



WORKING PAPER NO.23

# Growth in Senegal: The 1995–2005 Experience

Mansour Ndiaye





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*Mansour Ndiaye*



Dutch Ministry  
of Foreign Affairs



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On behalf of the Commission on Growth and Development  
1818 H Street NW  
Washington, DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)  
[www.growthcommission.org](http://www.growthcommission.org)  
E-mail: [info@worldbank.org](mailto:info@worldbank.org)  
[contactinfo@growthcommission.org](mailto:contactinfo@growthcommission.org)

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## About the Series

The Commission on Growth and Development led by Nobel Laureate Mike Spence was established in April 2006 as a response to two insights. First, poverty cannot be reduced in isolation from economic growth—an observation that has been overlooked in the thinking and strategies of many practitioners. Second, there is growing awareness that knowledge about economic growth is much less definitive than commonly thought. Consequently, the Commission’s mandate is to “take stock of the state of theoretical and empirical knowledge on economic growth with a view to drawing implications for policy for the current and next generation of policy makers.”

To help explore the state of knowledge, the Commission invited leading academics and policy makers from developing and industrialized countries to explore and discuss economic issues it thought relevant for growth and development, including controversial ideas. Thematic papers assessed knowledge and highlighted ongoing debates in areas such as monetary and fiscal policies, climate change, and equity and growth and. Additionally, 25 country case studies were commissioned to explore the dynamics of growth and change in the context of specific countries.

Working papers in this series were presented and reviewed at Commission workshops, which were held in 2007–08 in Washington, D.C., New York City, and New Haven, Connecticut. Each paper benefited from comments by workshop participants, including academics, policy makers, development practitioners, representatives of bilateral and multilateral institutions, and Commission members.

The working papers, and all thematic papers and case studies written as contributions to the work of the Commission, were made possible by support from the Australian Agency for International Development (AusAID), the Dutch Ministry of Foreign Affairs, the Swedish International Development Cooperation Agency (SIDA), the U.K. Department of International Development (DFID), the William and Flora Hewlett Foundation, and the World Bank Group.

The working paper series was produced under the general guidance of Mike Spence and Danny Leipziger, Chair and Vice Chair of the Commission, and the Commission’s Secretariat, which is based in the Poverty Reduction and Economic Management Network of the World Bank. Papers in this series represent the independent view of the authors.

## **Abstract**

Following several years of disappointing economic performance, Senegal has made an important turnaround, with real GDP growth averaging over 5 percent annually during 1995–2005. This paper shows that macroeconomic and structural reforms are key factors explaining this recovery. Drivers of sound economic policy decisions in Senegal have included enhanced democratic processes, political commitment to the West African Economic and Monetary Union (WAEMU), and donor community conditionalities.

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# Growth in Senegal: The 1995–2005 Experience

*Mansour Ndiaye*<sup>1</sup>

## Introduction

Senegal's growth record between 1960 and 1993 exhibits a disappointing performance on account of poor policy choices that resulted in heavy market control, a poor investment environment, a large and inefficient government sector, a high level of trade protection, and an unsustainable debt strategy (Ndiaye, 2008). Economic performance was also hit by adverse climatic conditions, especially droughts, and declining world prices of the country's main exports. Despite seeing its economy contract by 2.1 percent in 1993, Senegal made an important turnaround, with real GDP growth averaging over 5 percent annually during 1995–2005, on account of a bold and ambitious economic reform program introduced in the midst of a crisis. This recovery was made possible primarily by macroeconomic stability and progress in reducing the structural weaknesses of the economy.

This paper analyzes the growth episode and aims to show that it was achieved by growth-oriented policies pursued since 1994, including the following:

- **Restored competitiveness stemming from the donor community conditionalities and debt relief.** Senegal's record of program implementation with the World Bank and International Monetary Fund (IMF) exhibited a stop-and-go pattern until 1993 (IMF, 2002). However, the 1994 devaluation paved the way for renewed adjustment efforts, aiming to facilitate growth and development by improving markedly the price competitiveness of exports, reducing the role of the government in the economy, improving public sector management, enhancing the business environment, and reducing poverty. In its efforts to thoroughly restructure its economy, Senegal received substantial assistance from the international community, particularly the World Bank, the European Union, the IMF, and several bilateral partners.

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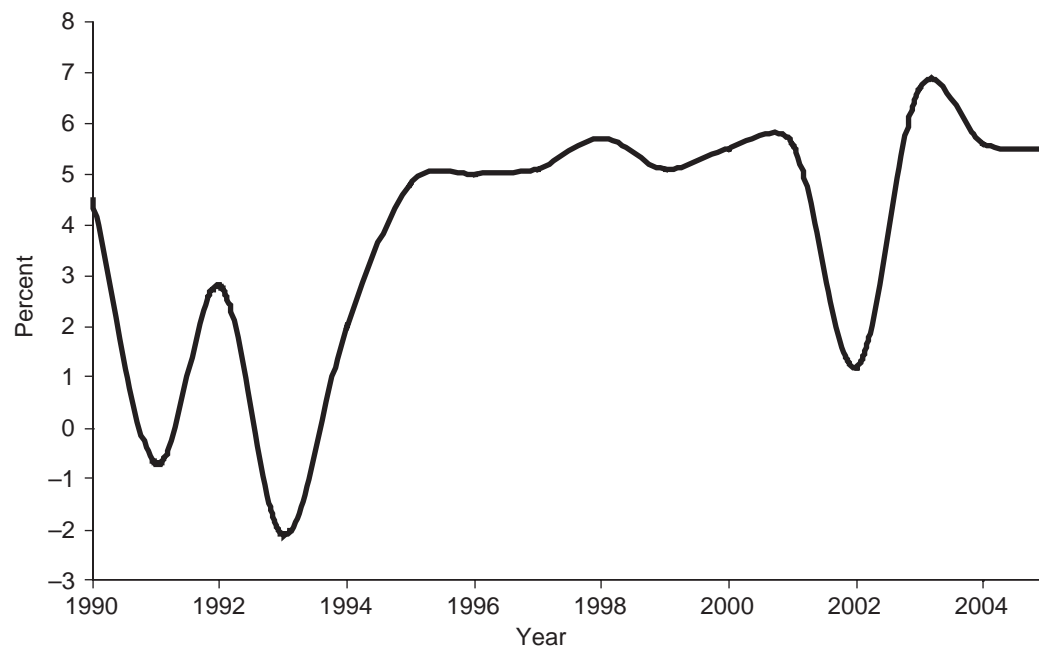
<sup>1</sup> Mansour Ndiaye is Senior Advisor at Proximis international. His research interests include growth, regional economic integration, exchange rate, and monetary issues as well as political economy.

- **Peer pressure from and political commitment to the WAEMU.**<sup>2</sup> The likelihood of a viable and stable macroeconomic environment was further enhanced through the WAEMU treaty. The treaty enacted a mechanism of fiscal policy convergence, established a customs union with a common external tariff, and harmonized economic and sectoral policies.
- **Pressure on the political and social fronts.** The implementation of the reform program was coupled with a deepening of the democratic process. It also provided an opportunity to strengthen the dialog and consensus-seeking among all political and social partners in Senegal. The peaceful transition of power following the democratic elections of 2000 boosted confidence in the future of the country.

## Growth Performance

Since the devaluation and the far-reaching reforms launched in 1994, growth in Senegal has been nearly 5 percent a year, with the exception of 2002, which was affected by an agricultural crisis (figure 1).

**Figure 1: Real GDP Growth (percent)**



Source: Senegalese authorities.

<sup>2</sup>Senegal is one of eight member states of the West African Economic and Monetary Union (WAEMU), whose common institutions include the Central Bank of West African States (BCEAO) and the West African Banking Commission.

The main driver of economic activity is the services sector and telecommunications in particular, followed by real estate. Services sector growth has been sustained in recent years by ambitious public investment programs and by nonresidents' transfers, which continue to feed property demand, particularly in Dakar (table 1). Mining and industrial output—especially agribusiness and light manufacturing—also contributed to economic growth.

Overall, the country's experience following the devaluation departs from cross-country norms, which suggested that the traded goods sector would grow faster. Despite the restored competitiveness, Senegal's export performance has not been a major impetus to economic growth, mainly on account of structural weaknesses that have limited productivity growth and constrained industrial output. These weaknesses, common to all WAEMU countries, include unreliable electricity supply; high production costs arising from high electricity, labor, and real estate costs; burdensome administrative procedures; and an inefficient judicial system. Indeed, infrastructure that is essential for industrial development is in poor condition and service is often unreliable yet expensive. The limited growth of utilities and frequent power outages have adversely impacted the growth potential. Likewise, the shortage of intermediate-skilled technicians is also a bottleneck in the manufacturing sector (see World Bank 1993). Furthermore, the Industries Chimiques du Sénégal (ICS)—Senegal's leading chemical firm that used to represent a significant share of the country's exports—has recorded a major fall in its output since 2001, on account of governance issues.

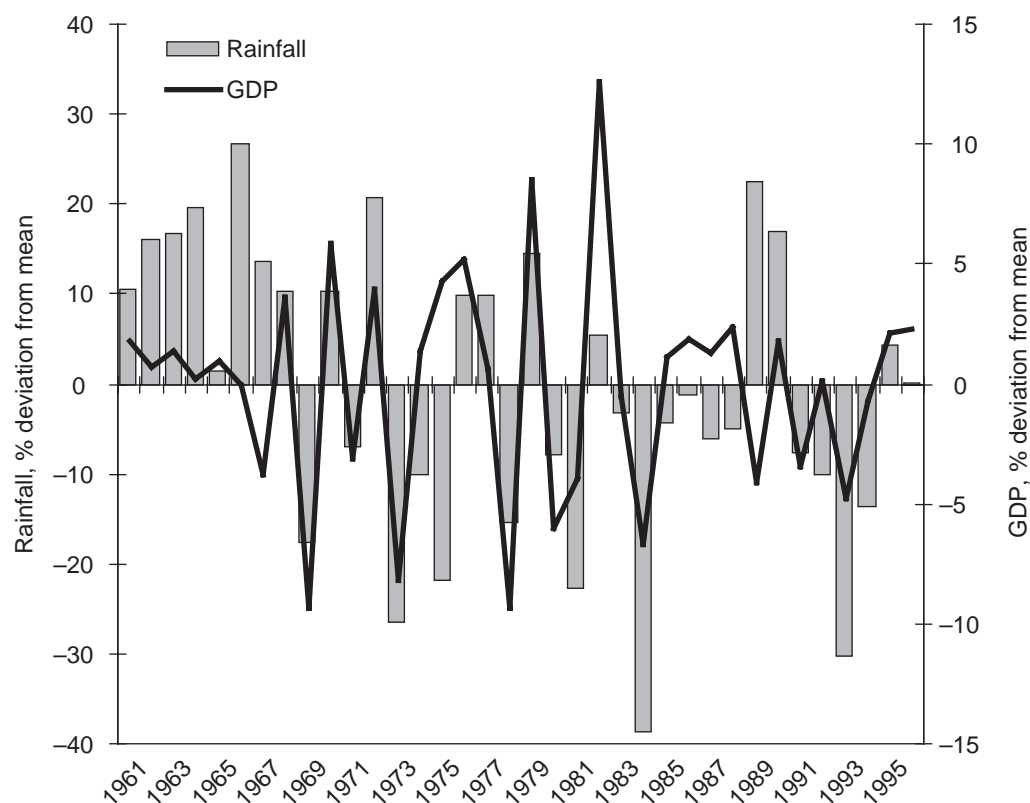
While remaining the source of income for three-quarters of the working population, agricultural output remains erratic as it is subject to exogenous shocks such as the weather but also to other unexpected events like the acridian (locust) crisis (figure 2). For instance, the agricultural sector was hit by bad weather in 1997 and 1998. However, well-distributed rainfall and more intensive use of fertilizer in 1999 and 2000 again turned agriculture into a driving force of the economy and it contributed an estimated 1.8 percentage points of total GDP growth of 5.6 percent in 2000.

**Table 1: Sectoral Contribution to GDP Growth (percent)**

	1998	1999	2000	2001	2002	2003	2004	2005
Primary sector	-1.3	0.4	0.6	0.2	-1.8	3.0	0.5	1.1
Secondary sector	-2.1	0.2	0.8	2.0	1.2	2.1	2.4	2.2
Manufacturing	-2.6	-0.6	0.5	1.2	0.1	0.1	0.5	-0.1
Tertiary sector	9.1	4.5	4.2	3.4	1.9	1.6	2.7	2.2
Real GDP growth	5.7	5.1	5.6	5.6	1.2	6.7	5.6	5.5

Source: Senegalese authorities.

**Figure 2: Economic Performance and Rainfall**



Source: Ndiaye (2008).

## Macroeconomic and Structural Reforms as Key Factors Explaining Growth

Following the devaluation of the CFA franc in January 1994, under the pressure of development partners, the government of Senegal undertook a series of programs of adjustment and economic reform aimed at restoring the conditions for strong, sustainable economic growth and ensuring domestic and external financial viability. These programs were based on the strict management of domestic demand to bring inflation and the government deficit quickly under control and on the implementation of wide-ranging structural reforms aimed at liberalizing the economy, reducing the size of the public sector, and fostering private sector development. Therefore, besides the exchange rate adjustment and accompanying monetary and fiscal policies, adjustment efforts addressed comprehensively the need for fundamental structural changes.

### Fiscal and Monetary Policies

The cornerstone of macroeconomic stability in the second half of the 1990s was fiscal and monetary policy. After the devaluation in 1994, the country began a period of budgetary restraint. Senegal's efforts at fiscal consolidation have been

successful. Tax collection has been satisfactory, management of expenditure cautious, and since 1998, the government has had no internal or external arrears (table 2).

Against the backdrop of a significant reduction in average import taxation arising from the introduction of the common external tariff (CET) at the behest of the WAEMU, the government's financial policy further consolidated public finances. Thanks to a continuously growing tax base, loss of revenue from the lower customs duties was lower than expected. Fiscal revenues even surpassed the target of 17 percent of GDP established by the convergence pact of the WAEMU (box 1 and table 2). The establishment of a single taxpayer identification number helped achieve higher tax revenue (income and company taxes); and the introduction of a VAT under the WAEMU program of tax harmonization, with a single rate structure of 15–20 percent, increased taxes on goods and services. Besides the good fiscal yield in the informal sector, the very strong performance of the Senegalese customs further strengthened fiscal revenue, despite the reduction in company taxes from 35 to 33 percent. Measured against the WAEMU convergence criteria, Senegal's performance has been the best in the subregion since 1998.

**Table 2: WAEMU Convergence Criteria (percent)**

Criteria	Ratio	1998	1999	2000	2001	2002	2003	2004	2005
<i>Primary criteria</i>									
Basic fiscal balance/GDP	>=0	2.6	1.7	1.4	-0.8	1.5	0.0	0.0	-0.7
Inflation (annual average)	<=3	1.1	0.8	0.7	3.0	2.3	0.0	0.5	1.7
Total nominal debt/GDP	<=70	91.1	85.3	76.0	75.0	70.6	59.7	47.8	46.1
Domestic arrears accumulation	<=0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External arrears accumulation	<=0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Secondary criteria</i>									
Wages/fiscal revenue	<=35	37.0	33.9	32.7	30.7	31.7	30.1	29.5	30.0
Domestically financed investment/fiscal revenue	>=20	17.9	2.7	19.8	20.5	23.5	28.1	30.0	33.7
Current account deficit (excluding grants)/GDP	<=5	7.8	7.9	9.3	6.8	8.2	8.1	7.9	9.1
Tax revenue/GDP	>=17	16.0	16.8	17.3	17.8	18.1	17.0	17.4	18.6

Source: WAEMU authorities.

**Box 1: The WAEMU's Convergence, Stability, Growth, and Solidarity Pact**

The Convergence, Stability, Growth, and Solidarity Pact, adopted by the Conference of Heads of States and Governments of the WAEMU in December 1999, is a formal agreement among the member countries of the WAEMU to strengthen the convergence of their economies, reinforce macroeconomic stability, accelerate economic growth, and enhance solidarity.

**Convergence criteria**

The convergence pact is based on the observance of criteria pertaining to the public finances, the real sector, and the balance of payments. It sets binding ceilings for the ratio of fiscal deficit to nominal GDP ( $\geq 0$ , key criterion), the ratio of outstanding domestic and external debt to GDP ( $\leq 70$  percent), the average annual inflation rate ( $\leq 3$  percent), and the stock of domestic and external payment government arrears ( $\leq 0$ ). It also sets four indicative targets (secondary criteria): ceilings on civil service wages as a percentage of fiscal revenues ( $\leq 35$  percent), the ratio of external current account deficit (excluding grants) to GDP ( $\leq 5$  percent), floors on fiscal revenues as a percentage of GDP ( $\geq 17$  percent), and the ratio of domestically financed public investment to tax revenue ( $\geq 20$  percent).

Before the 1994 devaluation of the CFA franc, the fiscal stance was quite difficult. Therefore, in the interim convergence scheme that was implemented between 1993 and 1999 under the aegis of the Council of Ministers, the criteria pertained essentially to the public finances and have been progressively tightened so as to help consolidate fiscal convergence. For instance, the ceiling on civil service wages as a percentage of fiscal revenues was set at 50 percent. Likewise, the average annual inflation rate was not to exceed 5 percent. As economic growth reached a momentum in the second half of the 1990's, the authorities of the WAEMU decided to extend the convergence criteria to the real sector and the balance of payments.

**Sanctions mechanism**

A penalty procedure is initiated if the key criterion is not satisfied. It ranges from peer pressure, to the withdrawal of financial support from regional institutions such as the West African Development Bank, to the outright suspension of financing from BCEAO.

The pursuit of a prudent regional monetary and credit policy, implemented within the framework of the objectives defined by the Council of Ministers of the WAMU, contributed to a substantial improvement in Senegal's official foreign assets, which reached the equivalent of 73 percent of base money (including government deposits) at end-1997, compared to barely 1 percent at end-1993.<sup>3</sup> The Council increased the efficiency of the indirect monetary management and credit instruments available to the BCEAO and encouraged the development of new financial products in order to promote development of financial savings and ensure adequate supply of investment funds for sustained economic activity. In particular, the BCEAO has set appropriately flexible interest rates, required adequate reserves, and set good money market policies. The opening in 1999 of the regional securities exchange facilitated diversification of financial products, promoting development of savings and long-term financing of enterprises.

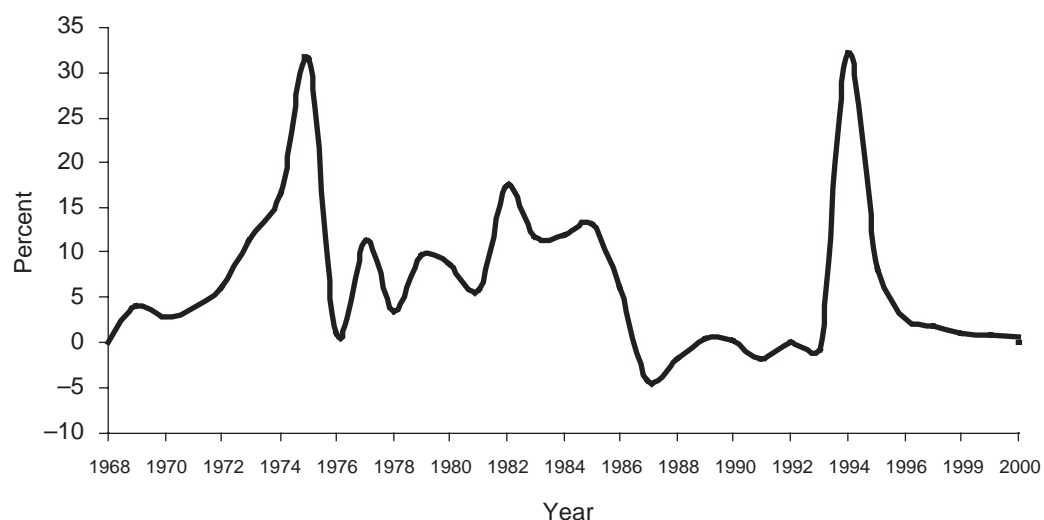
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<sup>3</sup> Monetary policy is conducted by the BCEAO and aims at supporting the peg of the regional currency, the CFA franc, to the euro. It is complemented by the above-mentioned macroeconomic convergence pact to ensure that member countries' economic policies do not undermine BCEAO's objectives.

## Exchange Rate Policy and Competitiveness

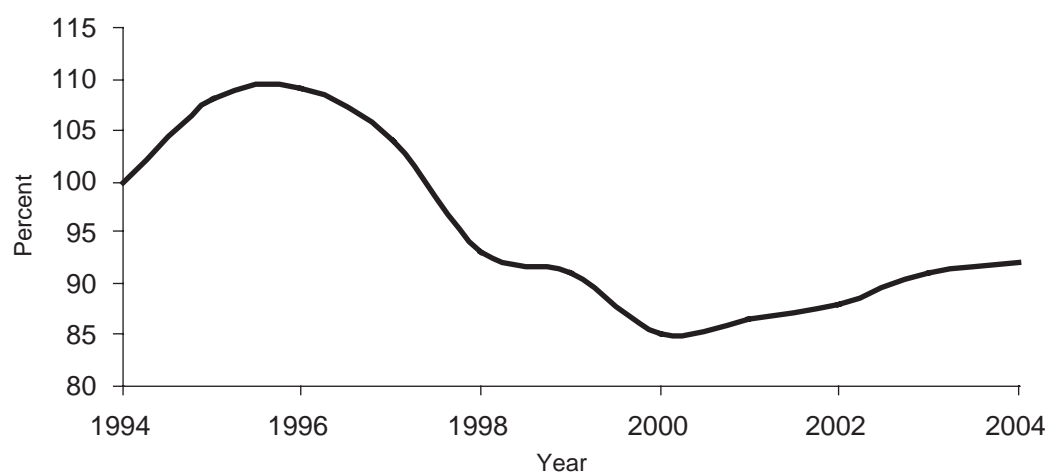
The devaluation of the CFA franc in 1994 roughly returned Senegalese labor costs to parity with emerging countries (Golub and Mbaye, 2003). Furthermore, inflation was reduced to 1.8 percent in 1997 and has remained at low levels after having risen to some 32.1 percent on a year-to-year basis following the devaluation in 1994. Because of these sustained low rates of inflation after 1997, Senegal maintained most of the competitiveness gains derived from the devaluation of the CFA franc in 1994, despite the appreciation of the real effective exchange rate (REER) between 2000 and 2005, reflecting mainly the strengthening of the euro against the U.S. dollar (figures 3 and 4).

**Figure 3: Inflation, 1968–2000 (percent)**



Source: Senegalese authorities.

**Figure 4: Real Effective Exchange Rate, 1994–2004**



Source: IMF.

Golub and Mbaye (2003) also show that before the 1994 devaluation, the Senegalese competitive stance was very weak as relative wages exceeded relative productivity. Rama (2000) also found misaligned labor costs in Senegal. Therefore, the continuation of the euro appreciation in a context of stagnating relative productivity is likely to entail a rise of Senegalese unit labor costs relative to competing countries on world markets.

The improved competitiveness, however, has failed to eliminate the trade deficit. Indeed, Senegal's export performance has been relatively weak over the past 10 years, with the share of exports in GDP remaining relatively constant (table 3). Furthermore, export diversification has been minimal. In recent years, Senegal's three major export sectors (phosphates, fisheries, and groundnuts) have suffered from a shrinking of the European market and internal problems with outdated infrastructure and dwindling raw materials. The ups and downs in these sectors, which represent just over half of all exports, combined with the rising cost of energy imports, further deepened the trade deficit. In this light, removing the structural weaknesses noted above is a necessary step to prevent the erosion of competitiveness.

Although oil prices played a role in the deterioration of the balance of trade in 1998–2005, their impact was cushioned by the processing of crude oil destined for re-export after refinement (re-exports accounted for 11 percent of total exports). This has given Senegal a structural deficit in its trade and current account balances. In the current context of weak foreign direct investment, the existence of a large current account deficit could lead to the country's debt dynamics being questioned again in the future.

### Trade Policies

It was only in the context of the regional initiative to establish a customs union among member countries of the WAEMU that trade reform took a prominent place on Senegal's policy agenda. In January 2000, the common external tariff of the WAEMU was put in place, thereby simplifying trade regulations. The common external tariff consists of four tariff rates of 0, 5, 10, and 20 percent. Quantitative barriers were reduced and restrictions on payments for current transactions lifted, as WAEMU countries accepted Article VIII of the IMF's Articles of Agreement in 1996.

**Table 3: Contribution to GDP Growth (percent)**

	1998	1999	2000	2001	2002	2003	2004	2005
Real GDP growth	5.7	5.1	5.6	5.6	1.2	6.7	5.6	5.5
Gross capital formation	2.5	4.0	1.4	-3.0	5.0	2.6	4.1	3.9
Public consumption	-1.4	-0.5	0.8	1.1	-0.1	3.7	-0.4	1.3
Private consumption	8.5	3.9	5.2	6.4	-2.2	1.9	3.4	2.5
External sector	-3.9	-2.3	-1.7	1.1	-1.6	-1.5	-1.4	-2.2

Source: Senegalese authorities.

At the beginning of 2000, an improvement in Senegal's trade restrictiveness rating of about three points (5 instead of 8) was noted, as measured by the IMF's Trade Restrictiveness Index. At end-2002, the index was further reduced to 2 instead of 5, with the trade system being classified as open. Based on the measures adopted, the average taxation rate on imports was lowered from 20 percent in 1997 to 15 percent in 1998 and 1999, and to 12 percent in 2000. Moreover, explicit nontariff barriers have been eliminated.

### **Structural Reforms**

The role of the government in the economy was reduced, public sector management improved, and the business environment enhanced. The government liberalized nearly all prices, as well as domestic and foreign trade and international shipping; dismantled nearly all monopolies, including the rice monopoly; eased the regulatory framework governing economic activity, particularly the labor code; and streamlined the tax system.

In the context of the Organization for the Harmonization of Business Law in Africa (OHADA), the uniform laws on general commercial law, company law, and economic interest groupings and on the organization of guarantees have been in effect since January 1998 in all the signatory states, including Senegal.

The banking system has regained its health since the banking crisis in the late 1980s, as many underlying weaknesses have been addressed. Banking regulation and supervision are carried out at the regional level by the West African Banking Commission established in 1989.

In the 1990s Senegal undertook a fundamental revision of labor legislation with the aim of introducing more flexibility in the labor market. The 1997 revised Labor Code incorporated such major changes as removing prior government authorization for layoffs, eliminating references to the minimum wage in wage negotiations, and encouraging wage negotiations to take place at the enterprise level rather than at the national level.

Notable progress was also achieved in the area of governance. The authorities have been implementing a comprehensive program to promote good governance by strengthening the rule of law, increasing transparency, and fighting corruption. Besides, measures were taken to improve the legal and judicial environment.

The creation of APIX (the national agency for investment promotion and major building works) several years ago, as well as the meetings of the Presidential Council for Investment, signal a desire to improve the business environment. According to the International Finance Corporation (IFC) publication *Doing Business in 2005*, Senegal ranks 132<sup>nd</sup> out of 155 countries in terms of business environment. This indicator nevertheless hides some significant variations. In terms of licensing and permit procedures, Senegal ranks 68<sup>th</sup>; and it is 46<sup>th</sup> in terms of the costs and procedures involved in importing and exporting goods. In other words, it is on a par with some OECD countries. On

the other hand, the country's performance in property registration (137<sup>th</sup>), obtaining credit (136<sup>th</sup>), and tax payment (137<sup>th</sup>) was very mediocre. Overall, the macro and structural reforms have improved the environment for private investment. In particular, housing and property development has benefited from a bull market, due to a shortage of land, notably in the capital city, making the sector very profitable, thereby attracting significant remittances from abroad.

Along with the promotion of private sector activity, Senegal launched an ambitious extended privatization program under the adjustment policies, which have tightened control of the civil service size and the wage bill. Although the public administration expanded during the 1970s and the 1980s, the reverse was true during the 1990s. The share of the administration declined steadily during the 1990s, falling from 17.3 percent of GDP in 1990 to 14.2 percent of GDP in 1998. By 2005, most public enterprises were sold or liquidated.

Some of these privatizations, particularly in the water and telecommunications sectors, have been considered a success, judging by the performance of privatized companies, by the fact that they are no longer a drain on public finances, and by the lower prices offered for better-quality services. For example:

- Water supply was privatized in 1996, although the water and equipment remained state property.
- The national telecommunications authority, Sonatel, was also privatized and there is evidence that the sector benefited from those reforms. In 1997, the company was listed on the regional stock exchange and rapidly turned out to be the most robust stock, totaling almost half of the market capitalization. Moreover, Sonatel expanded its activities in the subregion, opening several subsidiaries.
- Fifty-one percent of Air Senegal was bought by Royal Air Maroc in January 2000.

The first companies privatized were those in healthy condition, in which the government had invested to make them more attractive, so they were a success. One privatization—both economically and symbolically significant—remains to be carried out. It is that of Senelec (the national electricity company), which was privatized in 1999, but renationalized in 2000.

Since 1994, civil service employment has remained broadly stable, despite a cumulative increase in population of over 25 percent. The medium-term strategy aims at alleviating critical shortages of staff in social services, domestic security, and revenue administration, while maintaining the wage bill below the WAEMU convergence criterion of 35 percent of tax revenue. The ratio of the wage bill to tax revenue fell from 55 percent of tax revenue to 30 percent in 2005.

## Enhancement of the Democratic Process as a Driver of Economic Policy Decisions

Senegal was one of the first African countries to introduce a multiparty system, with the government recognizing 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 Party (PS) leader Abdou Diouf. Until the mid-1990s the PS could count on the support from the most powerful Islamic brotherhoods. However, this support faded with the decline of the groundnut industry and the rise of other credible political parties. As a result, governments of national unity with representation from opposition parties were formed in 1991 and 1994 in an effort to tackle rising social and political unrest in the country. Therefore, it can be argued that political reforms and policy reforms went together. The policy choices resulted from the interplay of organized interests in which urban-based interests enjoyed significant advantages.

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. Wade's election inspired great hopes among Senegalese, but the new head of state had little leeway until April 2001 as his party did not have a parliamentary majority. The landslide victory of the PDS in the April 2001 parliamentary elections, along with the lifting of some financial restrictions thanks to efforts in recent years to restore public finances, gave the government the necessary leeway to carry out major reforms needed for growth and fighting poverty. The successful political transition and a good relationship with international funding agencies translated into improved export performance and private investment rates (table 4).

**Table 4: Demand Composition (% of GDP at current prices)**

	1998	1999	2000	2001	2002	2003	2004	2005
Gross capital formation	16.7	19.6	17.3	22.8	23.0	21.3	22.9	22.7
Inventories	0	0.5	4.3	-4.5	-5.2	-0.3	-2.1	1.2
Public consumption	11.9	10.7	14.0	14.5	11.3	13.4	12.1	13.0
Private consumption	74.7	76.9	47.3	76.8	82.1	77.8	79.9	78.9
Exports	34	30.7	29.9	30.7	30.6	26.8	27.4	26.2
Imports	-37.4	-38.4	-39.8	-40.4	-41.8	-39	-40.2	-41.9

*Source:* Senegalese authorities.

## Debt Relief and Official Development Assistance

Official Development Assistance (ODA) has long been an important source of financing for Senegal, which was one of the first sub-Saharan African countries to benefit from it. Following the 1994 devaluation, Senegal received substantial assistance from bilateral and multilateral partners. Moreover, the country recorded major improvements in its debt dynamics under the HIPC (Heavily Indebted Poor Countries) Initiative and the Multilateral Debt Relief Initiative (MDRI).

The share of external public debt owed to bilateral creditors was considerably reduced in 2004, following the attainment of the completion point of the HIPC in April and the decision of the Paris Club creditors to grant supplementary relief in June. HIPC relief reached 1.8 percent of GDP, or 9.5 percent of exports, by the end of December 2004 and the stock of external public debt was estimated at 1,865.1 billion CFA francs (46.2 percent of GDP). The canceling of the multilateral debt under the MDRI was decided at the G8 Summit at Gleneagles in July 2005. This resulted in its outstanding foreign debt being reduced from 1,855 billion CFA francs at end-2005 to 860 billion CFA francs in September 2006 (17.8 percent of GDP at end-2006).

Thanks to these sizable debt reliefs, Senegal was able to allocate substantial resources to poverty alleviation and social development under the Poverty Reduction Strategy Paper (PRSP).

## The Impact of Growth on Poverty

Although public expenditure devoted to social sectors, particularly education and health, is sizable (50 percent of the state budget according to the new PRSP), its effectiveness remains weak judging by the slow progress that has been recorded.

Although the latest estimates suggest that poverty decreased from 68 percent in 1994 to 48.5 percent in 2005 (62.5 percent in rural areas), living conditions remain difficult in Senegal and poverty endemic. Despite a sustained pace, growth remains insufficient for reaching the MDG of cutting the poverty rate in half by 2015.

As well as poor social indicators, Senegal has very sharp social inequalities visible in urban-rural differences and between Dakar and provincial towns. Indeed, although the incidence of poverty decreased by 19.5 percentage points between 1994 and 2005, inequalities have deepened (the decrease being larger in urban than in rural areas) at the same time that progress in social indicators is proving slow and inadequate. Nearly 80 percent of people in the countryside live below the poverty line, compared with less than a third of those living in Dakar as a result of uneven growth and the relative neglect of the rural society in policy

reform and expenditure programs. These gaps are made worse by unequal distribution of infrastructure throughout the country and ineffective decentralization. Provincial towns get very little public investment, and skills and funding have not been transferred by the central government to local authorities.

This situation has speeded up rural migration to Dakar, which translates into a larger informal sector where incomes are very much lower than in the formal sector. It also has resulted in unprecedented large waves of emigration abroad, particularly to Europe. In 2006, the number of illegal immigrants to the Canary Islands reached 30,000, sparking diplomatic tensions with Spain that were resolved by the repatriation of several hundred emigrants.

In response, the Senegalese government announced the June 2006 launch of the REVA plan (return to agriculture), a wide-reaching initiative designed to boost the agricultural sector. The new PRSP also includes the development of income-generating activities and employment opportunities in small urban centers.

Ongoing measures taken to limit the exposure of the poor to adverse income shocks include an increase in the producer price for groundnuts; the exemption of goods of primary necessity, including electricity and water, from the VAT; and a price freeze for some basic goods.

Also, the ongoing and extended effort to improve water coverage—which is based on exemplary coordination between the various agencies, clear aims, a long-term perspective, and a successful public-private partnership—enabled the country to post a national access rate of 70 percent at the beginning of 2007, one of the highest in sub-Saharan Africa. This gives hope that Senegal will reach the MDG for water by 2015.

Resources allocated to education have continued to increase, reaching in 2005 almost 40 percent of the state budget. As a result of this effort, undeniable progress has been made, particularly in primary education, but with a 37.8 percent literacy rate amongst adults, the majority of the Senegalese population is still illiterate. Between 2000 and 2005, the number of functional schools grew from 4,751 to 6,460, a 36 percent increase, and the gross enrollment rate rose from 69.4 percent to 82.5 percent for the same period (OECD/AfDB, 2007). Still, these improvements remain inadequate: access to education remains difficult for a great majority of the population owing to the distance to schools, the high cost of schooling, and problems in obtaining learning materials. The quality of teaching remains mediocre because of the lack of qualified personnel in light of the education demand, as shown by the very high number (55) of pupils per teacher.

In the health sector, resources are increasing and in 2005 these constituted 10 percent of the national budget. Though these resources were employed to recruit qualified personnel (515 officers in 2005), the sector remains highly constrained by the insufficiency of health and social infrastructure and by the inadequacy of the services offered. Health workers are very poorly distributed throughout the

country, with doctors unwilling to leave the capital or other major urban areas. In this context, access to care in isolated areas and for the poorest remains difficult. The 2004 Senegalese household survey (ESAM II) showed that only 57.4 percent of the population was located less than 30 minutes from a health service.

Against this background, Senegal has sought to enhance economic and social performance by implementing an Accelerated Growth Strategy (AGS).

## **The Accelerated Growth Strategy**

The AGS's objective is to achieve a sustained increase in economic growth (of at least 7 percent). It is based on two pillars. The first pillar is based on growth in five economic "clusters" perceived as driving forces for faster and more diversified growth have been identified: (i) agro-industries and food processing; (ii) fisheries; (iii) tourism, crafts, and cultural industries; (iv) cotton, textiles, and clothing; and (v) information and communication technologies (ICT), as well as teleservices. These sectors have been chosen following consultations between the public and private sectors and development partners. The cluster approach is expected to create a critical mass that is likely to strengthen the competitive stance of the sectors and foster their integration in the global economy, thereby delivering a more rapid economic growth. Furthermore, the approach is defined so as to ensure consistency with the sectoral policies of the PRSP.

The second pillar of the AGS aims at improving the overall business climate by implementing cross-cutting measures for overcoming structural obstacles to growth. Although progress has been made in streamlining administrative procedures for setting up a business (only two days are now necessary against almost two months a decade earlier), other reforms have lagged. Consequently, the government intends to strengthen the judiciary. With respect to labor legislation, greater flexibility will be provided by allowing renewable fixed-term contracts in specific sectors. The government has also taken a series of measures in order to improve access to real estate and to strengthen vocational training so as to match the needs of businesses.

To elevate the AGS to the rank of national priority and ensure its expeditious implementation, the government submitted an AGS framework law to parliament. Moreover, the government has taken serious steps in order to remove the bottlenecks in infrastructure, particularly in transport and electricity.

## **Conclusion: The Way Ahead**

Unlike the pre-devaluation period, Senegal has improved its growth performance by avoiding economic policy failures and promoting an institutional environment that supports market mechanisms.

However, growth remains fragile. Senegal's export performance has not been a major impetus to economic growth, in spite of the devaluation of 1994, mainly because of structural weaknesses that have raised export production costs and the absence of export diversification. Structural deficiencies like the shortage of electricity supply and the poor quality of basic infrastructure remain major constraints on faster growth in Senegal. Unless these causes of high production factor costs are tackled, investor interest is likely to remain limited. Indeed, foreign investment is very modest, and the country still depends quite heavily on ODA.

Therefore, economic policy making definitely needs to go beyond avoiding policy failures and adopt a proactive stance aimed at addressing structural limitations affecting the country. Such a proactive stance should include infrastructure and public goods that foster growth, improved human capital, and strong institutions for enhanced domestic accountability and governance.

Nevertheless, even with an annual real GDP growth rate of 5 percent, Senegal will remain among the least developed countries in 2015. This observation has stimulated the development of the AGS aimed at correcting the structural weaknesses that are constraining the country's growth potential.

However, the government has yet to correct the volatility of agricultural output, which remains subject to exogenous shocks such as the weather. The REVA plan has not succeeded in boosting the agricultural sector's output as of 2007, which was a bad crop year.

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**Mansour Ndiaye**, *Senior Advisor, Proximis international, Dakar*

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