation; it has strengthened its regulatory framework, and increased private sector participation in the provision of water and telecommunications services. However, progress has been

modest in the transport and energy sectors, as evidenced by two failed privatizations of the national electricity company.

Capacity building and development of social services.

The Bank has helped to increase access to education, health services, nutrition and basic infrastructure. It has focused on improving the quality of services, as well as enhancing gender equity and evening out regional disparities. There has been a special emphasis on helping Senegal achieve the related MDGs by 2015.

IDA's comprehensive ("sector-wide") approaches to health and education have helped Senegal formulate long-term strategies and improve aid effectiveness in these sectors.

As a result, some of Senegal's social indicators have improved:

- Gross primary school enrollment rate increased from 67 percent in 2002 to 76 percent in 2004.
- Diphtheria, tetanus and pertussis immunization rates went up from 54 percent in 2002 to over 80 percent in 2005.
- Malnutrition rates in some targeted areas declined from 27 percent in June 2004 to 10 percent in December 2005.

Ensuring consistency between macroeconomic and sector-level reforms.

The Bank's strategy has consistently emphasized creating the conditions for rapid economic growth.

In particular, IDA support stressed infrastructure reform to improve the quality and reduce the cost of infrastructure services. About 42

percent of total Bank lending over Fiscal Years 1994-2004 was devoted to infrastructure. This emphasis by IDA was consistent with the government's efforts to introduce private sector participation and competition in the delivery of infrastructure services.

In parallel, the Bank stressed the need for increased investments in education and health and enhanced participation of local communities in decision-making through decentralization and social funds. It recognized that complementary measures to macro-economic adjustment and trade liberalization were necessary to stimulate rapid growth and enhance the ability of the poor to share in Senegal's growth.

For example, it placed a strong emphasis on developing the human capital of the poor, improving rural infrastructure, and strengthening rural institutions, such as agriculture producers' organizations, in line with the government's poverty reduction strategy.

A consistent message across lending instruments (from poverty reduction support credits to investment projects) has helped up budget allocations aimed at attaining the MDGs.

Senegal now allocates more than 30 percent of its recurrent budget for education, one of the highest ratios in Sub-Saharan Africa. Forty-four percent of that allocation is devoted to primary education.

Addressing complex cross-sectoral issues.

IDA's large-scale involvement in infrastructure, rural development, and social services has allowed it to tackle challenges from several angles at once. For example, invest-

ments in infrastructure benefit rural communities and help stimulate agricultural growth. Likewise, better access to clean water helps fight water-borne disease and improves public health outcomes.

Structural reforms and sector-specific investments are also mutually reinforcing. For example, fiduciary reforms of the state, by strengthening budgetary procedures and securing better financial transfers from the central budget to local governments, have helped narrow the gap between the cost of implementing social sector programs and resources available from domestic resources and donor support.

Public management reforms have also helped improve the allocation of resources within the education and health sectors. The share of total public expenditure for both these sectors has increased significantly over the past few years.

Cross-fertilizing policy dialogue with the knowledge and experience of other countries.

A workshop organized in June 2005 by the Bank, at the request of Senegal's prime minister, focused on growth strategies in middle-income and emerging countries (such as Chile, Malaysia, Vietnam, Tunisia). Senegal is now adopting some of the lessons and practices presented at the workshop.

For example, the government is looking at improving the flow of products to regional and international markets through the development of efficient supply chains in a few selected activities, such as horticulture and other non-traditional agricultural products.

In the same vein, Senegal has experimented over the years with a number of concepts that have since been replicated in other countries: Its municipal contract concept aims to formalize mutual commitments between the municipality and the government and to boost the implementation of institutional reforms at the municipal level. The concept has been used in neighboring countries such as Guinea, Mauritania, Rwanda, Niger, Cameroon, and Burkina Faso.

Harmonizing and catalyzing donor support.

More than 50 donor countries and agencies are active in Senegal. In the late 1990s, the Bank began to help the government organize sector meetings to discuss programs and policies. Sector and thematic working groups were created and joint sector reviews established using a sector-wide approach.

A New Approach to Aid

For L.O Moubarack, a well-known Senegalese economist, IDA's impact is particularly important in the area of sectoral programs. "Earlier, Senegal used to develop only individual projects lacking both coherence and effectiveness in correcting the constraints faced by the economy," he noted in a recent interview. "Sectoral programs, developed gradually in every sector, allowed the establishment of integrated frameworks gathering all donor support and defining strategic actions, including clear budgeting and timing."

Senegal is now a pilot country for the implementation of the Paris Declaration on Aid Effectiveness. Government officials and other stakeholders note that donor coordination has been particularly good in the transport

and water supply sectors and in the area of municipal development.

One of the objectives of donor coordination is to reduce the aid-related administrative burden on the Senegalese administration.

There are already tangible results, including improved collaboration among donors in the design of budget support operations. Further coordination is expected through the adoption of a memorandum of understanding setting up common evaluation processes on the macroeconomic conditions, the Poverty Reduction Strategy Paper process, and public sector management reforms. The consolidation of donor Project Implementation Units (PIUs) in the water sector is also a move in the right direction.

Through its partnership on harmonization and alignment, IDA leverages other donors' aid in Senegal. For example, the model of transferring funds for local governments through the public treasury, which was established under a Bank project, has been adopted by the donor community, putting an end to earlier practices of creating funding channels outside country systems.

Providing a knowledge base.

In the past 12 years, IDA has produced roughly 20 major analytical reports including analysis of Senegal's economy, public expenditures, poverty levels, investment climate as well as its private sector, financial sector, environment and pensions.

This analytical work serves as the basis for the design of policies and programs that are tailored to tackle Senegal's realities and

challenges. For example, the 2005 Public Expenditure Review led to the government's adoption of a 2006 budget proposal on a programmatic basis (medium-term expenditure framework) for at least four ministries. It also led to the adoption of a uniform nomenclature for current and investment expenditures, as the basis for budget preparation.

Favoring regional integration.

Senegal plays an important role at the regional level. IDA interventions have sought to reinforce regional integration over the years. It has supported for example: a regional hydropower development project which will help lower the cost of electricity; the Senegal river basin management project; OHADA (the Organization for the Harmonization of Business Law in Africa, comprising several francophone African countries); and, more recently, the Felou hydroelectric project and the Africa Locust emergency project.

Many sectors in Senegal have benefited from IDA operations.

Agriculture. Over the past decade, Bank support to Senegal's rural sector has focused on: supporting the government's strategies in improving rural livelihood through decentralized access to basic services and demand-driven agricultural services; helping raise rural incomes by increasing and diversifying output; promoting price and trade liberalization; and revamping the horticultural exports industry.

IDA helped build and strengthen agricultural research capacity, develop decentralized extension services, and promote the participa-

tion of rural organizations in decision-making and development processes at the local levels, thereby strengthening decentralization.

Exporting Fruit, Vegetables and Flowers

IDA contributed to the construction of post-harvest processing and quality centers for small and medium enterprises and a cold storage facility at the Dakar Airport. It also helped exporters to access new markets and to meet the stringent standards of European markets.

These efforts have helped boost horticulture exports from 6,000 tons in 1998 to about 20,000 tons in 2005.

Rural infrastructure. IDA supported the building and maintenance of community-based infrastructure including community roads, schools, primary health centers, and water access through a four-year national rural infrastructure project (2001-05) in which funds were successfully transferred to local governments through the public treasury system.

This project (co-financed by other donors including the African Development Bank and OPEC) helped increase access to basic services, improve living conditions and raise incomes in 110 rural communities.

Environment. Under a sustainable energy project, local communities were trained to manage the exploitation of their forests in a sustainable manner. The project promoted alternative fuels and improved stove efficiency. The Bank has also helped Senegal analyze and plan actions focused on environmental issues.

Transportation. The Bank's program has focused on improving road maintenance, and improving the efficiency of transport services. Some results include:

- An autonomous road maintenance agency which has brought greater coherence in the management of the road sector.
- 2,264 km of dirt roads and 1,841 km of paved roads rehabilitated since 2003.
- Air Senegal, the national airline, has been successfully privatized and is filling the vacuum left by Air Afrique. Reliability and frequency of service have increased—for example, there are now 6 flights per week from Dakar to Bissau, compared to two flights before.

Telecommunications. The privatization of the sector in July 1997 has been successful, and the network is now modern, efficient, and competitive. The Bank is supporting further government reform efforts in the sector, with a focus on helping to establish an appropriate legal and regulatory framework, strengthening the regulatory agency, and promoting rural access.

Water supply. Senegal's water and sanitation sector reform is widely praised. The strong commitment of the government to reform the sector 10 years ago resulted in the establishment of a public-private partnership in urban water supply based on an arrangement known as affermage (or system concessions) well-suited for Sub-Saharan Africa. The sector's financial equilibrium was restored and the quality and coverage of water services improved significantly.

The successful turnaround of the sector has attracted over the years multi-donor investments¹ as well as funding from Senegal's commercial banks. As a result:

- Water service, once intermittent, has become continuous almost everywhere in urban areas, and the global rate of access to urban water services has increased in 10 years from 81 percent to 98 percent.
- Household connections in urban areas reached 76 percent in 2006, the highest rate in sub-Saharan Africa, thanks to the establishment of a subsidized social connections program for poor neighborhoods in Dakar and secondary urban centers, a government program supported by IDA.

Education. Gross primary school enrollment rates have increased recently from 67 percent in 2002 to 76 percent in 2004. IDA has supported technical/vocational skill development, primary and secondary education, and policy reform. Current support is provided under the Quality Education for All project, the second phase of an adaptable loan (APL).

The government's 10-year education sector program (the *Plan décennal de l'Éducation et de la Formation* or *PDEF*) is supported by various donors, but primarily by the government (which provided 91 percent of the funds for the overall sector in 2000-05). Donor projects are progressively moving towards a harmonized sector support mechanism within the context of the government's 10-year program.

1. Including funding from the African Development Bank, the European Investment Bank, France, Germany, the Nordic Development Fund, and the West African Development Bank (BOAD).

Sharing the School Work

Changes and innovations in the education sector were supported by the government, IDA and other donors:

- The use of contractual teachers has allowed a much larger share of the school-aged population to attend school while maintaining sustainable budget limits. The cost of this was primarily borne by the government, with support from Canada.
- A simultaneous expansion in capacity led to the construction of approximately 1,000 classrooms a year during the period 2000–05, compared to 200 classrooms per year during the previous five years. Of the 6,000+ constructed classrooms, a total of 1,000 were constructed under an IDA project.
- The preparation of bottom-up development plans, from the school and district levels all the way up to national levels, has led to the development of a medium-term expenditure framework for the sector, one of the first in the country. Much of the technical and financial support for the preparation of these plans was financed under the IDA credit.
- The introduction of an education management information system at the Ministry of Education has helped create a reliable and updated database of schools, students and personnel in the education sector, and has established a single and unique database between the Ministries of Education, of Finance and Economic Affairs, and of Civil Service. The equipping and staffing of the information unit were largely financed under the IDA credit, with long-term technical assistance provided by France.
- Block grants, introduced on a pilot basis, helped improve education accountability at the regional and district levels, and aim to improve quality in the coming years. Although other donors have financed such grants under school improvement plans, the IDA-financed block grants are the only ones solely focused on education quality, with simplified procedures and a posteriori evaluations to encourage a culture of accountability and locally adapted quality improvements.

Health. IDA has helped to reduce malnutrition and child mortality, improve maternal health, and combat malaria, HIV/AIDS, and other endemic diseases.

Efforts have begun to show results, including the following:

- The percentage of malnourished children decreased from 27 percent in June 2004 to 10 percent to December 2005 among a target group of 205,000 children monitored monthly as part of an IDA-supported nutrition project.
- In intervention areas covered by the same project, the number of breast-fed babies almost doubled between December 2003 and December 2005, and the number of prenatal visits increased by 29 percent during the same period.

Under the Integrated Health Sector Development Project, the Bank moved to a sector-wide approach to help improve access to health services and reduce high population growth. Results show a 10 percent decline in the infant mortality rate and a 7 percent decrease in fertility rates in seven years (1997-2004). By the end of the project in June 2005, 95 percent of active health facilities provided vaccination and primary curative care.

REMAINING CHALLENGES

Over the last decade, Senegal has moved on a range of policy and institutional reforms. However, challenges remain, and while economic growth has been encouraging, its rate has been far less than what is needed for Senegal to achieve the goal of halving the share of the population living below US\$1 per day by 2015.

Stimulating private sector-led growth.

One major hurdle is the relative weakness of the private sector which should, in time, drive economic growth.

Improving Senegal's investment climate and promoting private sector development will require greater competition among industrial firms, greater support for small and medium sized enterprises, and efforts to maximize the comparative advantage of Senegal's economy in a few strategic sectors.

Creating jobs.

Senegal must also generate employment. The tragedy of thousands of young men trying to paddle their way to Spain is an indication of people's desperation to find jobs. Today, four out of 10 potential workers are unemployed or underemployed, and this proportion is even higher for young people who lack skills and experience.

Part of the problem is rooted in the lack of dynamism of the private sector and the declining share of the agricultural sector in the economy.

Improving public service delivery.

Public spending on infrastructure needs to be consolidated, so as to close the infrastructure

gap. The share of education and health expenditures in total public expenditures should be further increased. More attention should be paid to vulnerable groups by implementing the government's newly developed social protection strategy. Finally, public spending will have to be allocated more evenly across regions. The rapid pace of urbanization will make it crucial to find balance between urban and rural development.

Improving governance, in particular the transparent and efficient use of public resources, is a prerequisite if Senegal is to meet these challenges.

An agenda for future IDA lending

Government officials and other key stakeholders give IDA credit for helping Senegal achieve sustainable economic growth, improve its business environment, increase private sector participation in the provision of water and telecommunications, and promote exports in agriculture.

But their assessment also concludes that the environment for private investment and the continued development of social services need further attention.

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<http://www.worldbank.org/ida>