

## Senegal: Rallying Support for Growth

From the mid-1990s until 2005, Senegal was one of the best performing economies in Sub-Saharan Africa. Though there were fluctuations, real GDP grew on average by about 5 percent annually following the 1994 devaluation, marking the first sustained increase in average per capita growth since independence in 1960. Debt relief as well as prudent concessional external borrowing allowed for a sharp reduction in the stock of debt. Efforts to improve peoples' basic living conditions begun to show results: school attendance went up, immunization rates increased, and malnutrition dropped in targeted regions. However, a series of shocks has hurt economic growth over the last three years, which has slowed the government's progress in implementing its development and poverty reduction agenda.

Country Indicators	1994	2004	2008
GNP per capita (Atlas method, US\$)	462	766	870
GDP growth, per capita (%)	0.1	4	0.0
Average inflation (%)	32	0.5	5.9
External debt (% of GDP)	100.3	44.1	19.7
Poverty incidence (%)	67.9 (1994)	57.1 (2001)	50.6 (2005)
Gross primary school enrollment (%)	53 (1991)	76	90.5
Under-five child mortality (per 1,000)	148 (1990)	121 (2005)	121 (2005)
Maternal mortality (per 100,000 live births)	510 (1990)	401 (2005)	401 (2005)
Population (millions)	8.1	10.5	12.2

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 poverty reduction agenda. A total of US\$ 1.19 billion has been committed to Senegal during the 2000-2009 Fiscal Years. Ten 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.



## COUNTRY ACHIEVEMENTS

Senegal achieved significant economic growth between 1994 and 2005, but economic performance weakened during the period 2006-2008.

GDP growth averaged 5 percent annually from the mid 90s to 2005. On the fiscal policy front, the authorities pursued a broadly stable strategy, enhancing revenue mobilization and maintaining control on current expenditures, while allowing for a gradual increase in capital and pro-poor spending.

In 2006-2007, however, a series of shocks struck the Senegalese economy. The increase in oil prices and the surge in food prices weighed down on the economy and contributed to a widening of the external current account deficit. Falling agricultural output exacerbated the impact of escalating food prices. Macroeconomic performance weakened again in 2008 as a result of additional shocks. Real GDP growth was estimated at 2½ percent for 2008, while inflation remained elevated, at about 6 percent. Fiscal performance in 2008 was weak but by the end of the year, the Government had taken key decisions to put the fiscal management back on track.

Being a very open economy, Senegal's exposure to the global recession is significant. The main transmission channels include possible declines in demand and prices of exports,

tourism, remittances and foreign direct investment (FDI). Growth in 2009 is now projected at 1.5 percent, down from an earlier projection of 5½ percent.

### 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 from 67.9 percent in 1994 to 50.6 percent in 2005. As a percentage of households, the drop in poverty is slightly greater: from 61.4 percent in 1994 to 42.6 in 2005.

Income inequalities in Senegal are also lower than the Sub-Saharan average. At the same time, Senegal's urban population is expected to increase from 42 percent today to 62 percent in 2025. Rapid urbanization is increasing pressure on existing services and infrastructure. 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 relatively stable political climate.

Long hailed as a symbol of democracy in Africa, Senegal is going through some changes in its political landscape. Recent local elections were a demonstration of Senegal's respect

for democratic principles, and were widely viewed as fair and transparent. However, the elections took place against a backdrop of social tensions and of last year's fuel and food crises.

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. Prospects for resolving this long-standing, low-level conflict have improved, but sporadic and localized fighting has continued.

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

However, the quality of Senegal's institutions still lags behind 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 declined between 1994 and 2008. 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\$3.2 billion in credits to Senegal since it began operations in the country in 1966. The main objectives of the Bank's assistance strategy for Senegal have been to (i) accelerate growth by promoting

a competitive investment climate, building infrastructure, promoting a modern and diversified agricultural sector, developing skilled labor, (ii) reduce the incidence of poverty by increasing access to social services and creating opportunities for poor and vulnerable groups, and (iii) foster rural and urban synergies.

Because of its strategic focus, stable policy environment and broadly favorable development outcomes, Senegal's development program continues to benefit from foreign assistance. 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 period 2000-2009 totaled US\$1.19 billion. During that period, about one-fourth has been provided through ten policy and budget support operations that directly support the government's reform efforts, particularly in private sector development, agricultural, energy, trade, public expenditure management, and delivery of social services.

During that period IDA has also provided funding for investment projects that focus on rural and community development, health, education, nutrition, private sector development, energy, water supply, transport, and 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 of its currency in 1994. The ensuing recovery of economic growth reflected the combined impact of improved policies, especially macroeconomic, increased donor aid, improved competitiveness of formal sector firms due to improvements in the investment climate, and provision of 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 adjustment credits included three poverty reduction support credits, which have addressed key constraints to growth. Senegal has made progress toward fiscal consolidation, and has strengthened its regulatory framework and increased private sector participation in the provision of water and telecommunications services. Progress has been more modest in the energy sector, as evidenced by two failed privatizations of the national electricity company. However, a US\$80 million energy development policy credit in 2008 provided valuable support to the power utility of Senegal and comprised policy measures aimed at ensuring that the electricity and downstream hydrocarbon sub-sectors develop and operate in an efficient and transparent way.

### **Capacity building and development of social services**

The Bank has helped 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 balancing 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 90 percent in 2008 (the overall access goal is almost met);
- **Children Health:** Approximately 24 percent of children under the age of five are reached by an integrated package of community nutrition activities.
- **Malaria:** More than a million nets have been distributed. It is likely that the goal of 50 percent of targeted households using insecticide treated nets by 2009 will be reached.

### **Ensuring consistency between macroeconomic and sector-level reforms**

IDA'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. This is consistent with the government's efforts to introduce private sector participation and competition in the delivery of infrastructure services.

IDA has also stressed the need for increased investments in education and health and enhanced participation of local communities in decision-making through decentralization and social funds. This is in recognition of the fact that complementary measures to macro-economic adjustment and trade liberalization are necessary to stimulate rapid growth and enhance the ability of the poor to share in Senegal's growth. For example,

IDA has 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 in IDA's support program (from poverty reduction support credits to investment projects) has been the important in increasing resource allocations aimed at helping Senegal attain the MDG targets.

### Addressing complex cross-sectoral issues

IDA's large-scale involvement in infrastructure, rural development, and social services has helped the government tackle challenges from several angles at once. For example, investments in infrastructure benefit rural communities and 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.

### Harmonizing and catalyzing donor support

More than 50 donor countries and agencies are active in Senegal. One of the objectives of donor coordination is to reduce the aid-related administrative burden on the Senegalese administration. Considerable progress has been made in recent years in harmonizing development assistance in Senegal, in accordance with the Paris Declaration on Aid Effectiveness.

Close collaboration in the design of budget support operations includes the adoption of a Framework Agreement on Budget Support (*Accord Cadre pour les Appuis Budgétaires, ACAB*) in 2008. Though the ACAB mechanism is still in its infancy, substantial progress has been made with the adoption of joint monitoring indicators, a regular quarterly meeting of a Steering Committee chaired by the Prime Minister, and a multi-donor trust fund supporting the budgetary reforms. The consolidation of donor Project Implementation Units (PIUs) in the water sector is also a move in the right direction. The last Consultative Group meeting took place in October 2007, endorsing the government's Poverty Reduction Strategy Paper with financial commitments totaling US\$3.9 billion and agreeing on follow-up via quarterly meetings in Dakar.

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

During the last three years IDA has produced a number of analytical reports, including analyses of Senegal's economy, poverty levels, investment climate as well as its private sector, environment, infrastructure, non-farm employment, labor markets, street children. 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 Country Economic Memorandum produced information on labor markets and employment, while the Poverty Assessment provides a vehicle for joint diagnostic and capacity building. Similarly, the Public Expenditure and Financial Accountability (PEFA) assessment of 2007 or the PEFA carried out for the city of Dakar (the first such municipal-level exercise conducted in Africa) have underpinned the preparation of budget support operations.

## Favoring regional integration

Senegal has a strong interest in regional integration. President Wade is one of the leaders of the New Partnership for Africa's Development (NEPAD) and is at the forefront of efforts aimed at overcoming the fragmentation and economic marginalization of the continent.

IDA interventions have sought to reinforce regional integration over the years. For example, it has supported (i) a regional hydro-power development project, which will help lower the cost of electricity; (ii) the Senegal river basin management project; (iii) 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 benefitted from IDA funding.

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

IDA helped build and strengthen agricultural research capacity, develop decentralized extension services, and promote the participation of rural organizations in decision-making and development processes at the local levels.

**Energy.** Electricity access in Senegal is higher than in most of sub-Saharan Africa with 47 percent national electrification rate (80 percent urban and 16 percent rural). Over the last couple of years, the government has

### 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 non-traditional agricultural exports from 6,000 tons in 1998 to 22,700 tons 10 years later, surpassing targets.

demonstrated a determination to correct the deep-seated problems in the power sector. IDA has engaged in financing sector expansion and reform.

As part of the preparation of the Senegal Energy Sector Recovery Project, approved by the Board in June 2008, the government and IDA (together with the French Development Agency) have agreed on a comprehensive package of measures aimed at improving power sector management and governance. Plans for the energy sector include measures for: strengthening corporate governance of the power utility and the oil refining company; revising the electricity tariff formula to improve cost recovery; competitive fuel procurement to reduce costs; and financial restructuring of both power and oil refining entities.

Other measures will be implemented within a longer timeframe: diversification away from petroleum-based power generation through the development of coal-fired and renewable power generation, reform of sector structure, and unbundling of generation, transmission, and distribution.

**Environment.** Progress has been made in promoting sustainable development and management of natural resources through support to the household energy sub-sector. The IDA-supported Rural Electrification project has developed forestry management plans for eight forests, covering 650,000 hectares, for efficient charcoal production, biodiversity management and eco-friendly income generation, as well as supporting the distribution of 15,000 kerosene stoves. A government decree to eliminate the charcoal quota system constitutes an important recent breakthrough.

**Transportation.** IDA has focused on improving road maintenance and efficiency of transport services. Budget allocations to road maintenance have tripled: the road fund allocation increased to US\$36 million in 2008, from US\$12 million in 1998. These levels however remain insufficient. The road maintenance agency (FERA) will become operational by mid-2009.

**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 over the years attracted multi-donor investments (including funding from the African Development Bank, the European Investment Bank, France, Germany, the Nordic Development Fund, and the West African Development Bank (BOAD), 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. More than one million additional people have access to drinking water, mainly in urban areas, thanks to the Long Term Water Sector project, co-financed by IDA. A follow up project will focus on both urban and rural areas.

**Education.** Gross primary school enrollment rates have increased from 67 percent in 2002 to 90 percent in 2008, so that the overall access goal is almost met. 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 government's 10-year education sector program is supported by various donors, but primarily by the government (which provided 91 percent of the funds for the overall sector in 2000–2005). Donor projects are progressively moving towards a harmonized sector support mechanism within the context of the government's 10-year program.

**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. The program is expanding geographically, targeting the areas with the highest malnutrition rates, with a goal of reaching over 70

### 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 an 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. [

percent of children in the hardest hit areas and 50 percent of children nationwide by 2011.

- Through IDA financing, nearly 1,000 civil society organizations have received about US\$10 million over the past 7 years to provide prevention, care and support to orphans and vulnerable populations. As many as 92,000 people now know their HIV status. Senegal is one of the few countries in Africa where commercial sex workers have access to basic health services including prevention and treatment for HIV/AIDS.

## CHALLENGES AHEAD

Over the last decade, Senegal has achieved progress 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 ten 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 balance 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>