R E P O R T

Volume 1

SENEGAL

Diagnostic Trade Integration Study

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ACRONYMS

AEPP	Agricultural Export Promotion Project
AFD	French Development Agency
AGOA	African Growth and Opportunity Act
APE	Export Promotion Agency
APEI	Autorisation provisoire d'enlèvement des importations
APEX	Autorisation provisoire d'enlèvement des exportations
APITS	Association pour la promotion de l'industrie touristique au Sénégal
APIX	Agence de promotion des investissements et des grands travaux
ARB	Arachide de bouche
ASN	Association sénégalaise de normalisation
BCEAO	Banque centrale des « états de l'Afrique de l'Ouest
BCPH	Bureau de contrôle des produits halieutiques
BOT	Build, Operate, Transfer
BSDA	Bureau Sénégal des droits d'auteurs
CEP	Cellule d'etudes et de planification
CET	Common External Tariff
CICES	Centre international du commerce extérieur sénégalaise
CIDA	Canadian International Development Agency
CIRAD	Centre de coopération international en recherche agronomique pour le développement
CNIA	Comité national interprofessionnel de l'arachide'
COMTRADE	Commodity Trade Statistics Division of the United Nations
CPI	Consumer Price Index
CPT	Centre du promotion du textile
CRODT	Centre de Recherches Océanographiques de Dakar-Thiaroye
DEP	Déclaration d'Enlèvement Provisoire
DG	Director General
DOPM	Direction des pêches maritimes
DPS	Direction de la prévision et de la statistique
EBA	Everything But Arms
ECOWAS	Economic Community of West African States
EDI	Electronic Data Interchange
EFE	Entreprise franche d'exportation
EPA	Export Promotion Agency
EPPS	Household Survey on Perception of Poverty in Senegal
FDA	Food and Drug Administration
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Services
FRA	Fisheries Regulatory Agency
GAINDES 2000	Automated Customs Information and Trade Management (Gestion automatisé de l'information douanière)
GAP	Good Agricultural Practices
GATS	The General Agreement on Trade in Services

GDP	Gross Domestic Product
GOS	Government of Senegal
GRCC	Group de réflexion pour la compétitivité et la croissance
HACCP	Hazard Analysis Critical Control Point
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
HS	Harmonized System
ICT	Information Communication Technology
IDCS	Industries chimiques du Sénégal
IF	Integrated Framework
IMF	International Monetary Fund
ISN	Institut sénégalais de normalisation
ISO	International Organization for Standardization
IT	Information Technology
ITA	Institut de technologie alimentaire
ITC	International Trade Center
LDC	Least Developed Country
MFN	Most Favored Nation
MGNFS	Imports of Goods and Non-Factor Services
MRL	Maximum Residue Limits
NTB	Non-Tariff Barriers
OCR	Organe de calcul du risque
OHADA	Organisation pour l'harmonisation en Afrique du droit des affaires
ONAPES	Organisation nationale des producteurs et exportateurs horticoles du Sénégal
PC	Presidential Commission
PPEA	Projet de promotion des exportations agricoles
PRSP	Poverty Reduction Strategy Paper
PSI	Pre-Shipment Inspection
QUAD	Refers to Japan, Canada, EU, USA
RDA	Regional Development Agencies
REER	Real Effective Exchange Rate
REPA	Regional and Economic Partnership Agreement
SAED	Société d'aménagement et d'exploitation des terres du delta du fleuve Sénégal
SAPCO	Société d'aménagement et de promotion touristique de la petite côte
SDE	Sénégalaise des eaux
SENELEC	Senegal's Electricity Parastatal
SENTEL	Cellular phone operator
SEPAS	Sénégalaise d'exportation des produits agricoles
SME	Small and Medium Enterprise
SNCN	Société nationale des chemins de fer
SODEFITEX	Société de développement des fibres textiles
SONAC	Société nationale d'assurances du crédit
SONACOS	Société nationale de commercialisation des oléagineux

SONATEL	Société nationale des télécommunications du Sénégal
SONEL	Société nationale des eaux au Sénégal
SSA	Sub-Saharan Africa
STRADEX	Stratégie d'expansion commerciale- direction du commerce extérieur sénégalais
TCI	Taxe conjoncturelle à l'exportation
TDP	Taxe dégressive de protection
TEC	Common External Tariff
TPO	Trade Promotion Organizations
TPS	Trade Point Senegal
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
VAS	Value Added Services
VAT	Value Added Tax
WAEMU	The West African Economic and Monetary Union
WTO	World Trade Organization
XGNFS	Exports of goods and non-factor services
ZFID	Zone franche industrielle de Dakar

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PREFACE

Integrating better into the world economy through more trade could help Senegal grow faster and reduce poverty. Such has been the example of successful developing countries that took advantage of the rapid growth in international trade.

The initiative of Foreign Trade Ministers at the 1996 World Trade Organization (WTO) meeting in Singapore was intended to assist LDCs in this endeavor, and to increase the effectiveness of trade-related technical assistance to the least developed countries. The initiative has since been known as the Integrated Framework (IF).

In response to the request of the Government of Senegal (GOS), an IF mission visited Senegal in February 2002. The IF work in Senegal is guided by a Steering Committee consisting of representatives of the private and public sectors, and chaired by a representative of the Ministry of Commerce and Small and Medium Sized Enterprises. The mission met with the Prime Minister and with representatives of most public and private sector agencies whose mandate covers foreign trade.

Senegal did already benefit substantially from the support of the international community in framing its international trade strategy and in implementing projects that assist the trading performance of Senegal. Especially noteworthy are the recent analyses of the International Trade Center (ITC) with the support of the Canadian International Development Agency (CIDA) of the export potential of key production / export clusters. These analyses are reflected in the Senegalese sectoral action plans (STRADEX), and were a substantial input for the present study..

The present document is intended to assist GOS in detailing trade policy action in support of the program laid out in its Poverty Reduction Strategy Paper (PRSP). This program stresses the need to promote fast growth and to put in place the necessary policies to significantly improve social indicators. Greater integration in the world economy is an important element of this program.

The report also highlights technical assistance (TA) that could assist GOS and the private sector in implementing the objective of better integrating into the world economy. Some of the proposed TA is in support of ongoing activities (for instance programs in the agricultural sector), and might need only slight modifications or benefit from greater political will. Other proposed TA support activities that are significantly different from present policies, such as the development of the tourism sector.

EXECUTIVE SUMMARY

In its recently completed Poverty Reduction Strategy Paper, the Government of Senegal laid out its objectives of raising Senegal's GDP growth rate to an annual average of 7 to 8 percent for the period 2003-2005 (from an average of around 5.3 percent from 1995 to 2001), and reducing the percentage of poor people (which was estimated to be 54 percent of the population in 2001) by at least 15 percent over the same period.

Exports could make an important contribution to meeting these objectives, particularly in light of its underperformance in the past. Over the last decade (1990-2000), Senegal's exports fell 2 percent per annum on average (in dollar terms), compared with 5 percent growth in Sub-Saharan Africa (SSA)[1] and 6.6 percent growth in the world. This poor export performance is a continuation of a trend of long-term decline in Senegalese exports since 1960, both in terms of shares of GDP as well as shares of world exports. In fact, during 1996-2001, exports of goods and non-factor services actually contributed negatively to GDP growth.

The overvaluation of the CFA prior to the 50 percent devaluation in 1994 was in part responsible for the poor export performance, although Senegal performed much worse than the other CFA countries during the 5 years before the devaluation.[2] Senegal's export performance has improved since the devaluation and in comparison with other CFA countries, but it is still weak compared with the SSA and the world. Between 1995 and 2000, annual average export growth was nearly 5 percent for the world (in dollar terms), 8 percent for SSA, while it was barely 3 percent for Senegal, and only 0.1 percent for other CFA countries.

The large one-step correction of the exchange rate in 1994 has enhanced Senegal's competitiveness. The gain has been largely retained since then as inflation has remained relatively low (annual average of 2.6 percent during 1996-2000), as reflected in the relatively stable real effective exchange rate. The weak performance of Senegal's exports since then has not been the result of an uncompetitive exchange rate so much as it has been due to its concentration in products that have faced declining world demand. A clear indication of the concentration of Senegal's exports is that in 2000, the top 5 Senegalese exports at the 8-digit Harmonized System (HS) level represented over 40 percent of total Senegalese exports (these are petroleum oil, crude vegetable oil, phosphoric acid, lobster and shrimps). Although the products that Senegal exports are not very dynamic in world markets, most of them have grown faster than the average growth in world markets for those particular products. .

Improving Senegal's export performance would require diversification of its exports into products that face potentially strong demand in the world markets. Weak demand could have been due to constraints on market access, which affect not only Senegal but also other countries, as a result of which there is weak growth of world trade in those

[1] The figures for SSA in this and the next paragraph refer to Sub-Saharan Africa less South Africa.
[2] The CFA countries are those that belong to the West African Economic and Monetary Union (see Box 1.1).

products. Weak world demand could also be due to changes in consumer preferences. This factor, in particular, has affected one of Senegal's major exports—groundnut oil—which is being replaced by vegetable oils in the world markets.

There are some encouraging signs of diversification of export products in Senegal, as the share of non-traditional manufactured exports had doubled from 10 to 20 percent between 1995 and 2000. Among the non-traditional exports, the performance of cosmetics, perfumery and soaps exports was particularly striking, rising 10-fold in dollar terms from around US$ 2m. in 1996 to around US$ 22m. in 2000. FDI has played an important role in the growth of these exports, which highlights the importance of addressing remaining constraints to FDI in promoting export development in Senegal. Much of the increase in non-traditional exports has gone to the African market, which underlines the importance for Senegal to also address regional trade issues on the trade policy front.

The IF addresses the three sets of factors that have constrained diversification of Senegalese exports. These are: (i) domestic factors that affect Senegal's export development; (ii) factors that relate to WAEMU trade policy issues; and (iii) factors external to Senegal that affect its access to export markets.

Addressing these factors would also help promote higher export growth of those goods and services which are either already important exports for Senegal, and/or have the potential to reach higher growth, or are important for alleviating poverty. These goods and services, requested by the GOS to look into closely in the IF, are fisheries, agriculture, tourism and cotton textiles and garments. The IF analyzed each of these sectors, and proposed sector-specific interventions which might be needed—on top of the cross-cutting factors mentioned above—for promoting such exports.

Domestic factors affecting Senegal's exports

World-wide ratings by the International Country Risk Guide (ICRG), Transparency International and the U.N. Human Development Index indicate that with respect to perceptions of governance and certain social and human capital indicators, Senegal does poorly compared to some successful developing countries. Raising such ratings would be important for attracting FDI, which could make an important contribution to Senegal's integration into the global economy. Strengthening governance and improving social and human capital indicators are important not only for promoting export growth, but for Senegal's long-term development.

A recent (early 2002) survey by the World Bank's Foreign Investment Advisory Services and APIX of some 200 Senegalese firms (25 percent of which are engaged in export production) found that high on the list of constraints perceived by firms to their operation and growth are access to financing as well as the high cost of financing. Other important factors are administrative barriers for the creation and operation of firms, high among which are utility connections, access to land, labor laws and customs procedures. The Action Plan details proposals for addressing these issues, including how to ease financing costs for business; improve administrative environment for enterprises; improve access to competitively-priced infrastructure services; improve the functioning of the labor market; raise labor force skills; improve judicial services; and improve the management of import procedures and customs valuation procedures. Many of these measures are important for domestic and foreign investors alike.

In addition to these measures which are aimed towards relaxing constraints on firm creation and operation in general, there are also specific measures that GOS could take to help develop exports. In particular, it would be helpful if export development is brought to the top of GOS's policy agenda, and that GOS articulates an export development strategy and consolidates the functions of various export promoting institutions under one roof (the proposed EPA) to maximize the impact of their efforts. There is also need to improve the management of schemes that provide duty-free imports for exporters. See Action Plan for detailed proposals on improving these export-related measures.

WAEMU Trade Policy affecting Senegal's exports

Senegal has made important progress in the second half of the 1990s in opening up its trade regime and making it more transparent. In particular, the adoption of the WAEMU common external tariff (CET) in 1999 has streamlined Senegal's tariff structure and reduced tariffs. There are 4 tariff rates under the CET: 0 on capital goods, etc. not produced locally; 5 percent on raw materials; 10 percent on intermediate goods and 20 percent on consumer goods.

In 2001, Senegal's trade regime is characterized by the following: average tariffs of 14 percent (similar to the average of other developing country but significantly lower than the SSA average); tariff dispersion 7 percent; tariff peaks 42 percent (higher than the maximum tariff of the CET because of import surtaxes for around a dozen products); trade taxes contributed to 22 percent of government revenues; no import quotas or licenses; no export taxes or subsidies; and customs clearance time of one week.

Although Senegal has made important progress in opening up its trade regime, it could benefit even more from further liberalization over the long run within the framework of WAEMU. In particular, correction of tariff escalation would benefit the food and textile industries—both of which have high potential for development in Senegal—by exerting pressures on them to raise their efficiency.

While the CET is functioning for the WAEMU, a free trade area within the WAEMU is far from being achieved because complicated and arbitrary rules of origin prevent WAEMU members from benefiting from intra-WAEMU tariff preferences. WAEMU is addressing this issue by introducing a better rule of origin based on best practice—the rule of origin is met so long as inputs do not belong to the same 4-digit HS category as the final product. However, even such a system would strain the administrative capacity of the country. A better option would be to work towards truly free trade—that is, a customs union—between WAEMU members. Detailed proposals with respect to Senegal's trade policy can be found in the Action Plan.

Access to Markets

Senegal faces relatively high constraints on its export bundle both in developing and developed countries. On the developed country front, Senegal faces tariff and non-tariff barriers on its exports to QUAD markets (Canada, the EU, Japan, and the U.S.). The main non-tariff barrier is stringent standards imposed by importing countries. For example, fumigation requirements on fruits and vegetables imports have made it difficult for Senegal to exploit its potential in such exports to the U.S. market.

While the average tariffs in the QUAD are low, tariff peaks (such as 88 percent on tobacco in the U.S.; 65 percent on liver preparations in Canada; and 40 percent on boneless beef in Japan) even in the presence of trade preferences (the least developed country (LDC) trade preference and the African Growth and Opportunity Act (AGOA)) have resulted in no Senegalese exports of any of these products to any QUAD country. In some instances, even when trade preferences substantially reduce tariffs (including to zero), complex and costly rules of origin could have prevented Senegal from realizing such preferential access. This reason, for example, has been responsible for most countries—in particular low-income countries with little administrative capacity—not being able to benefit from the preferential trade agreements granted by the EU. It is therefore likely that Senegal might not be able to benefit much from the EU's "Everything But Arms" (EBA) agreement for the same reasons, although it is too early to have data on this. Finally, one other problem that Senegal faces with respect to market access is that preferential access is sometimes granted for products that it does not export. In 2001, no Senegalese exports to the U.S. benefited from AGOA and only US$0.5 m. (around 0.07 percent of its total exports) entered the U.S. through the LDC regime.

Senegal would need to address issues relating to access to developed and developing country markets in the framework of multilateral and regional negotiations. It would need to strengthen its capacity to engage in such international negotiations. It would also require technical assistance in the area of standards. Detailed measures for addressing these issues are laid out in the Action Plan.

Sector-specific interventions

The GOS has selected 4 sectors for detailed analysis under the IF. These are sectors which are already important for Senegal's exports (fish); or whose potential has not yet been fully exploited and is particularly important for alleviating poverty (agriculture); or could do much better in the face of rising world demand (tourism); or has good potential because of Senegal's endowment and in light of market opportunities provided by preferential trade agreements (cotton textiles and garments). These are discussed, in turn, next.

Fisheries

Although the fishing sector accounts for less than 2 percent of GDP, exports of fish and fish and fish preparations make up the largest export category in Senegal—38 percent of total exports in 2000. The sector is also important because it has been absorbing former workers in agriculture, where poverty is particularly severe (an estimated 70 percent of the poor are located in rural areas).

The main issue with respect to this sector is the incipient crisis it is facing with respect to the depletion of fish stocks which, if not soon corrected, could lead to the collapse of a large part of this export-oriented industry in the next couple of years. The root cause of the crisis is the absence of regulations over fishing in a situation where the capacity to fish exceeds the availability of resources.

Reforms of the sector would need to focus on allocation of future catches. Specifically, the strategy would need to ensure regeneration of fish stocks, and determine their allocation between local industrial trawlers, foreign trawlers and the artisanal fleet. Such an allocation would need to take into account the impact of each group on fish resources (notably juveniles), the relative economics of each type of operation, employment concerns, value-added generated, and the demands of the world market and the local processing industry.

Senegal could benefit from the experience of other countries which are heavily dependent on fishery resources and which have faced similar problems and successfully tackled them. The solution would need to entail having the public sector assume an effective fisheries resource management plan that: (i) does not allow free and unlimited access to fisheries resources; (ii) reduces fishing efforts; and (iii) compensates those who are denied access to the resources. The application of such principles in Senegal will require that: (i) sector issues are brought to the top of the policy agenda; and (ii) the roles of both the private and public sectors are taken into account in the drafting of a coherent development program for the sector. Detailed measures are found in the Action Plan.

<u>Agriculture</u>

In 2000, agriculture contributed to 21 percent of exports[3] and 17 percent of GDP. These figures, however, belie the importance of agriculture in the socioeconomic life of Senegal. Some 70 percent of the country's labor force is in the agriculture sector and, for the vast majority of rural households, agriculture represents the primary activity and source of income. Furthermore, as mentioned, an estimated 70 percent of the poor are in the rural areas.

Senegal's agricultural exports rose nearly 8 percent per annum during the 1980s to reach a peak at US$219m. in 1990. Since then, there has been a large and almost continuous decline in these exports such that by 2000, they totaled US$146m., around two-thirds of their value ten years ago. More than half of this decline can be attributed to the groundnut sector, which has experienced a sharp decline in the volume of (relatively

[3] The source for the data on the share of total agriculture exports is from FAO. FAO data for the exports of some agricultural products differs from data from the Senegal Department of Statistics.

high value) confectionary nut exports, and a decline in both the volume and unit value (as international prices declined) of groundnut oil exports.

There is potential for a recovery in Senegal's agricultural exports over the medium term, with the largest growth potential likely to be among fresh fruits and vegetables. Such exports rose 41 percent in volume terms between 1998 and 2001, or around 7 percent per annum in dollar terms, which is much faster than the growth of total exports (these averaged 0.4 percent per annum between 1997 and 2000). The new dynamism in this sector has been in part driven by a series of catalytic interventions under the Agricultural Export Promotion Project (AEPP) of the World Bank, and supported by renewed interest by several international companies in investing in aspects of the Senegalese supply chain. Despite such a good performance, fruits and vegetables exports only made up 1 percent of total exports in 2000 because of the low base from which they started. Raising the growth of such exports would require: (i) alleviating infrastructure bottlenecks and developing the cold chain; (ii) instilling a total quality management ethos and adhering to increased product and process standards; (iii) diversifying production areas beyond the Niayes area; and (iv) improving managerial capabilities within the sector and specialized business support services.

In the dominant groundnut sub-sector, there is little prospect for growth in groundnut oil exports, given a stagnant world market with increasing competition from less expensive vegetable oils. There is, however, an evident opportunity to expand the country's exports of confectionary groundnuts for which market prospects are somewhat better and there is scope to substantially increase returns to growers. Raising Senegal's agricultural exports of confectionary groundnuts would require greater incentives (specifically market-based pricing) and higher quality seed.

There are also modest opportunities for growth of other agricultural exports in the medium-term, such as cotton, including high-quality long-fiber cotton grown under irrigation, although international cotton prices are expected to remain at historically low levels in the near term due to structural global surpluses and the high subsidization of production in several important countries.

Specific measures to address growth constraints for agricultural exports in general, and exports of fruits and vegetables, confectionary groundnuts and cotton, in particular, are laid out in the Action Plan.

Tourism

In 2000, tourism receipts are estimated to be around 3.6 percent of GDP in Senegal, nearly double that of proceeds from groundnut exports, and around 60 percent that of fish exports. The sector is estimated to employ 12,000 people directly and 25,000 indirectly, amounting to 14 percent of all paid employment in the country.

Given Senegal's variety of natural and cultural assets, which compare favorably with other destinations, its tourism industry can do much better. Between 1975 and 1997, Senegal fell from 7th to 16th in the WTO's ranking of top 20 tourist destinations in Africa, meaning that Senegal was losing market share of this industry to other African destinations. There is also potential for higher growth of Senegal's tourism industry on the demand side, as the World Bank is projecting that tourism will grow faster than merchandise exports during 2000-2004 (9 percent per annum compared with 6 percent). Finally, other factors that bode well for Senegal are its positive image abroad, its proximity to Europe as well as to the U.S. (the latter especially in comparison with to many other African countries), and the renewed interest and attention paid to the sector recently by senior policy-makers.

Weaknesses of the sector include its excessive dependence on seasonal beach tourism, inadequate marketing strategy, difficult access to land for potential investors, and a near absence of dialogue between the public and private sectors. Because of low investments in recent years, the tourism infrastructure is also getting old and less attractive than that offered by other destinations. Tourism also inadequately draws on the cultural assets of the country.

Senegal needs to have a well-articulated strategy for developing the tourist sector that is respectful of its cultural assets and its environment. To give this task the high priority that is needed, a President Commission could be created which will develop and deliver the strategy within a specified time-frame. The promotion of tourism may best be left to an "Office du Tourisme", a public/private institution which would be the partner for the public sector to discuss strategy. Morocco and France have used this approach successfully. With access to land a major problem for new investments in the sector, this issue needs to be addressed with some priority. Details of these and other measures to help further exploit the potential of the tourism sector are provided in the Action Plan.

<u>Textiles and Garments</u>

In 2000, cotton textiles and garments made up only 1.5 percent of total exports. Although the current contribution of cotton textiles to total exports is low, there is good potential for higher growth of such exports because of the following factors. First is Senegal's endowment of high quality cotton, substantial technical skills in the textile sector, and the tremendous creativity and skill of the many artisans and tailors in the clothing sector. Second is the preferential access provided to Senegal under the Multi Fibre Agreement (MFA) and AGOA. Senegal has a few years left to take advantage of the short window of opportunity before MFA expires and before AGOA becomes more restrictive.

Much like a number of other cotton growing countries in the region, Senegal has failed to establish a competitive textile sector, as well as to benefit from the global trend of outsourcing clothing production that has characterized the success of many developing countries in the sector. Obsolete equipment, poor management and overstaffing in the sector have led to low efficiency, and would require substantial restructuring efforts and new investments to overcome. FDI could make an important contribution on this front. The sector also suffers from some of the same constraints that affect other sectors of the economy, such as erratic and expensive supply of electricity; poor access to and high cost of credit; and time-consuming and costly access to duty-free inputs. The same measures proposed for easing constraints to firm operation and growth in the Action Plan apply for this sector also. In addition, the Action Plan also lays out measures that are specifically geared towards development of this sector.

Action Plan

The Action Plan that follows this Executive Summary provides a summary overview of, and a suggested time frame for, the policy recommendations and technical assistance needs contained in this report. The background for these proposals are found both in the main body—volume 1—of this report, as well as the accompanying volume 2 which contains the background papers of the report.

Priority Actions

Developing a well-articulated export strategy cannot be done overnight. It requires that consensus be built around a well-defined vision and strategy, that priorities are articulated, and persons made accountable for well-defined deliverables. All these take time.

However, given the growth and poverty targets of the GOS, some quick results are needed. The following selects, from the many measures detailed in the Action Plan, those that should be implemented as soon as possible. These are actions that are either important for obtaining a quick pay-off, or for which the urgency is such that they should be initiated without much delay. In the meantime, however, work on the other issues identified in the report and Action Plan should also be initiated, as they may require consensus building and the review of alternative approaches. An example of such an issue is the search for a pragmatic approach to improved access to land for tourism and agriculture.

Immediate Action—before end-2002

Policies directed towards the tourism and fishing sectors deserve priority attention. Doing so would economize on political energy while more time is taken to deal with the rest of the strategy. In any event, some policies could be quickly implemented as they do not involved controversial measure, build on ongoing programs and thus do not draw on scarce political capital. Below are a number of key policy measures that could make up the priority action program. These are selected in view of their timeliness and their perceived urgency.

Trade Policy Issues

- Negotiate with WAEMU members to create free intra-regional trade within the time span of a few years.
- Join with other countries that are granted the EU's EBA agreement to argue for simplification of the rules of origin.
- Together with other LDCs, negotiate with Canada, Japan and the U.S. to follow example of EBA to obtain duty-free access to all products.

- Fully operationalize the *Comité de Négotiations Commerciales Internationales* to ensure that private sector concerns are fully reflected in the negotiation agenda of the GOS and in its request for TA.
- Initiate the process for the creation of the Export Promotion Agency (EPA) that will consolidate the functions of some of the existing export promotion organizations to maximize impact and avoid dispersion of efforts, as well as to economize on administrative costs and human resource capacity.

In the tourism sector

- Define the institutional modalities that should result in the preparation and adoption of a tourism development strategy.
- Engage professional advise for the creation of the *Office du Tourisme*.
- Strengthen the Ministry of Tourism.
- Start the process for establishing and implementation of regional development plans (based on *Plans d'Aménagement du Territoire* but going beyond it for its implementation). A proposed World Bank project would support this process.

In the fisheries sector

- Create a Presidential Commission (PC) to prepare the recommended institutional reform, amongst which is the Fisheries Regulatory Agency, and to take steps towards an immediate freeze of the number of vessels that operate in Senegalese waters. Such action should be rather painless and prepare the field for a system of fee-based licenses for access to fisheries resources.
- As most adjustment and accompanying measures in the fisheries sector will cost money, the PC should immediately gather the potential donors, explain the rationale of the forthcoming strategy and solicit TA at first and budget support later.
- The PC should prepare a professional communications strategy to present to the public the rationale of the forthcoming sector strategy.

ACTION MATRIX

ACTION PLAN FOR IMPROVING COMPETITIVENESS OF THE SENEGALESE ECONOMY AND ITS INTEGRATION INTO THE GLOBAL ECONOMY

Objectives	Measures	Agencies responsible	Time Frame
Trade Policy			
Work towards greater market access in the framework of multilateral negotiations (1.6)	• Together with other LDCs negotiate with Canada, Japan and the U.S. to follow the example of the EU's "Everything But Arms"(EBA) agreement to obtain duty-free access to all products. • Join with other countries that are granted the EBA to argue for simplification of the rules of origin; request the EU to document and monitor trade flows that benefit from the EBA. • Initiate negotiations to lower trade barriers in other developing countries.	Ministry of Commerce and SME	Start immediately
Improve trade policies to enhance export incentives and prospects section (1.6)	• Negotiate with WAEMU members to create free intra-regional trade within the time span of a few years. • Introduce new rules of origin system (section 1.3.2) . • Eliminate tariff lines not consistent with WAEMU CET schedules according to a pre-announced schedule. • Change the CET to correct for negative escalation particularly for food and textile industries. • Redefine classification of capital goods to include all capital goods and phase out Investment Code.	Ministry of Finance	Start immediately Now to 2004 End-2002 End-2002 End-2002
Strengthen capacity to engage in beneficial international negotiations (section 2.4.3)	• Fully operationalize the *Comité de Négotiations Commerciales Internationales*, an inter-ministerial committee, which provides a forum for the public and private sectors to discuss and formulate policy advice on WTO and WAEMU issues.	Ministry of Commerce and SME	Start immediately
Improve Standards (section 1.5)	• Strengthen the capacity of the *Institut Senegalais de Normalisation* .	Ministry of Commerce and SME	During 2003

Objectives	Measures	Agencies responsible	Time Frame
Improve competitiveness	• Monitor competitiveness indicators including the real effective exchange rate and world market shares.	Central Bank; Ministry of Commerce and Industry	Start end-2002
Easing constraints to firm operation and growth			
Spurring investment (section 2.2)	• Request an Investment Guide (such as those prepared by UNCTAD-ICC) which presents the country's investment climate and required procedures.	Ministry of Commerce and SME	End-2002
Ease financing costs for businesses (section 2.2.1)	• Put in place instruments such as a *Centrale de Risques*, a *Centrale des Incidents de Payments* and a *Centrale des Bilans* to increase the transparency of the financial health and risk of enterprises. • Improve and speed up check clearance system.	Central Bank	By December 2003
Improve administrative environment for enterprises (section 2.2.2)	• Refine and complete the diagnostic for guiding the administrative simplification process (see 2002 FIAS report for detailed suggestions). • Create organizational set-up to effectively design and implement the process (see 2002 FIAS report for international best practice on this). • Provide clear performance and evaluation guidelines to the agencies (including *Agence de Promotion des Investissements et des Grands Travaux*, APIX) responsible for the implementation of the process. • Investigate use of new technologies and computers in support of the process.	Ministry of Commerce and SME	Start end-2002 2003
Improve access to competitively-priced infrastructure services (section 2.2.3)	Electricity • Re-launch negotiations with bidders for the management contract of SENELEC when business conditions improve. • Extend competition in petroleum sector to attract new investment, particularly for the storage of petroleum products. Support PETROSEN initiatives in that direction. Telecommunications • Engage in preliminary discussions with concessionaire for early termination of exclusivity period.	Ministry of Infrastructure and Transport Ministry of Telecommunications	December 2002 Ongoing

Objectives	Measures	Agencies responsible	Time Frame
	• Establish a sound regulatory framework by strengthening the newly created regulator (ART). • Empower one ministry to be in charge of ICT development with mandate to quickly prepare and implement a national ICT strategy		
	Water • Adjust tariff level and structure to eliminate cross subsidization.	Ministry of Energy and Water	December 2002
	Air Transport • Complete investment in the cold storage facilities for the Dakar airport. • Implement the draft regulation / legislation to restructure the Civil Aviation Authority and adopt a new Aviation Code. • Implement as thoroughly as possible the open air policy and assist wherever needed efforts of Air Senegal to broaden its activities to European destinations.	Ministry of Airport Transportation	December 2002 Ongoing
	Maritime Transport • Systematically search for private parties to invest and manage the port infrastructure. • Negotiate with labor unions to revise the high cost contracts that inflate port costs.	Ministry of Infrastructure and Transport	Ongoing December 2002
	Railroads • Pursue privatization of the railroad, with an emphasis on mobilizing the necessary capital to rehabilitate the infrastructure.	Ministry of Infrastructure and Transport	December 2002
	Roads • Finalize the road infrastructure database to permit the implementation of an efficient road maintenance program.	Ministry of Infrastructure and Transport	December 2002
Improve functioning of the labor market	• Adjust legislation to allow piecework remuneration. • Compile and disseminate adequate labor market statistics.	Ministry of Labor	December 2002 June 2003

Objectives	Measures	Agencies responsible	Time Frame
(section 2.2.4)			
Increase labor force skills (section 2.2.5)	• Pursue educational reforms with particular attention to the vocational training programs that will allow for private sector delivery; involve industries in the design and implementation of programs.	Ministry of Education	Ongoing
Improve judicial services (section 2.2.6)	• Create commercial courts (set deadline for this). • Train judges (set targets for the number of judges that participate in OHADA training facilities). • Adopt computerized management technique to modernize case management. • Set targets to reduce caseload delays. • Increase the transparency of judgments made.	Ministry of Justice	June 2003 December 2004
Customs Reform in Support of Trade Facilitation and Export Development			
Enhance the efficient management of import procedures (section 2.3.1)	• Review present customs procedures with a view to simplifying them and ensure fully adherence and apply audits. • Document audit findings. • Strengthen modern risk management techniques pertaining to PSI and post clearance inspection. • Ensure availability of key customs services seven days a week. • Apply newly-designed trade facilitation procedures for imports and exports (APEI, APEX and DEP). • Review feasibility of selectively permitting customs clearance at the domicile of importers while providing assurances against customs fraud.	Ministry of Finance	Start 2002

Objectives	Measures	Agencies responsible	Time Frame
Improve customs valuation procedures (Section 2.3.3)	• Enforce the PSI obligation on all eligible shipments. • Maintain a valuation database in the *Bureau du Renseignement et de la Documentation* that is accessible by customs staff responsible for value determination and control. • Reconcile pre-shipment valuation data with those from the manifest and those used for the calculation of import duties and taxes and publish findings. • Implement an accelerated training program for the correct implementation of the transaction value.	Ministry of Finance	Start 2002
Improve management of duty-free imports for exporters schemes (section 2.3.4)	• Utilize the new information technology (GAINDE 2000) to follow up more tightly imports and exports of the firms that benefit from duty free imports of inputs; impose interest penalties on firms for infractions. • Transfer authority to grant schemes from Minister of Finance to Director of Customs to ease the granting of these special regimes for true export oriented firms. • Institute a mandatory time limit within which drawback requests are honored with benefits built in for taxpayers when deadline is not met, and use transferable Treasury checks to pay the drawback duty to the exporter. • Enforce decree that ends granting of new permission for ZFID and Point Francs and require all exporters to use one of the other incentive schemes.	Ministry of Finance	2002
Strengthening institutions that support export development			
Support the export sector (section 2.4)	• Adopt a well articulated export promotion action strategy and strengthen the *Direction du Commerce Exterieur* at the Ministry of Commerce and SMEs to oversee its implementation. • Consolidate functions of some existing export promotion organizations under a new export promotion agency.	Ministry of Commerce and SME	mid-2003 immediately

Objectives	Measures	Agencies responsible	Time Frame
Fisheries (section 3.1)			
Development of a sustainable fisheries sector	• Create a Presidential Commission (PC) to give visibility, credence, urgency and coherence to the fisheries reform program and to ensure that the program is adhered to and implemented by all involved. The PC should develop a funding and a communication strategy.	Presidency	October 2002
Ensure effective and transparent regulation of the fisheries sector	• Create a Fisheries Regulatory Agency (FRA) responsible for defining and ensuring the implementation of policies that ensure sector sustainability.	Cabinet Ministry of Fisheries	January 2003
Reduce the industrial and artisanal fleet	• Institute gear measures, audit of fishing licenses, increase of license fees and ultimately vessel buy-outs to reduce the size of the industrial fleet. • Introduce a freeze on issuing new licenses for artisanal fleet accompanied by a program to assist displaced fishermen to find alternative employment (vocational training, education and micro credit programs in coastal regions)	Ministry of Fisheries	January 2003
Consolidate the fish processing industry	• Stop extending public support for continued operations of unviable fish processing firms.	Ministry of Finance	Immediately
Improve effectiveness of fisheries development activities	• Consider setting up a Fisheries Development Agency which will coordinate public and private sector activities to ensure coherent development of the various segments of the fisheries sector.	Cabinet Ministry of Fisheries	January 2003
Strengthen existing public institution to assist the fisheries sector	• Strengthen the Ministry of Fisheries to enable it to efficiently discharge it remaining responsibilities.	Ministry of Fisheries	Third quarter of 2003
Agriculture (section 3.2)			
Support the export orientation of the agricultural sector	• Institute carefully designed but limited land reform measures in the Senegal River basin to provide land access to export producers while benefiting rural communities. • Ensure progress made by the AEPP in promoting and diversifying horticultural export products and markets be sustained by facilitating the evolution of the project's implementation unit into an autonomous,	Ministry of Interior and Ministry of Agriculture Ministry of Agriculture	Start end-2002 As of end of project, end-2002

Objectives	Measures	Agencies responsible	Time Frame
	non-profit foundation.		
	• Provide continued assistance to horticultural exporters to facilitate further improvements in products quality and compliance with SPS and other standards of export markets.	Ministry of Agriculture	2002-2003
	• Improve infrastructure in support of agricultural exports (cold storage, handling facilities and air and sea transport).	Various ministries	Ongoing
	• Facilitate expansion in domestic production and distribution of onions and potatoes; this involves better seeds, better field techniques in particular irrigation applications, and storage.	Ministry of Agriculture	2003
	• Promote expansion of confectionary nut exports through completion of the *Arachide de Bouche* program; addressing issues which constrain the availability of high quality seeds; assisting farmers to meet international standards; and pursuing privatization of SONACOS or at the very least introduce market-based pricing for the sector.	Ministry of Agriculture and Ministry of Finance	Ongoing
Tourism Sector (section 3.3)			
Enhance the growth and the sustainability of the tourism sector	• Create a Presidential Commission which will develop and implement a well-articulated tourism sector strategy within a specified time-frame.	Ministry of Tourism	By end-2002
	• Strengthen the Ministry of Tourism by giving it the human and physical resources necessary to undertake the role of writing policy and regulating the sector, spurring investment and acting as an advocate for the sector inside and outside the country.	Ministry of Tourism	2002-2003
	• Create an *Office du Tourisme* to formalize the dialogue between the private and the public sectors, and to undertake promotional activities.	Ministry of Tourism	Begin September 2002
	• Prepare plans for managing land issues for tourism and institute streamlined procedures to ease access to land.	Ministry of Tourism and Ministry of Interior	2002-2003
	• Elaborate a marketing strategy for tourism to guide promotion activities, including those to be undertaken by the “Office du Tourisme”.	Ministry of Tourism	2003
	• Evaluate present training facilities of tourism industry staff and assess needs for improvement (through pre-employment training or		

Objectives	Measures	Agencies responsible	Time Frame
	education).	Ministry of Tourism	2003
Textiles and Garments (section 3.4)			
Stimulate production and exports of the textile sector	• Evaluate existing training programs (such as the *ecole de formation* launched by the *Federation des Professionnels de l'Habillement*, FENAPH) and modify operations where necessary • Strengthen subcontracting practices (such as building on recent experience of FENAPH and the experience of the *Bourse de Sous Traitance*). • Privatize SOTEXKA.	Ministry of Industry	Start end-2002 Start end-2002 2003

CHAPTER 1
THE SENEGALESE ECONOMY AND ITS INTEGRATION INTO THE WORLD ECONOMY

INTRODUCTION

According to the recently completed Poverty Reduction Strategy Paper (PRSP) for Senegal, poverty remains widespread in the country despite relatively good macroeconomic performance. In 2001, an estimated 54 percent of the population live below the poverty line, although this represents a decline from the 58 percent estimated for 1994.[4] The subjective view of poverty, however, suggests that 65 percent of households feel they are poor, while 64 percent feel poorer now than five years ago.[5] The PRSP policy objectives include reaching an annual rate of growth of about 7 to 8 percent in 2003-2005 and reducing the percentage of poor people by at least 15 percentage points**.** The Government of Senegal intends to use this report to better articulate trade policy measures that can contribute to the PRSP objectives.

This report is being prepared under the auspices of the Integrated Framework for Trade-Related Technical Assistance (IF). After consultations with key stakeholders, the government intends to incorporate the findings of IF into the PRSP document, seek implementation support from the donor community, and monitor implementation progress alongside the overall economic program of the PRSP.

This report reflects the findings of a team of international and local consultants that visited Dakar in February 2002.[6] The report has benefited greatly from contributions made by staff of the IF Agencies and from discussions with government officials and representatives of the private sector.

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4 The 1994 data are from the first household survey, the Enquete Senegalaise aupres des Menages (ESAM—I), prepared by the Diréction de la Prévision et de la Statistique (DPS), an agency of the Ministère de l'Économie, des Finances et du Plan. The poverty line is defined as people living on less than 2400 calories per adult person per day. The 2001 data are from initial results of the 2001 household survey.

5 The subjective poverty evaluations are obtained from a 2001 survey, Household Survey on Perception of Poverty in Senegal (EPPS).

6 Luc De Wulf (Team leader), Marcelo Olarreaga and Zeynep Ersel (trade policy), Gert Van Santen (fisheries), Dominique Van Der Menschbrugghe (poverty), Ibrahima Deme (textile), Bechir Djebali (customs), Michael Langstaff and Moubarack Lo (institutions), Jean Christophe Ngo (PSD issues), Charles Senghor of Performance Management Consulting (Tourism), Charles Steedman and ARDINC(Agriculture). Contributions were received from the IMF staff in Washington.

1.1 RECENT MACROECONOMIC DEVELOPMENTS AND POVERTY PROFILE

Since 1995, the year after the 50 percent devaluation of the CFA franc, Senegal's macroeconomic performance has been relatively good, although there are continuing structural problems (particularly in the groundnut and energy sectors), and the incidence of poverty is still high. The relatively sound macroeconomic performance is reflected in Senegal meeting 5 of the 8 convergence (mostly fiscal and external payments) criteria of the West African Economic and Monetary Union (WAEMU) in 2000, which is a better performance than any other member countries of the Union (Box 1.1).

1.1.1 Output and inflation

Real GDP growth averaged over 5 percent per annum during 1995-2000 (Table 1.1). In 2001, growth is estimated to have been around 5.6 percent, led by the groundnut, manufacturing and telecom sectors and spurred by a sharp decline in oil import prices. CPI inflation averaged 2.6 percent per annum during 1995-2000, declining to 0.7 percent in 2000. Inflation rose to 3 percent in 2001, owing to a spike in food prices and the effect of VAT rate unification in September.

The main driver of GDP growth on the expenditure side in the second half of the 1990s (1996-2001) was private consumption, followed by government consumption. In fact, exports had contributed negatively to GDP growth during this period (Table 1.2). This kind of growth is not sustainable, and it would be important for Senegal to pursue a more sustainable long-term growth path, one that is less dependent on consumption and more on investment and exports. Raising gross domestic investment—which had averaged around 17 percent of GDP from 1995-2001—should help boost Senegal's overall economic growth[7].

Regarding economic sectors in Senegal, the tertiary sector (transport, telecommunications, commerce, public administration and other services) is the largest, accounting for over 60 percent of GDP, followed by the secondary sector (industry, energy and construction), which accounts for over 20 percent, and lastly the primary sector (agriculture, fisheries and forestry) which accounts for less than 20 percent (Annex 1). In terms of contribution to growth, however, the agriculture sector (that is, the crops sector) could be very important. In 2000, for example, agriculture accounted for less than 10 percent of GDP but contributed to 35 percent of total growth in the economy or, in other words, 2 of the 5.6 percent growth in GDP that year is attributed to the agriculture sector.

[7] See Annex 1 for Senegal's savings-investment balance and composition of savings.

BOX 1.1 THE WAEMU AND THE CONVERGENCE, STABILITY, GROWTH AND SOLIDARITY PACT

The countries of Francophone West Africa and Central Africa have been members of regional groups since independence. What is now WAEMU can be traced back to the West African Monetary Union of 1962 and the West African Economic Union (WAEU) of 1973. The WAEMU was established in 1994 at the time as the devaluation of the common curr3ency the .which has a fixedparity with the French Franc and since January 2000 with the Euro. CFAF The Treaty establishing WAEMU came into effect on 1 August 1994 after ratification by the member countries and replaced the WAEU which had already been dissolved at the time.

WAEMU has 8 members; in addition to Senegal, they are Benin, Burkina Faso, Cote D'Ivoire, Guinea-Bissau, Mali, Niger and Togo. Monetary policy in the WAEMU is conducted at the regional level by the Central Bank of West African States (BCEAO). The Common External Tariff has been implemented since 2001.

WAEMU strengthened the financial and institutional elements of its precursor organizations with a structure largely copied from the EU. It is governed by a conference of heads of state, and unanimity is required. However, under this Council, there is a Council of Ministers that can act by majority. There is a Commission that has initiating power before the Council of Ministers, and both the Commissioners and their staff are in principle loyal to the region, not to the countries. There is also a Court of Justice to which member governments as well as the companies and individuals have access. WAEMU's decisions are directly effective within the members, without further legislation.

The WAEMU's aim is to create an economic union through the convergence of macroeconomic and sectoral policies and the harmonization of member countries' fiscal legislation. To that end, in December 1999, the WAEMU adopted a Convergence, Stability, Growth, and Solidarity Pact which aims at: (i) strengthening convergence among the economies of the member countries; (ii) reinforcing macroeconomic stability; (iii) accelerating economic growth; and (iv) enhancing solidarity among the member countries. The Pact provides for a number of convergence criteria which, if not satisfied, could lead to the initiation of a penalty procedure. The norms established with respect to these criteria have to be met by the target date of 2002. These criteria, and Senegal's achievements in 2000 (indicated in parentheses), are as follows.

Primary criteria :

1. the ratio of the basic fiscal balance to nominal GDP (key criterion), which must be in balance or in surplus (1.2 percent);
2. the ratio of outstanding domestic and foreign debt to nominal GDP, which must not exceed 70 percent (75 percent);
3. the average annual inflation rate, which should not surpass 3 percent a year (0.7 percent);
4. the non-accumulation of domestic and external payments arrears (0).

Secondary criteria:

5. the ratio of the wage bill to tax revenue, which cannot exceed 35 percent (32.7 percent);
6. the ratio of domestically financed public investment to tax revenue, which must be at least 20 percent (19.8 percent);
7. the ratio of the external current account deficit, excluding grants, to nominal GDP, which cannot exceed 5 percent (9 percent);
8. the tax-to-GDP ratio, which must be 17 percent or more (17.4 percent).

TABLE 1.1 SENEGAL—MAJOR ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001*
Real Sector							
GDP (m.US$)	4476.0	4636.5	4374.2	4680.5	4756.9	4385.7	4613.7
GDP (bn.CFAF)	2234.0	2371.8	2553.2	2746.0	2925.0	3114.0	3379.7
GDP per capita (PPP, current international $)	1299.0	1319.0	1341.0	1361.0	1433.0	1510.0	n.a.
Real GDP growth (%)	5.2	5.1	5.0	5.7	5.0	5.6	5.6
Gross Domestic Investment as a share of GDP (%)	14.7	16.3	15.8	17.5	19.4	17.9	16.4
Fiscal Accounts (% of GDP)							
Revenues (including grants)		20.9	19.5	19.7	19.4	20.1	19.7
Expenditures (including net lending)		20.9	18.9	18.5	20.3	19.4	21.7
Fiscal Deficit							
Commitment basis, excluding grants	-3.2	-4.4	-2.0	-3.3	-3.5	-2.0	-3.9
Commitment basis, including grants	0.0	-0.1	0.5	-0.3	-1.4	0.1	-2.0
Basic fiscal balance 1/	0.4	1.7	2.7	2.6	1.7	1.2	-0.8
Basic fiscal balance 2/	0.4	1.7	2.7	2.6	1.7	1.2	2.5
External Public Debt	76.9	79.9	77.7	77.7[3]	74.6	78.6	73.7
Prices, Exchange Rate							
Inflation (CPI, annual average)	8.1	2.8	1.8	1.1	0.8	0.7	3.0
Exchange Rate (CFAF:USD, avg)	499.1	511.6	583.7	586.7	614.9	710.0	732.5
Export prices (1995=100)	100	103.3	111.1	110.5	108.9	115.0	113.8
Import prices (1995=100)	100	103.4	108.7	103	105	115.9	113.4
Terms of trade (deterioration) (annual % change)	-4.8	-0.1	2.3	5.0	-3.4	-4.4	1.2

Notes: * 2001 data is preliminary.
1/ Defined as revenue minus total expenditure and net lending, excluding externally financed capital expenditure and on-lending
2/ Excludes assistance to public enterprises and HIPC initiative.
3/ The 98-2001 data has been recalculated based on the debt sustainability analysis done in 1999 and is not fully comparable with previous years data.
Source: Senegalese Authorities

TABLE 1.2. CONTRIBUTION TO GROWTH (PERCENT)

	1996	1997	1998	1999	2000	2001	1996-2001
GDP	5.1	5.0	5.7	5.0	5.6	5.6	5.3
Private Consumption	2.4	5.8	2.3	0.9	3.6	3.2	3.1
Investment	2.5	0.3	2.7	2.8	-0.5	-0.6	1.2
Private	0.2	-0.1	1.6	1.3	1.3	-1.1	0.5
Public	2.3	0.4	1.2	1.5	-1.7	0.6	0.7
Government Consumption	0.3	-1.1	0.5	1.2	1.9	3.1	1.0
XGNFS	-4.6	0.6	0.6	-0.6	0.3	-0.3	-.7
MGNFS	-4.4	0.5	0.3	-0.8	-0.2	-0.1	-.8

Source : BCEAO
Notes: (i) XGNFS is exports of goods and non-factor services; MGNFS is imports of goods and non-factor services. (ii) Contribution to growth is derived from real growth* share; it indicates what the overall growth of the economy would be if growth of the other sectors were zero.
Source: World Bank calculations based on Senegalese data.

1.1.2 Internal and External Balances

Fiscal performance was broadly satisfactory during 1995-2000, with the overall fiscal account including grants being on average in balance, and at around 3 percent of GDP deficit when grants are excluded. The overall fiscal balance deteriorated somewhat in 2001 to 3.9 percent of GDP (excluding grants) because of budgetary assistance to two public enterprises, which ran into financial difficulties—the public groundnut company (SONACOS) and the national electricity company (SENELEC). However, the underlying fiscal position remained sound, with a basic fiscal surplus of 2.5 percent of GDP for 2001 if the exceptional expenditures for the public enterprises and the additional spending financed with HIPC Initiative Debt initiative are excluded. Looking forward, the fiscal position is expected to continue to be sound, conditional on the government implementing the planned measures to reform the groundnut and power sectors, including moving towards market-based pricing in both sectors and preparation to privatize the two public enterprises.

The current account deficit (including official transfers) moved between 4 and 6 percent of GDP during 1995-2000. Much of the movement was dominated by oil imports, in particular oil price changes. In 2001, the significant drop in oil prices contributed to a decrease in the current account deficit to an estimated 4.8 percent of GDP from 6.7 percent in 2000. The capital and financial accounts more than compensated for the current account deficit during 1995-2000, except in 2000 when the strong oil price increase combined with foreign disinvestments related to the repurchase of SENELEC by the state led to a loss of foreign exchange reserves.

Tourism has played quite an important role in the external sector, contributing to an average of around 3.5 percent of GDP per year during 1996-2001. During this period, tourism receipts were greater than FDI flows which averaged slightly less than 2 percent of GDP per year. In fact, in some years during 1996-2001, tourism receipts almost reached the total of private and official current transfers combined. In light of the importance of tourism, efforts to further exploit its potential could bring significant economic benefits to the country. Chapter 3 discusses the main issues and recommendations with respect to the tourism industry.

1.1.3 Poverty

Despite the relatively good macroeconomic performance, poverty remains widespread in Senegal, and social indicators are poor. The most recent poverty indicators are close to the sub-Saharan averages. The human development index of the United Nations Development Program (UNDP) ranks Senegal 154th out of 174 countries. Poverty is more prevalent in rural areas where an estimated 70 percent of the poor are located. It is particularly severe in areas where production is agricultural and less diversified, and where there is less migration to urban areas. In part this is because the agricultural sector, which represents 10 percent of GDP but employs 70 percent of the labor force, is particularly vulnerable to exogenous shocks (droughts and fluctuations in the market prices of primary commodities). Growth has occurred in sectors that supply relatively few jobs, as a result of which growth has not had a significant impact on the poor. See Chapter 4 for a discussion of the impact of trade on poverty.

TABLE 1.3. SENEGAL EXTERNAL SECTOR
(BILLIONS OF CFA FRANCS)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Merchandise Trade Balance	-96.4	-107.4	-128.3	-123.8	-141.2	-158.4	-184.4	-212.9	-296.6	-280.2
Exports of Goods	219.1	200.3	439.1	483.4	505.4	528.0	571.1	632.4	654.9	708.4
Imports of Goods	315.5	307.7	567.4	607.2	646.6	686.4	755.5	845.3	951.5	988.6
Non Factor Services Balance	-22.0	-24.1	-6.4	-2.2	-8.7	-11.7	-10.4	-8.7	-12.8	-10.3
Services Trade Balance	-35.1	-37.4	-78.9	-77.3	-37.3	-42.0	-33.0	-57.1	-64.6	-52.6
Tourism	39.0	25.0	53.0	78.7	77.8	91.8	100.1	106.9	112.3	116.0
Current transfers	27.1	27.7	113.1	86.0	85.1	104.1	101.0	97.9	164.3	182.2
Private	6.9	10.3	21.4	19.9	20.4	20.4	21.4	50.7	100.1	132.4
Public	20.2	17.4	91.7	66.1	64.7	83.7	79.6	47.2	64.2	49.8
Current Account Balance										
excl. official transfers	-151.9	-162.7	-199.4	-191.9	-173.4	-197.7	-214.3	-231.6	-278.7	-215.5
incl. official transfers	-126.4	-141.1	-100.5	-117.3	-102.1	-108.0	-126.8	-180.7	-209.8	-160.9
Capital Account Items										
Foreign Direct Investment					8.9	54.7	53.6	83.9	62.6	77.0
Project Grants	68.7	62.1	102.3	104.9	84.1	53.7	63.1	58.5	52.9	61.7
Memo Items: in shares of GDP										
Current Account Balance										
excl. official transfers	-9.5	-10.6	-9.9	-8.6	-7.3	-7.7	-7.8	-7.9	-9.0	-6.4
incl. official transfers	-7.9	-9.2	-5.0	-5.3	-4.3	-4.2	-4.6	-6.2	-6.7	-4.8
Tourism	2.4	1.6	2.6	3.5	3.3	3.6	3.6	3.7	3.6	3.4
Foreign Direct Investment					0.4	2.1	2.0	2.9	2.0	2.3
Project Grants	4.3	4.0	5.1	4.7	3.5	2.1	2.3	2.0	1.7	1.8

Source: Senegalese authorities.

1.2 EXPORT PERFORMANCE

The export performance of Senegal over the last decade was unremarkable, not only by world standards but also in comparison with Sub-Saharan Africa (SSA)[8] (Table 1.4). The only exception to this mediocre export performance occurred in 1995, when exports grew 26 percent in response to the 50 percent devaluation of the CFA franc in the previous year. This mediocre export performance in Senegal over the last decade is a continuation of a trend of long-term secular decline in exports, both in terms of share of GDP (Figure 1.1) as well as share of world exports (Figure 1.2).

There was some improvement in Senegal's export performance in the post-devaluation period (Table 1.4). This improvement is also reflected in the recovery in Senegal's share

[8] All references to Sub-Saharan Africa in this paragraph excludes South Africa.

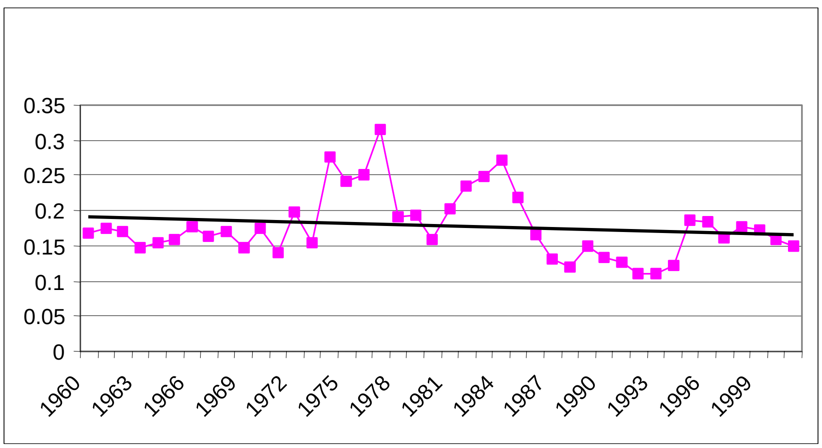
of world exports, which had fallen from 0.14 percent in the early 1960s, to 0.07 percent in the early 1970s and further to 0.02 percent by 1994 before recovering slightly since the devaluation.

TABLE 1.4. ANNUAL AVERAGE GROWTH OF EXPORTS (US DOLLAR TERMS)

	1990-94	1995-2000	1990-2000
World	5.9%	4.8%	6.6%
Senegal	-13.4%	2.9%	-2.0%
Other WAEMU	-1.2%	-0.3%	2.2%
SSA-South Africa	-0.8%	8.0%	4.9%

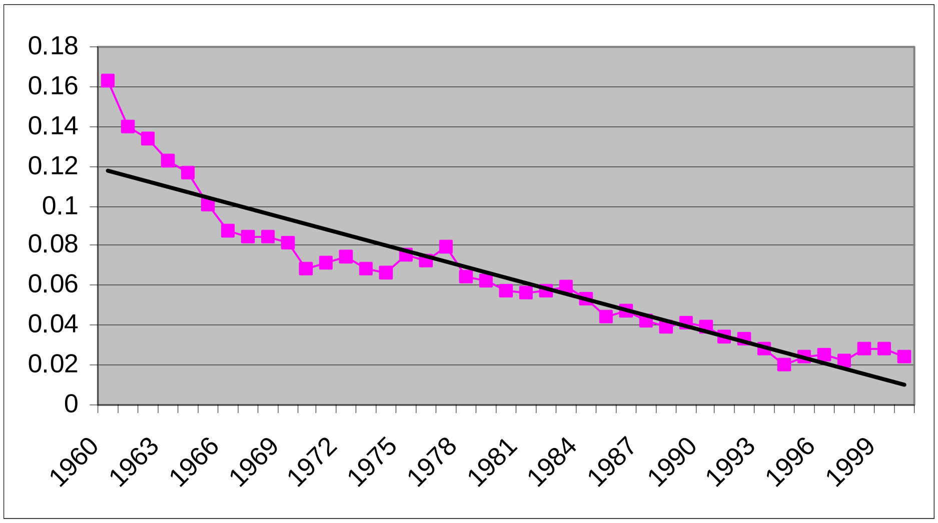
Source: Calculations based on data from International Financial Statistics, IMF.

FIGURE 1.1 EVOLUTION OF SENEGAL'S EXPORT TO GDP RATIO, 1960-2001



Source: World Bank based on data provided by DPS and WDI (2002).

FIGURE 1.2: EVOLUTION OF SENEGAL'S SHARE IN WORLD EXPORTS, 1960-2000 (PERCENT)



Source: World Bank, based on data provided by DPS, Dakar and IMF's Direction of Trade Statistics.

1.2.1 Export Structure

The poor performance of Senegalese exports can be attributed to their concentration in products that have been facing declining world demand. A clear indication of the concentration in export products is that in 2000, the top 5 Senegalese exports at the 8 digit Harmonized System (HS) level—petroleum oil (other than crude), crude vegetable oil, phosphoric acids, lobster and shrimps—represented over 40 percent of total Senegalese exports.

TABLE 1.5. MAJOR SENEGALESE EXPORTS (PERCENTAGE OF TOTAL EXPORTS)

	1995	1996	1997	1998	1999	2000
Fish products	32.9	34.9	40.0	36.3	36.9	37.7
Groundnut Products	12.5	10.9	7.5	6.7	8.1	12.1
Oil products	9.5	13.0	13.4	11.5	9.8	11.6
Phosphoric acid	14.2	11.6	10.1	13.4	10.7	9.6
Phosphates	5.2	4.2	4.6	3.8	4.3	3.0
Fertilizers	7.6	5.0	5.9	6.4	4.3	1.9
Cotton	4.1	2.4	2.9	2.7	1.0	1.1
Other products	10.4	15.1	13.1	17.7	22.0	20.0

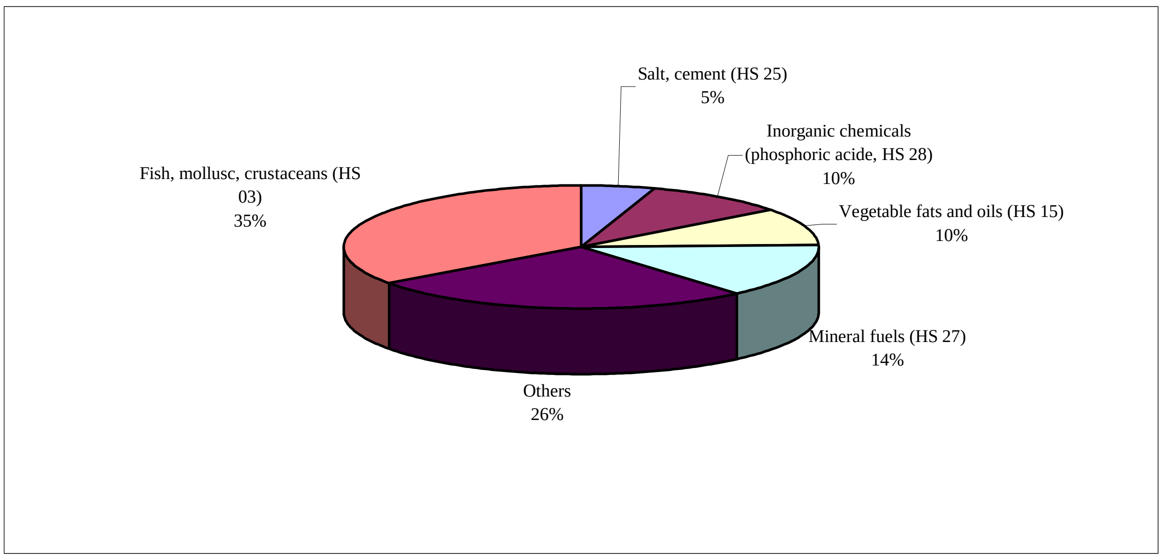
Source: Senegal Department of Statistics.

Between 1997 and 2000, 81 percent of Senegalese exports—including its most important export, fish and fish products—faced a below-average growth in the world market; excluding fuels exports, this share was 94 percent. This can be seen clearly from Figure

1.4[9], which shows that most of Senegalese exports are positioned below the heavy horizontal line that represents the average growth in world exports (5.8 percent) during that period. Only exports of fuels, mechanical appliances, and plastics grew faster than the world average.

Although the products that Senegal exports are not very dynamic in world markets, most of them have grown faster than the average growth in the world markets for those particular products. This can be seen by the number and size of bubbles[10] that are to the right of the dotted line (points on the dotted line are where world and Senegalese export growth rates are the same). In fact more than 78 percent of Senegal's exports at the 2-digit HS level in 2000 had experienced a more rapid growth than the growth in world markets for these products between 1997 and 2000. An example is groundnut oils, where Senegal's exports grew at around 16 percent per annum on average during that period, while world market growth actually fell at 10 percent per annum.

FIGURE 1.3 PRODUCT STRUCTURE OF SENEGAL EXPORTS, 2000



Source: World Bank, based on data provided by DPS, Dakar

There are some encouraging signs that Senegal may have begun to diversify its export products. The share of many traditional exports—such as phosphoric acid, phosphates, fertilizers and cotton[11]—had fallen, while the share of non-traditional manufactured

[9] The figure is based on ITC (2002), "Export profile of Senegal" See http://www.intracen.org/menus/countries.htm).

[10] The position of the bubbles represent average growth of the 2-digit HS products during 1997-2000, while the size of the bubbles represent the dollar value of the 2-digit HS products in 2000.

[11] Around 25 million dollars of cotton were exported in 1995. By the year 2000, exports of cotton were only 8 million dollars. Note that the world market for cotton has been declining at an annual rate of almost 15 percent.

exports had doubled from 10 to 20 percent between 1995-2000 (Table 1.5).[12] In particular, the non-traditional exports that have seen an increase are machinery and mechanical appliance which rose fivefold between 1996-2000 to reach 1.5 percent of export. Plastic products grew 3 and a half times in dollar terms between 1997 and 2000, with its share in total exports rising from 0.5 percent to 2 percent. Some of the non-traditional exports that have emerged in the last few years have been the direct result of Foreign Direct Investment (FDI), in particular exports of cosmetics, perfumery and soaps[13], whose share in total exports has increased more than 10-fold in dollar terms between 1996 and 2000, from around US$ 2m. to around US$ 22m.[14] Most of the non-traditional exports are destined for the African market. In fact, compared to other Sub-Saharan African countries, more of Senegal's exports go to Africa (27 percent compared with the SSA average of 7.6 percent[15]).

FDI could also help boost those exports, which have good potential, notably horticultural exports. For example, FDI from France has helped boost Cote d'Ivoire's exports of such products. The potential of such exports in Senegal arises from the preferential access to EU markets as well as the potential for higher output of these products in Senegal. The fruits are mainly mangoes, watermelons, currants and gooseberries, while the bulk of the vegetables are tomatoes, beans and to a lesser extent mushrooms, celery, potatoes and spinach. The share of fruit and vegetable exports in Senegal was only around 1 percent in 2000. The difficulty in meeting standards (see section 1.5) has constrained fruits and vegetable exports. Other constraints are discussed in chapter 3.

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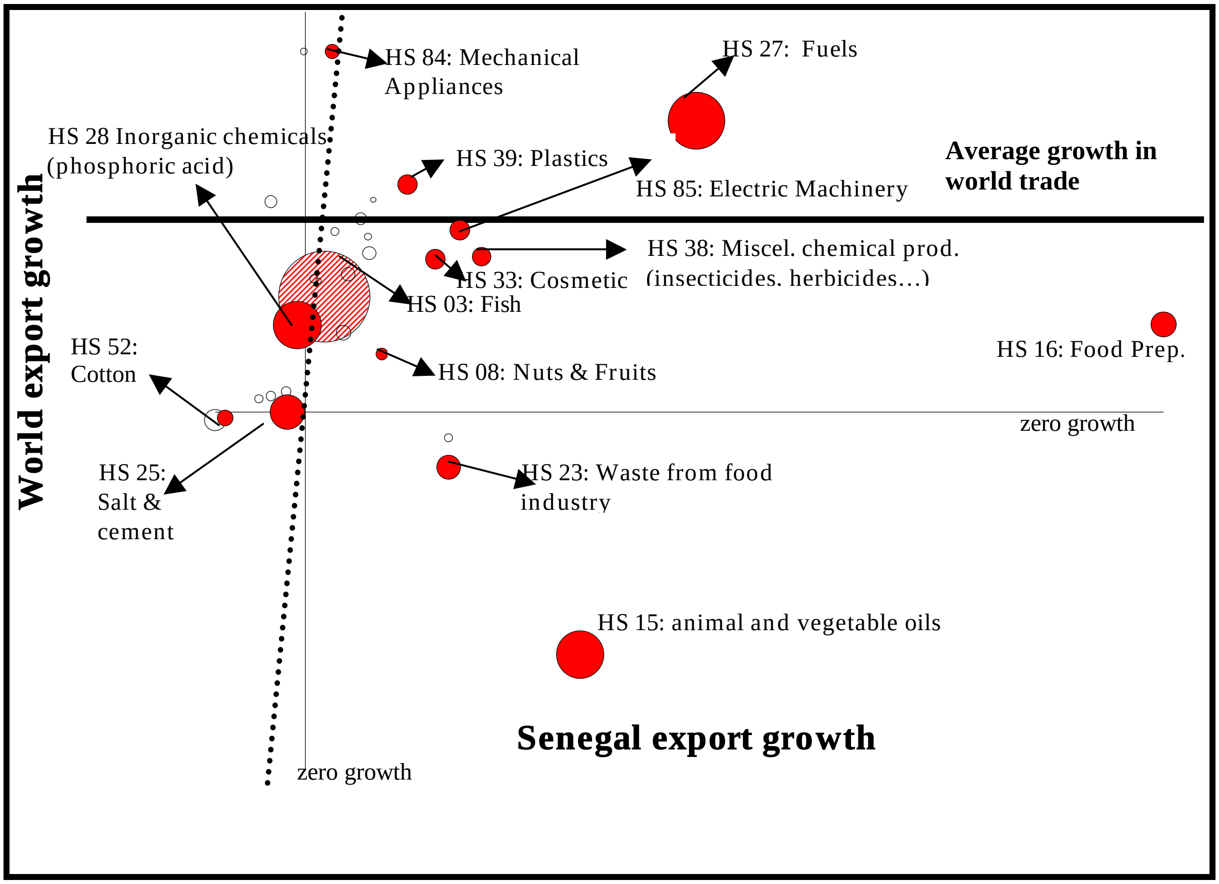
[12] See DPS (1999, 2000), "Note d'Analyse du Commerce Exterieur", Bureau du Commerce Extérieur et de la balance de paiement, DPS, Dakar.

[13] These are products under HS 33-34. Source of the data for 1996 is UN Comtrade, and for 2000 is the Senegal Department of Statistics.

[14] Colgate-Palmolive has been operating two plants in Senegal since the mid-90s with a 99 percent ownership, producing mainly soap (60 percent of their production). Parke Davis (a subsidiary of the Canadian group Warner-Lambert) produces mainly medicines, with 80 percent of its production being exported to Sub-Saharan Africa. Indian operators have a 25 percent interest in Industries Chimiques du Senegal (IDCS) and 99 percent in Société Africaine d'Expansion Chimiques. In the fuel sectors, there is Shell, Elf, Total and Mobil. In the fishing and mining sector there is also foreign presence. DREE (2001), « Le commerce exterieur du Sénégal au premier semester 2001", Ambassade de France

[15] From International Trade Statistics, WTO (2001).

FIGURE 1.4 SENEGAL'S RELATIVE EXPORT PERFORMANCE BY PRODUCT, 1997-2000



Source: World Bank based on data provided by DPS, Dakar and UN's Comtrade.

The diversification of export products has helped in the diversification of export markets, which have been quite concentrated. Around 70 percent of fish exports go to the European Union (EU), or, in other words, around one-quarter of total Senegalese exports are fish and crustaceans to the EU. More than 90 percent of vegetable oils goes to the European Union, half of which to France. More than 45 percent of petroleum product exports goes to Mali, Gambia and Liberia. All phosphoric acid exports, and 45 percent of salt and cement exports, go to India. Senegal's exports to other WAEMU countries (which absorbed 13 percent of Senegalese exports in 2000) are as concentrated, with the top five products (petroleum products, salt and cement, chemical products, fertilizers and fish) making up 73 percent of such exports. There has, however, been a decline in the importance of Senegal's top two export partners. The combined shares of exports to France and India has fallen from 38 percent in 1997 to around 32 percent in 2000, with the decline in the share of exports to France being made up by rising shares of exports to other EU countries.

TABLE 1.6. DESTINATION OF SENEGALESE EXPORTS (PERCENTAGE OF TOTAL EXPORTS)

Destination	1997	1998	1999	2000
Africa	26.03	27.46	25.96	27.13
of which: WAEMU	14.64	13.21	14.05	12.82
Mali	5.47	5.27	5.24	6.42
Cote d'Ivoire	4.21	3.87	3.59	2.42
Other Africa	11.40	14.26	11.91	14.31
EU	43.34	41.51	44.80	46.77
of which: France	23.78	18.70	17.91	19.08
US	0.22	0.43	0.20	0.52
Japan	1.22	0.93	2.86	1.24
India	14.60	17.36	16.13	12.71
Others	14.59	12.30	10.05	11.64

Source: Senegal Department of Statistics.

Since one of the main reasons for the weak performance of Senegal's exports is their concentration in terms of products, diversification of exports would be important for boosting Senegal's export performance. Attracting more FDI would help in this regard, as it has already been playing an important role in diversifying exports in Senegal. Experience of other developing countries shows that FDI could be a powerful conduit to attract foreign technology, know-how, and marketing and distribution networks that could help position domestic producers in global production networks. Chapter 2 discusses some of the main issues in Senegal with respect to attracting investments, both domestic and foreign.

BOX 1.2 TRADE STATISTICS

There is a large mismatch between Senegal's exports reported to United Nations' COMTRADE and its actual exports. 1999 exports reported to COMTRADE (2000 exports are not reported to date) were 407 million dollars, whereas Senegal's Department of Statistics reported exports close to 800 million dollars. The main source of divergence is partial reporting in COMTRADE of fish exports and exports of phosphates to India. This report uses Department of Statistics' export data for 2000 (data for 2001 was not available at the time the report was written). There is no such issue with import data, which is consistent across different sources. The report uses import data from the Directorate of Customs.

1.3 TRADE POLICY

Senegal has a relatively open and transparent trade regime as a result of reforms in the latter half of the 1990s, including the adoption of the WAEMU Common External Tariff (CET) in 1999[16] (see below). Between 1993 (the last time when the WTO did a Trade Policy Review for Senegal) and 2001, Senegal reduced its average tariff from 36 to 14 percent and tariff dispersion[17] from 18 to 7 percent; reduced tariff peaks from 70 percent to 42 percent; eliminated import quotas and licenses (5 and 10 percent of tariff lines, respectively, were subject to quotas and licenses in 1993); and significantly reduced the clearance time for imports from an average of 3-4 weeks to one week on average.[18] There are no export taxes and subsidies in Senegal. The most important main remaining trade barriers are import tariffs and surtaxes, as discussed next.

1.3.1 External Tariffs and other Import Taxes

The adoption of the WAEMU Common External Tariff (CET) in 1999 streamlined Senegal's differentiated tariff structure and reduced tariffs on imports. Combining the CET with other import taxes (see Box 1.3), Senegal has an average tariff of 14 percent, which is similar to the average for developing countries but significantly lower than the Sub-Saharan average (Figure 1.5). In 2001, collected trade taxes represented only 10 percent of total import value (and 22 percent of government revenue). Tariff peaks are at 42 percent for all products subject to the other import taxes because of import surtaxes, which exceed the 22 percent rate under the WAEMU common regime (Table 1.7).

On average there is not much escalation in Senegal's tariff structure (an indication of the extent that effective protection exceeds nominal protection) when measured by the stage of processing: 13 percent on raw materials, 12 percent on intermediate goods and 16 percent on finished products (Table 1.8). There are some exceptions, however, notably in textiles, paper and paper products, petroleum and coal products, iron and steel and non-ferrous metals where import taxes on raw materials are around half those on processed goods (Figure 1.6). There is also significant escalation when Senegal's tariff structure is measured by function: tariffs are 9 percent on capital goods,[19] 12 percent on intermediate goods; and 20 percent on consumer goods.

[16] Senegal is also a member of ECOWAS, which comprises Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Sierra Leone and Togo. At the moment, however, Senegal does not grant any trade preferences to non-WAEMU ECOWAS members.
[17] As measured by the standard deviation of tariffs.
[18] Information for 1993 is from the GATT Trade Policy Review published in 1994.
[19] There are tariffs on capital goods despite zero tariff for such goods under the WAEMU CET because the latter is only applicable to capital goods not produced locally.

BOX 1.3. THE CET AND OTHER IMPORT TAXES IN SENEGAL

Imports into Senegal face the following common WAEMU taxes: (i) the Common External Tariff (CET); (ii) the "Taxe Dégressive de Protection" (TDP); (iii) the "Taxe Conjoncturelle à l' Exportation" (TCI); (iv) a 1 percent statistical tax (that replaced the 5 percent stamp tax); and (v) a 1 percent "Prélèvement communautaire de solidarité" (to compensate WAEMU members from tariff revenue losses arising from the implementation of the CET). To the extent that the TDP and TCI have safeguard (or anti-dumping) objectives, and that in the case of TCI, customs valuation is not transparent, it is not clear whether these taxes are WTO consistent.

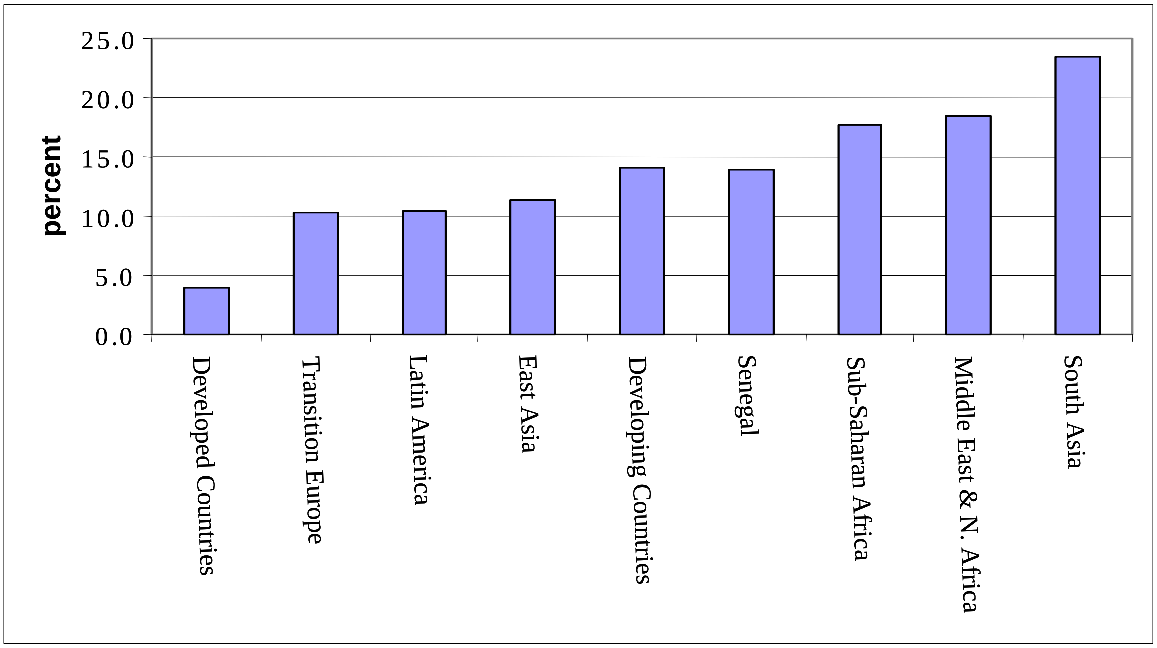
The CET has four rates: (i) zero tariff on social, cultural, scientific goods, agriculture inputs, capital goods, computer and data equipment that is not available through local production; (ii) 5 percent tariff on raw materials, crude oil and cereals for industrial use; (iii) 10 percent tariff on intermediate goods, diesel and fuel oil and other cereals; and (iv) 20 percent on consumer goods.

As in a number of other WAEMU countries, the applicable tariff deviates from the WAEMU CET. In Senegal's case, the deviations arise from: (i) a 20 percent surtax on imports of onions, potatoes, bananas, cigarettes and rice and a 10 percent surtax on some cereals products such as mil and sorgho; and (ii) 798 tariff lines (out of a total of 5868) that do not have a tariff line in the WAEMU's CET. The situation with respect to additional tariff lines is worse in Senegal than in many other WAEMU countries—for example, there are no additional tariff lines in Burkina Faso, 17 in Togo, 31 in Mali, 47 in Benin, and 389 in Cote d'Ivoire. However, the tariffs on these additional tariff lines do not appear to be excessive. In 2000, Senegal registered imports in 243 of the 800 tariff lines, with average collected duty on them being 9.3 percent for WEAMU imports and 9.1 percent for non-WAEMU imports.

The TDP, which is to be phased out by 2003, was created to compensate domestic firms for the reduction in protection levels associated with the introduction of CET. According to WAEMU decisions, the TDP can be applied to tobacco, matches, tomato paste, candies, batteries, powdered milk and candies, and rates were to be reduced from 25 to 15 percent in 2002, although WAEMU regulations requires the TDP to be 10 percent by January 1, 2002 (see www.uemoa.int). The implementation of the TDP is left to the discretion of member countries, and Senegal only applied the TDP on cigarette imports until recently, when it was suspended. There are presently some pressures to reapply the TDP on cigarettes and some other commodities (e.g. milk, matches, etc.), which would be inconsistent with the phase out of the TDP by January 2003.

The TCI was intended to protect local producers from large variations in world prices and to counter-act unfair trade practices, and as such combines the notions of a safeguard clause, a countervailing duty and a anti-dumping duty. It can be applied to a number of commodities (such as vegetables, rice, onions, potatoes, sugar and flour) at a 10 percent rate when world prices drop and threaten local producers. The trigger for the application of the TCI is defined as the weighted average of the import price (30 percent weight) and the production costs in the domestic market (70 percent weight). This trigger, however, appears to be determined in a non-transparent way (e.g. how the weights were chosen), and its application is complicated given the difficulty in determining local costs of production. In practice, the TCI is applied in Senegal only on imports of sugar. It was rarely applied in 2001 since import prices for sugar were above the trigger price that year. However, the TCI does have protectionist effect, because exporters and importers would agree to raise the export price until it is above the trigger price and share what would have otherwise be transferred to the government. At present, there appears to be pressure to introduce the TCI on imports of footwear (especially plastic), cosmetics, biscuits, sweets, matches, wheat flour, milk, tea etc.

FIGURE 1.5 AVERAGE TARIFFS IN SENEGAL AND OTHER REGIONS



Note: For Senegal, 2001 data is used; for the other years, the data is from various years between 1996-2000.
Source: WTO and Senegalese data.

TABLE 1.7. KEY FEATURES OF WAEMU'S CET TARIFFS AND OTHER IMPORT DUTIES IN SENEGAL, 2002

Number of rates	4 (14 including deviations from CET)
Simple average tariff (standard deviation)	14% (7%)
Import-weighted tariff (standard deviation)	13% (10%)
Simple average collected duties	14%
Import-weighted collected duties	10%
Duty-free lines	75
Maximum tariff	20% (42% including deviations from CET)
Domestic tariff "spikes" (three times the overall tariff average)	0 (11 at 42% including deviations from CET)
Share of *ad valorem* rates	100%
Share of bound rates	39%
Unweighted tariffs on agricultural products (import-weighted)	18% (21%)
Unweighted tariffs on industrial products (import-weighted)	13% (10%)

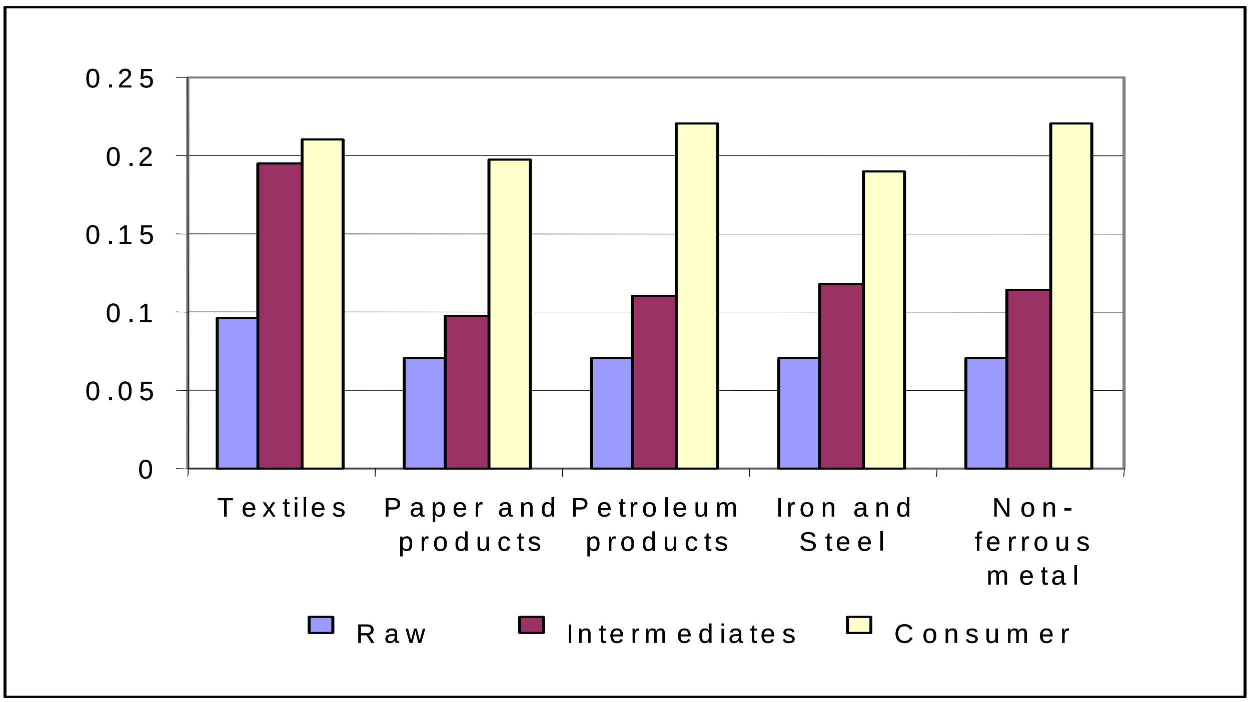
Note: Import weights used are for the year 2001. Agricultural products are those in HS 1-24, and Industrial products are those in HS 25-97.
Source: World Bank based on data provided by Direction Générales des Douanes, Dakar.

TABLE 1.8. MFN IMPORT TAXES (SIMPLE AVERAGE) BY STAGE OF PROCESSING, 2002

	External Tariffs 2001
All products	14 (7)
By stage of processing:	
Raw materials	13 (7)
Intermediate goods	12 (6)
Processed goods	16 (7)
By function:	
Capital goods	9 (5)
Intermediate goods	12 (6)
Consumer goods	20 (5)

Note: The standard deviation is in brackets
Source: World Bank based on data provided by Direction Générales des Douanes, Dakar.

FIGURE 1.6 TARIFF ESCALATIONS IN SELECTED INDUSTRIES, 2002



Source: World Bank based on data at the ISIC 3-digit level provided by Direction Générale des Douanes, Dakar.

1.3.2 WAEMU's Internal Tariffs

Although Senegal has bilateral and preferential trade agreements with several countries in the African continent, in practice in 2002 the only countries that have preferential access to Senegalese markets are WAEMU members. The preferential tariffs that Senegal applies to its imports from the WAEMU are as follows: (i) zero tariff for raw materials ("produits du cru") of WAEMU origin; (ii) zero tariffs for a list of processed goods ("produits agrees") that satisfy a complicated and rather arbitrary rule of origin that is firm and product specific;[20] and (iii) a 5 percent reduction in the CET for all other products (basically those that do not satisfy the rule of origin).

While the CET is functioning for the WAEMU, a free trade area within the WAEMU is far from being achieved because, in practice, the tariff preferences that are given are very small. This can be seen from the fact that for those products[21] that Senegal imports from both WAEMU and non-WAEMU countries[22], the average collected duties are 13 and 16 percent, respectively, with this 3 percent difference in average collected duties being lower than the 5 percent preference that the WAEMU imports should at least be eligible for. Another indication that WAEMU imports are actually not benefiting from preferences can be seen in the information provided in Box 1.3 on the difference in duty collection between WAEMU and non-WAEMU imports (9.3 and 9.1 percent, respectively) from the tariff lines that are outside of the CET tariff lines. For these tariff lines, WAEMU imports are actually experiencing negative preferences (partly due to a larger proportion of non-WAEMU imports being exempted under other regimes). However, the share of imports from WAEMU is small, representing less than 5 percent of total imports in 2001, with tariff revenues collected on these imports being less than 1 percent of total customs revenue (including VAT).

The main reason for the small tariff preferences that are actually being applied are complicated and arbitrary rules of origin. WAEMU is planning to introduce a new rule of origin system based on best practices—the rule of origin is met so long as inputs are outside of the 4-digit HS code of the final product. This new system is expected to be in place by 2004, and could potentially lead to internal free trade for all products. However, administration of the system would still not be easy and would still strain the capacity of the government.

In addition to the new rule of origin system, WAEMU is also considering other measures to facilitate trade, amongst which is the creation of an “Observatoire” to tackle smuggling, corruption and police blockades. The effectiveness of such an agency remains to be seen, as it hinges on the ability of the employees of the “Observatoire” (it remains to be determined how they will be selected) to supervise customs and police behavior (which are the main source of the problems mentioned). Separately, efforts are being made to reduce smuggling through the establishment of 11 joint customs offices at the border between Burkina Faso and Senegal, and between Senegal and Mali. The Burkina Faso-Togo border is also being considered for one of the joint customs offices.

As is the case with a rule of origin system (even with an improved one), these other measures all require administrative resources which will strain the capacity of Senegal as well other WAEMU members. A better option for attaining truly free trade among the WAEMU members is to establish a customs union among them. This would do away with the administrative burden arising from rules of origin, as well as the other

[20] There were 227 such products in 1999; in 2000 an additional 117 were added. For more information on such products see UEMOA Acte Additionnel no. 04/96, 01/97, 04/98 and Decisions 01/99/COM/UEMOA and 01/2001/CM/UEMOA.

[21] At the 10-digit HS level.

[22] Such imports make up 7 percent of Senegal’s tariff lines at the 10 digit HS level.

border issues just mentioned that are hindering trade among the WAEMU members. One of the key issues that need to be addressed in establishing a customs union is the working out of a import revenue-sharing mechanism among the WAEMU members. A model that has worked in SSA is the South African Customs Union. The tricky issue of origin will then only emerge once trade preferences are extended to other countries.

1.3.3 Tariff Exemptions

Tariff exemptions remain large in Senegal, notwithstanding recent declines. In 1998, they amounted to 28 percent of customs revenues, which was much higher than the best practice in the region (6 percent in South Africa).[23] With recent reforms, in particular the reduction of tariffs on capital goods to zero, subsequent changes in the investment code, and a significant reduction in the use of discretionary power granted to the Finance Minister, the amount of customs revenues foregone due to tariff exemptions has dropped to 19 percent in 2001. More than half of this foregone revenue is associated with concessions granted under the Investment Code.

1.3.4 Domestic Taxes

The VAT is applied at a unified rate of 18 percent, but exempts a number of agricultural products (groundnuts, cereals, fresh vegetables, fresh meat, fresh fish, eggs and potatoes) which therefore cannot deduct the VAT paid on their inputs. There is one domestic tax in Senegal that discriminates against imports. This is the excise tax (*droit d'accises*) on cigarettes which is set at 15 percent for domestic cigarettes (or cigarettes "*dites economiques*") while all imported cigarettes pay a 30 percent excise tax. This differentiation in excise tax violates WAEMU directives.

1.3.5 Non-tariff barriers (NTBs)

As earlier mentioned, Senegal no longer has import or export quotas, and has also eliminated import and export licensing. There are a few other administrative requirements that pertain to trade, although none are very significant and do not really obstruct trade. One is the requirement that traders obtain identification cards which, though not particularly onerous, is not really necessary. Abolition of this requirement could also save the associated administrative costs. There are some labeling and marketing requirements that are not particularly problematic: canned and preserved food intended for human consumption must be marked with the country of origin, and the manufacture and expiration date in French. The label and the expiration date for other non-food consumer products must also be in French. Standards requirements are light. Only 7 products at the 10-digit HS level are subject to standards inspection (Senegalese standards are mostly derived from the French system), mainly for health reasons (vegetables and products that could harm the ozone layer).

There are no official import or export monopolies. The lack of credit for farmers has led to a quasi-monopoly in the export of groundnut products, but a new firm has recently

[23] Hinkle, Lawrence and Alberto Herrou-Aragon, "How far did Africa's first generation trade reforms go?", the World Bank, mimeo, 2001.

emerged (see Chapter 3) and has put some pressure on that monopoly, particularly for the export of edible groundnuts.

1.4 WTO IMPLEMENTATION

Senegal has 39 percent of its tariff lines bound in the WTO after the Uruguay Round, including all agriculture products. Senegal's average MFN bound tariff on agricultural goods is approximately 30 percent. Duties and charges also apply for some commodities, up to a level of 150 percent, providing for a significant level of protection. However, given that Senegal's MFN tariffs are determined by the CET, the average applied rates for agricultural products are much lower—only 18 percent. 37 percent of industrial products are bound,[24] most of which occur in transport equipment and machinery (electric and non-electric).[25]

The recent reclassification of Senegal as an LDC has no practical implication for its agriculture sector since Senegal does not provide export subsidies for its agricultural products, and has not provided any domestic support under any of the special and differential provisions applying to developing countries (LDCs are exempt from all commitments on agriculture). However, the reclassification could, in principle, grant Senegal greater market access under programs such as the EU initiative "Everything, But Arms", although in reality Senegal has so far not benefited (see next section on market access). Also, the reclassification will make Senegal eligible for more favorable Special and Differential Treatment (S&D) under the WTO Agreements.

Some of the key features with respect to Senegal's commitments in the service sectors are as follows:

- In *telecommunications*, Senegal lists limitations on market access in relation to commercial presence and cross-border supply in the area of basic telecommunication services, paging services and mobile cellular services, reflecting Sonatel's monopoly in local and long-distance traffic until 2003. There are no limitations on national treatment.

- In *banking*, restrictions are listed in relation to commercial presence. For example, banks must be public limited companies, and lending operations may only be carried out by approved banks or financial establishments. All other modes of supply (cross-border supply, consumption abroad, presence of natural persons) are unbound. Senegal also lists this sector as not falling under the General Agreement of Trade in Services (GATS) MFN principles ("an MFN exemption" in the GATS jargon), and has concluded preferential arrangements in the context of ECOWAS, WAEMU, and the Inter-African Insurance Market Conference, with the stated intention of achieving a competitive position.

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[24] Finger, Michael, Merlinda Ingco and Ulrich Reincke, "The Uruguay Round: statistics on tariff concessions given and received", the World Bank, 1996.
[25] Senegal's binding commitments go beyond the average for Sub-Saharan Africa.

- In *tourism and travel-related services,* there is a licensing requirement regarding commercial presence, but no other restrictions are inscribed in the schedule. Senegal has a bilateral open-skies agreement with the USA, and is party to a regional liberal agreement.

- *Maritime services* are inscribed in Senegal's schedule of MFN exempted sectors, for the stated objectives of stimulating regional trade, promoting the national shipping liner, promoting exports, and protecting infant industries.

The WTO has undertaken 25 activities in which Senegal has been a beneficiary. Three activities have taken place in Senegal itself: setting up a reference center, SPS and customs valuation.[26]

1.5 MARKET ACCESS

Senegal faces relatively high constraints on its export bundle both in developed and developing countries. Protection in some of these markets may have been a constraint on export diversification in Senegal.

1.5.1 Constraints faced by exporters to QUAD markets

Senegal faces both tariff and non-tariff barriers on its exports to QUAD markets, some of which are quite significant. The key non-tariff barrier is stringent standards imposed by importing countries. Such tariff and non-tariff constraints are discussed next.

Tariff Constraints

Although the average tariffs faced by Senegalese exports to the QUAD countries are quite low, access to QUAD markets has been constrained by: (i) tariff peaks on certain products; (ii) stringent rules of origin such that trade preferences granted by the QUAD countries do not really facilitate market access; and (iii) preferences not being granted for products that Senegal exports. These are discussed, in turn, next.

The average tariffs faced by Senegal’s export products in QUAD markets (in the absence of preferences) are 4.3 percent in Canada, 6.6 percent in the EU, 4.2 percent in Japan and 3.5 percent in the U.S.[27] However, given the composition of exports, the potential tariff revenue by QUAD countries on imports from Senegal may be quite high. Potential tariff

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[26] The Customs Valuation agreement has now been implemented by Senegal after getting an 18 months waiver which expired June 2001.

[27] These average tariffs are calculated using all products exported by Senegal, and not only those that are exported to the QUAD. If exports to each QUAD market is used to calculate the tariffs instead, average tariffs are 2.2 percent in Canada (0.6 percent under LDC regime), 5 percent in the EU (and 0 percent under EBA), 3.7 percent in Japan (2.5 under LDC regime) and 2.5 percent in the US (1.5 percent under AGOA and LDC regime).

collection in the EU may represent 9.2 percent of exports to the EU, 7 percent of exports to Japan.

The high potential tariff collection arises from significant tariff peaks for certain products faced by Senegalese exports. Such peaks could be very high even after LDC preferences[28] granted by the QUAD countries are taken into account. For example, even with LDC preferences, Canada imposes a 49 percent tariff on sausage imports and a 65 percent tariff on liver preparation imports from Senegal (without the preferences the tariff would have been 70 percent). Senegalese exports face maximum tariffs of 50 percent in Japan; LDC preferences granted for boneless beef reduce such tariffs to 40 percent for Senegal. The maximum tariff rate in the U.S.—applied to homogenized and reconstituted tobacco—is 88 percent under the MFN, the LDC and the African Growth and Opportunity Act (AGOA) regimes. In light of these tariff peaks, it is not surprising that Senegal does not export any of these products to any of the QUAD countries, although aside from high tariffs, the difficulty for Senegal in meeting certain product standards has also been a reason (see below).

In some instances, trade preferences do—in principle—substantially reduce tariffs facing Senegalese exports. In fact, all QUAD countries grant some preferential access to Senegal because of its LDC status. For example, under the EU's LDC and Everything But Arms (EBA, which grants duty and quota-free access in all products except arms, and bananas until 2006, and rice and sugar until 2009) regimes, the tariff on Senegalese mushroom exports is reduced from 90 percent to zero. EBA preferences also reduce tariffs on canned tuna and other preserved fish from 15 percent to zero. However, stringent rules of origin in the EU could prevent Senegal from taking advantage of such preferences. There is no data on how the EBA initiative has eased market access for Senegal, although the experience of other countries with preferential regimes granted by the EU has not been positive. This is because complex and very costly rules of origin imposed by the EU have made obtaining preferential access almost impossible, especially for low-income countries with little administrative capacity.[29]

The other problem facing Senegal is that preferences are sometimes granted for products that it does not export. For instance, the United States grants preferential access to Senegal under both AGOA and the US LDC preferential regime. But, in 2001, no exports to the US benefited from AGOA preferences and only half a million entered through the LDC regime.

Standards

The main non-tariff barrier facing Senegalese exports is stringent standards imposed by the importing countries. Such standards have constrained Senegal's ability to diversify

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[28] These are trade preferences granted by both developed and developing countries to the least developed countries (LDCs).

[29] As an example, 84 percent of Albanian exports to the EU were eligible for preferential access to the EU under GSP, but only 2 percent were actually granted preferential treatment. See Paul Brenton and Miriam Manchin (2002), "Making the EU trade agreements work: the role of rules of origin", CEPS working document #183.

exports, in particular its ability to exploit its potential in fruit and vegetable exports. Japan and the U.S. subject imports of vegetables and fruits to fumigation requirements. The cost of fumigation is very high, especially for small producers, and there is very little technical assistance provided to Senegal at the moment, making it very difficult for Senegal to export fruits and vegetables to the U.S. market. In July 2000, the EU introduced a law into practice (part of the "zero risk" policy) on the maximum amount of pesticide residuals for fruits and vegetables. This maximum has been set at very low levels for some pesticides, and for those that have not been analyzed, the admitted level is nil. Sofar, this policy has led to the suspension of imports into the EU from 43 countries.

The EU also imposes stringent aflatoxin standards on imports of nuts. To satisfy EU standards, Senegalese producers are going through careful selection of nuts at the field level so that broken and immature pods are eliminated, and have invested in adequate storage facilities to minimize the risk of aflatoxin contamination. The Food Technology Institute (ITA) in Senegal has created a laboratory specifically for microtoxins and the World Bank is providing support in obtaining ISO certification.

As in the case of groundnut exports, fish exports from Senegal has also been relatively successful in overcoming stringent sanitary import standards. The Bureau de Contrôle des Produits Halieutiques (BCPH) in Senegal is responsible for the quality of fish products. It oversees production processes in Senegal and provides certification for foreign markets requirements. Self-control of product quality by Senegalese firms in the fish sector is also common with the assistance of different laboratories [30].

1.5.2 Tariff Constraints Faced by Exporters to Other WAEMU Countries

More than 12 percent of Senegal's exports go to other WAEMU countries (Table 5). As discussed in section 1.3, intra-WAEMU trade is far from free given meager regional preferences and the many exceptions to the CET. Even for those industrial products that are part of the list of "produits agrees", Senegalese exporters have difficulty getting the products accepted by Mali customs authorities.[31] One major problem is that half the tariff lines in Mali carry specific Malian tariffs (including Mali's "impôt special sur certains produits") rather than the CET. Few Senegalese companies have been "agrée" on products exported to Mali. [32]

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[30] Institut Technologique Alimentaire, ITA, Laboratoire d'hygiène et industries des denrées alimentaires d'origine animale de l'Ecole vétérinaire de Dakar, le Laboratoire d'analyses et d'essais de l'Ecole Supérieure Polytechnique and Laboratoire d'hygiène et environment de l'Institut Pasteur

[31] See WAEMU(2001), « Note sur l'etat d'application par les etats members des decisions et measures de reformes prises au sein de l'Union", WAEMUcommission, Novembre 2001. Malian authorities claim that the "declaration de sortie" of Senegal customs does not allow Malian authorities to know whether the common external tariffs of WAEMU were paid on imported inputs from third countries.

[32] While the Industrie Chimiques du Senegal has obtained a WAEMU "agrée" status for its exports of NPK (a fertilizer), no Senegalese company has received such a status for its exports of insecticides or herbicides. Senegal exports US$7.3m. and US$2.1m., respectively, of these

Petroleum oil is one of Senegal's main export products to Mali (around US$25 m., or half of Senegal's exports to Mali), but *Elf-Oil Senegal* is the only company that made it to the list of "produits agrées", thus avoiding the CET rate of 12 percent. No Senegalese cement company has obtained the "produit agrée" status, although Senegal exports more than US$ 4.5 m. of hydraulic cement to WAEMU countries (mainly Mali) and pays the 22 percent TEC. The case is similar with salt, for which the CET rate of 7 percent applies to the US$ 5.5m. Senegal salt exports to Côte d'Ivoire.

Deepening the WAEMU integration could significantly help Senegalese exports. As discussed in section 1.3, replacing the system of "produits agrees" by a simple rule of origin might be able to help, although a better option would be to move to fully free intra-WAEMU trade by the establishment of a customs union.

1.5.3 Constraints Faced by Exporters to Other Markets

India is Senegal's second largest export partner and absorbs 12 percent of Senegal's exports. Three products represent 85 percent of Senegal exports to India: phosphoric acid ($67 m.), natural calcium phosphate ($14 m.) and unshelled cashew nuts ($4 m.) India has had a very protective trade regime, although it has been reducing import protection over the last decade; in 1998, the last year for which data is available, the average tariff in India was 35 percent, with tariff peaks of 260 percent. Senegal's exports of unshelled cashew nuts and natural calcium phosphate to India face zero tariffs, but its phosphoric acid exports face a 35 percent tariff.

Other countries also represent a large part of Senegal exports. Gambia, Mauritania and China account together for 8 percent of Senegal exports. It appears that Senegal exporters may in general benefit from reductions in tariffs in developing countries other than WAEMU. Senegal could try to achieve this through multilateral trade negotiations.

Exports to ECOWAS members that are not members of the WAEMU could over time also benefit from trade preferences. Nogotiations towards this end should be undertaken, but in the first instance it would be worthwhile to ensure that the preferences that are presently on the books are effectively granted at the border, which so far is not the case.

1.6 RECOMMENDATIONS FOR A BETTER TRADE POLICY

a. Policies that Senegal should be taking by itself:

- Eliminate tariff lines that are not consistent with WAEMU CET schedules according to a pre-announced timetable.

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products, of which exports to Mali represents 50 and 99 percent. For these two commodities, Aventis Cropscience of Côte d'Ivoire was granted the "agree" status, giving it quite a competitive margin over Senegalese firms in the region for these two products.

- Eliminate the discrimination that the excise tax (droit d'accisses) regime imposes on imported cigarettes which is inconsistent with WTO and WAEMU agreements..
- The capacity of the Institut Sénégalais de Normalisation (ISN) should be increased and cooperation with the private sector in the formulation of standards should be encouraged. Technical assistance and aid would be necessary to reinforce the ISN.
- Fully operationalize the newly created "Comité Nationale des Négociations Commerciales Internationales". This is an inter-ministerial committee that provides a forum for both the public and private sector to discuss and formulate policy advice on WTO and WAEMU issues.
- Replace the current Investment Code by the one being proposed by the WAEMU and extend zero tariffs to all legitimate imports of capital goods, as defined by the generally accepted definition of these goods. .

b. Policies to be taken in the WAEMU context:

- Work towards a customs union for WAEMU (the loss of revenues as a result would be below 1 percent of 2001 customs revenues.) This would require the working out of an import revenue sharing mechanism among WAEMU members. In the meantime, phase out the system of "produits agrées" and replace it with a more efficient system of rules of origin as discussed. Technical assistance will be needed for the elaboration of the necessary legislation and training for customs staff on this new rules of origin system.
- Replace the TDP and TCI at the WAEMU by WTO-consistent safeguard instruments. At the very least, avoid the extension of these instruments to new products and adhere to the timetable for the elimination of the TDP. In the meantime, the formula used to determine the trigger price in the case of the TCI could be made more transparent, such as by using the simple average of domestic prices and the average import prices in the EU.
- Change the CET to correct negative escalation particularly for the food and textile industries in light of their high potential for development in Senegal.
- Solicit TA to assist in the negotiations with the EU under the Regional and Economic Partenariat Agreement (REPA). This would also help Senegal to better participate in the ongoing WTO negotiations.

c. Policies that will require multilateral negotiations.

- The benefits to be derived from the European EBA initiative are restricted by stringent rules of origin; the EU should document and monitor the trade flows that benefit from this agreement. Senegal should join with other countries in arguing for the simplification of these rules.
- Together with other LDCs press Canada, Japan and the United States to follow the example of the EU's EBA initiative to grant duty free access to all products and not only some selected products
- Initiate negotiations within multilateral rounds to lower trade barriers in other developing courtiers.

1.7 Technical Assistance needs for meeting standards requirements

Technical assistance should be provided to allow Senegalese producers and exporters to meet standards as well as to assist Senegalese trade negotiators to argue for their relaxation where they clearly serve protectionist policies in the importing countries.

To help exporters in the fruit and vegetable sector, a quality control unit could well be created that would be authorized to issue certificates for product quality and pre-export inspection. As in the case of BCPH in the fish sector, such a unit would not perform the analyses by itself but would insure that proper analyses were done and that the results were in conformity with applicable standards. The ITA could provide the necessary capacity to test these products, as in the groundnut and fish sectors, but would need substantial assistance to do so.

The EU could provide TA to allow food exporters in developing countries to meet the capital intensive fumigation requirements would be welcome. Such assistance could be directed to growers associations.

CHAPTER 2
COMPETITIVENESS OF SENEGALESE EXPORTS

The competitiveness of Senegalese exports received a boost with the 1994 devaluation of the CFA. Since then, the real exchange rate has remained relatively constant, but other factors have limited the supply response. Some of the more important factors are: perceived weak governance and a generally more risky investment environment compared with other successful developing countries; difficulty in accessing and high cost of credit; a weak human resource base; and administrative barriers for the creation and operation of firms, some of the more important ones being utility connections, access to land, labor laws and customs procedures. These issues (except for land access which is discussed in Chapter 3), as well as issues relating to institutions that support export development, are discussed in the rest of this chapter.

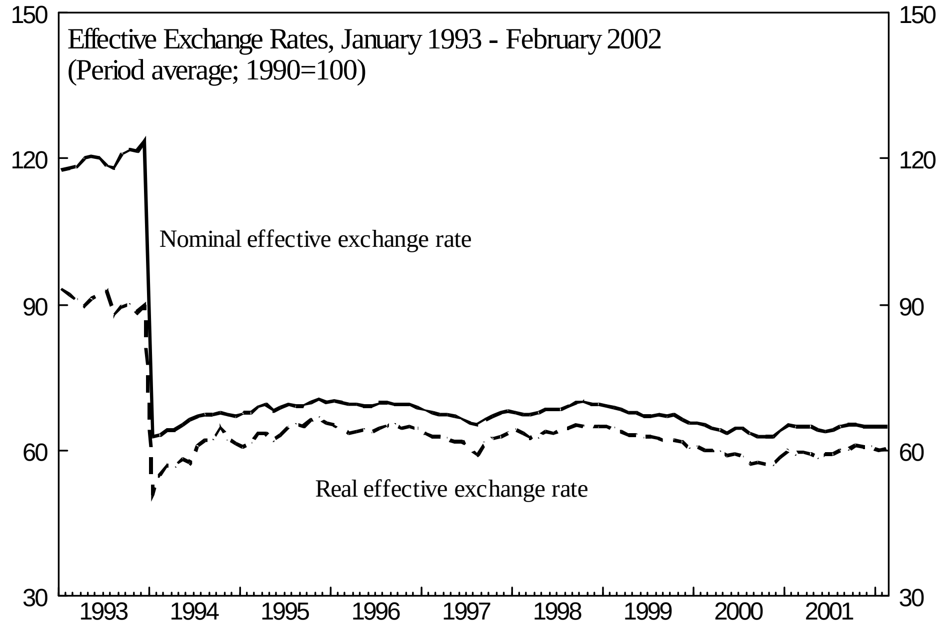
2.1 THE REAL EXCHANGE RATE

The 50 percent devaluation of the CFA franc in January 1994 ended 40 years of nominal exchange rate stability in Senegal, and corrected the overvaluation of the real effective exchange rate (REER) which had led to significant loss of market shares in all WAEMU member countries. Since then, most of the WAEMU countries have reversed the loss of their world market shares. As discussed in Chapter 1, Senegal's market share rose immediately after the 1994 devaluation. The REER has stayed within a narrow band since.

While the limited supply response to the 1994 devaluation has been due to factors other than the REER, as mentioned above, it would still be useful if the Senegalese monitor the country's competitiveness by tracking the REER and other indicators such as world market shares. In other countries, the monitoring of such indicators is commonly done in either the Ministry of Finance or the Central Bank.

Noteworthy is that recent analysis suggests that labor unit costs, after dropping by about 10 percent immediately after the 1994 devaluation, rose against a sample of comparator countries. This development does not seem to be fully captured in the REER calculation. For details see section 2.2.4

FIGURE 2.1 EFFECTIVE EXCHANGE RATES



Source: International Monetary Fund

2.2 MAIN CONSTRAINTS TO OPERATION AND GROWTH OF FIRMS

Improving economic and trade performance in general depends not only on national trade policies, but also on domestic governance performances. A recent World Bank study[33] noted that over 60 percent of the variance in some measures of economic performance, amongst which is export growth, is a function of a country's own policies rather than world trends.

The export performance of any country depends crucially on the business environment. The latter factor is particularly important for attracting foreign direct investment (FDI), which has played an important role in boosting exports in many successful developing countries. Similarly, small and medium enterprises (SMEs)—frequently the backbone of new exports--thrive only in a favorable business environment. Hence, the creation and maintenance of a good business environment should be high on the agenda of any export strategy.

Worldwide ratings by the International Country Risk Guide, Transparency International and the U.N. Human Development Index indicate that with respect to perceptions of governance and certain indicators of human capital, Senegal does poorly compared with some successful developing countries (Table 2.1). Strengthening governance and improving social and human capital indicators are part of Senegal's development agenda, and are long-term propositions. In the meantime, the newly created Investor Council—the *Agence de Promotion des Investissements et des Grands Travaux* (APIX)—and

[33] Francis Ng and Alexander Yeats, "Good governance and trade policy: are they the keys to Africa's global integration and growth?", World Bank, 1999.

the soon-to-be created Export Promotion Agency and the Tourism Board (the "Office du Tourisme") (see section 2.4) should join forces to improve the business environment for Senegalese businessman as well as foreign investors. To assist in this endeavor, UNCTAD-ICC has in princicple agreed to prepare an Investment Guide as has already been done for Bangladesh, Uganda and Mozambique. Senegal should now officially request that the Guide be prepared. These guides—which present the country's investment climate and required procedures and review conditions and investment opportunities for the potential investor—have proven useful in these countries in providing their governments with a sophisticated marketing tool and investors with a credible assessment tool.

TABLE 2.1 FOREIGN INVESTMENT COMPETITIVENESS, SOCIAL AND HUMAN CAPITAL INDICATORS

	ICRG Composite Risk Ratings [2]		Illiteracy rate, adult total (% of people ages 15 and above)			HDI Rank [3]	Corruption Perception Index [4]	Average Export Growth (%)
Countries [1]	**02/ 01**	**03/ 02**	**1985-89**	**1990-94**	**1995-99**	**2001**	**2001**	**95-99**
Malaysia	75.75	75.00	21.66	17.62	14.28	56	5.0	2.5
Tunisia	72.50	73.25	44.74	38.58	32.64	89	5.3	12.7
Poland	76.00	74.50	0.54	0.38	0.30	38	4.1	4.8
Hungary	76.00	74.50	1.08	0.86	0.74	36	5.3	9.2
Benin			75.04	69.82	63.62	147	-	6.2
Burkina Faso	59.50	63.00	85.48	82.30	78.64	159	-	6.2
Cote d'Ivoire	58.00	55.75	69.60	63.34	56.80	144	2.4	5.9
Guinea-Bissau	47.25	49.25	74.38	69.86	64.48	156	-	4.1
Mali	58.25	63.50	78.12	71.46	63.52	153	-	25.8
Niger	58.75	60.00	89.78	87.94	85.68	161	1.0	10.2
Senegal	**66.25**	**64.75**	**73.98**	**69.90**	**65.40**	**145**	**2.9**	**2.6**
Togo	60.00	61.50	57.12	51.64	46.02	128	-	-1.6
Low income	-	-	48.14	44.09	40.09	-	-	4.2
SSA	-	-	53.49	47.66	41.72	-	-	3.8

Notes: (1) Country comparison list is chosen based on a previous paper by the World Bank, "Senegal: The Challenge of Integration", December 1997.
(2) The ICRG (the International Country Risk Guide) is a composite index of perceived country risk that reflects considerations relevant to international investors. A higher value indicates lower risk. Countries that are considered very low risk have 80-100 points, and those considered very high risk have 0-49.5 points. *Source*: www.icrgonline.com.
(3) The HDI (Human Development Index), published annually by the U.N., ranks nations (174 in 2001) according to their citizens' quality of life rather than strictly by a nation's traditional economic figures. The criteria for ranking include life expectancy, adult literacy, school enrolment, educational attainment and per capita GDP.
(4) The Corruption Perception Index is by Transparency International. The index goes from 1 to 10; the lower the number, the higher the perceived level of corruption.

A recent (early 2002) survey of 200 Senegalese firms (25 percent of which are engaged in export production) by APIX and the Foreign Investment Advisory Services (FIAS) of the World Bank found that around three-fourths of the firms rated unfair competition, cost and access to financing as either "very serious" or "major" constraints to operation and the growth of firms (Table 2.2).

TABLE 2.2: MAJOR PERCEIVED CONSTRAINTS TO OPERATION AND GROWTH OF FIRMS (PERCENT OF FIRMS)

	Very Serious Obstacle	Major Obstacle	Average Obstacle	Minor Obstacle
Unfair competition	48	24	13	11
Cost of finance	48	31	16	4
Access to financing	46	29	17	4
Electricity	33	27	23	9
Tax rates and tax administration	31	29	27	6
Corruption	30	21	22	23
Transport (roads, ports, air)	29	26	25	12
Access to land	28	22	27	15
Crime, theft and disorder	27	17	13	35
Macroeconomic instability (inflation, exchange rate)	21	22	30	22
Instability, political uncertainty	19	16	19	26
Business regulations & administrative procedures	15	24	38	19
Telecommunications	10	15	29	26

Source: FIAS and APIX Survey (2002).

2.2.1 The Availability and Cost of Finance

As mentioned, the availability and cost of credit are perceived by Senegalese firms as amongst the most important constraints to their operations. The level of financial intermediation in Senegal is rather low, with about 95 percent of all transactions settled in cash. The settlement of domestic checks takes place with substantial delays, and raises the overall cost of operating capital of all affected firms (see Box 2.1 for a description of the financial system in Senegal).

Exporters generally suffer from a lack of access to credit and where access is provided, credit tends to be expensive. Banks favor short-term credits over medium-term and long-term credit, a situation that prevails in most WAEMU countries. The difficulty of assessing risk explains in part the high credit cost. Data on enterprise finances is very thin. There is no *Banque des Bilans,* nor is there a *Centrale de Risques* or a *Centrale des Incidents de Payments* that would help financial intermediaries assess the risk of the various enterprises and price their financial instruments accordingly. Moreover, the industrial sector is dominated by SMEs, whose business plans and records are often not up to the standards desired by the banks. Banks often do not have the required staff and skills to evaluate the creditworthiness of these SMEs and consequently avoid lending to this sector. An exception are horticultural exporters who have some access to credit to explore foreign markets through the *Projet de Promotion des Exportations Agricoles* (PPEA) (see Chapter 3).

BOX 2.1 THE FINANCIAL SYSTEM IN SENEGAL
The financial system consists of 10 local banks, 4 non-bank financial institutions, 15 insurance companies, the national postal system that mobilizes savings and about 500 micro finance institutions. The regional stock market is headquartered in Dakar. Recently created, it is still rather small and not a source for major capital mobilization. There is a *Société Nationale d' Assurances du Credit et du Cautionnement* (SONAC) that was created as a partnership between the government (25 percent) and the private sector to cover commercial and political risk. Its operations are however still very limited and largely focused on enterprises located in the Free Trade Zone.

Key Actions

Put in place instruments that provide greater transparency of the financial health and risk of enterprises, to better inform the banking system of the credit risk of the various enterprises. Such instruments should comprise a *Centrale de Risques*, a *Centrale des Incidents de Payments* and a *Centrale des Bilans*.

Favor the creation of consulting services and other enterprise support mechanisms that can help SMEs prepare bankable projects.

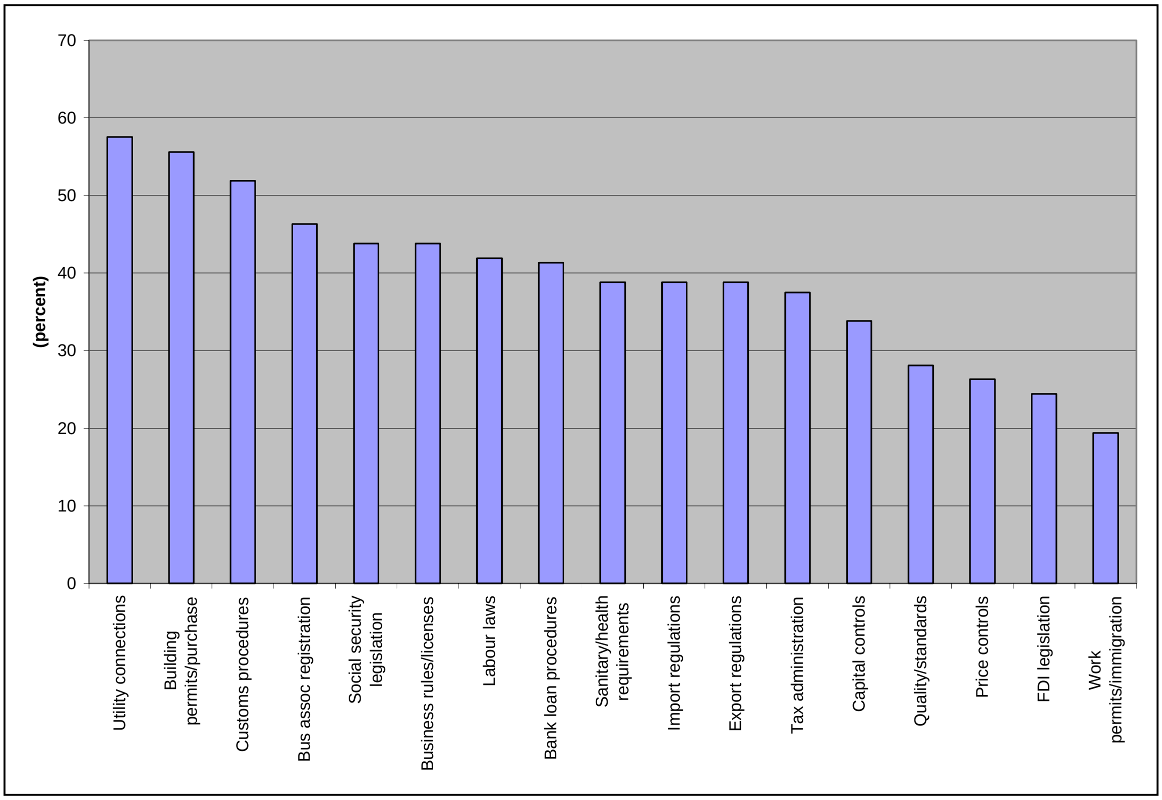
- Devise methods to speed up check clearance system.
- Investigate ways and means to enhance the commercial activities of SONAC.

2.2.2 Administrative Environment for Enterprises

Administrative procedures for the creation and operation of an enterprise remain daunting in Senegal. Coordination between the various public sector agencies is poor, often leading enterprises to provide duplicate information in several different forms. The resulting high entry costs discourage new firms in the formal sector; many SMEs remain in the informal sector, thereby undermining their growth potential. The 1999 FIAS report detailed this situation and made targeted reform suggestions.

In early 2002, FIAS documented the progress made since its 1999 report. The outcome was mixed. Only 40 percent of the recommendations had been formally implemented. Most measures that were taken dealt with general provisions for the investor, particularly the improvement of the "*guichet unique*". On the other hand, access to land and infrastructure services worsened. As a result, the investment approvals that took 495 days in 1998/99 had worsened to 563 days in 2002. Major administrative obstacles identified by firms include utility connections, obtaining buildings for business purposes and customs (Figure 2.2). Issues related to accessing infrastructure services and customs are addressed later in this chapter, while issues relating to land access are addressed in Chapter 3.

FIGURE 2.2: PRINCIPAL PERCEIVED ADMINISTRATIVE BARRIERS BY PRIVATE SECTOR (PERCENT OF TOTAL RESPONSES)



Source: FIAS and APIX Survey, 2002.

Senegal's performance as far as administrative barriers were concerned was very weak compared to 20 other African countries; only Mozambique and Tanzania scored below Senegal.[34] To deal with this high "transactions" cost, most enterprises used expensive "facilitators" to assist them in dealing with the bureaucracy. This is especially onerous for smaller firms. Several factors explain the lack of progress with reducing administrative barriers:

(i) The institutional setting for managing these reforms has been unstable, harming the visibility of the reforms and their political support. APIX has recently been put in charge of this program, but focuses most of its efforts on attracting foreign investors;

(ii) The reform program operated without real performance criteria so that the focus has been on formal and legal changes, not on assisting and accelerating the process of investing;

(iii) Slow moving legal processes have prevented the adoption of the new mining code or the investment code. In addition, in the absence of political consensus and with recent decentralization policies, the problem of difficulty of access to land has not been solved.

[34] See Table 1.4 of FIAS (2002).

(iv) The slow privatization process has hampered access to public utilities. Progress has also been impeded by rent seeking behavior on the part of civil servants and a private sector that seeks to accommodate this attitude rather than confronting it. Reforms would require the full support from Government.

Key Actions

The recent FIAS report, FIAS (2002), which are still very relevant, suggests the following:

- Refine and complete the diagnostic that should guide the forthcoming administrative simplification process. FIAS provides detailed suggestions and emphasizes those relating to access to land and infrastructure services.
- Provide clear performance and evaluation guidelines to the agencies responsible for their implementation, including APIX. Investigate how new technologies and computer support can contribute to this process. For many steps, a provision should be made that permission is assumed granted if no administrative answer is provided within a tightly set deadline. The retained guidelines should be made public.
- Create an organizational set-up to effectively design and implement the simplification of the investment environment. The FIAS paper provides international best practice and details how best to do this in the Senegalese context.

2.2.3 Infrastructure Services

Access to competitively priced infrastructure services is important for the export competitiveness of a country. As mentioned, utility connection has been ranked by Senegalese firms in a recent survey as the most important administrative barrier to their operations. In terms of cost, some infrastructure services are relatively cheap in Senegal compared with other WAEMU countries (mobile phone rates, maritime transport), while some are relatively more costly (water, electricity, rail transport, urban land and labor) (see Table 2.3), and some are comparable (road transport). The following is a brief discussion of these various infrastructure services and some recommendations on how to reduce costs.

Electricity

The price of electricity and its unreliability hampers export competitiveness in Senegal. SENELEC is the state enterprise monopoly that produces, transports and distributes electricity. In April 1999, one third of SENELEC's capital was sold to an international operator. SENELEC operations were plagued by frequent outages and unsustainable financial problems, however, due in part to its inability to reflect higher costs in increased tariffs for the users. Subsequently, the GOS bought back the capital share of the international investor. GOS recently re-launched its privatization efforts; it pre qualified the future bidders and obtained expression of interest from a number of international electricity providers. However, the transfer of the company to international operators could not be concluded. The future of the electricity sector in Senegal thus remains uncertain.

TABLE 2.3. COMPARATIVE DATA FOR FACTOR COSTS IN DIFFERENT WAEMU COUNTRIES

Average Factor Cost	Benin	Burkina Faso	Ivory Coast	Mali	Niger	Togo	Senegal
Land (CFA/m²)							
- vacant (zone urbaine)	2,975	500	NA	1,673	3,000	NA	45,519
- construction cost (bâtiment)	150,000	125,000	100,000	100,000	145,000	80,000	125,000
- construction cost (bureau)	250,000	120,000	300,000	125,000	175,000	120,000	180,000
Labor							
- Minimum wage (CFA / month)[a]	25,000	24,944	36,607	20,965	18,898	13,757	34,800
- Social Sec. Contribution	3.6%	18.5%	NA	NA	1.6%	2.4%	17.6%
- Employer's contribution	16.4%	4.5%	NA	NA	16.4%	18.1%	8.5%
Capital							
-Minimum interest rate (%)	8.9	8.5	8.5	NA	5	NA	8.7
- Maximum interest rate (%)	13.7	10.5	10.5	NA	15	NA	15.5
Electricity (CFA/KWh)							
- BT	79.3	130	55.95	76.5	79.25	60	83.13
- MT	57.3	110	NA	NA	55.35	62	80.63
- HT	NA	NA	NA	NA	46.94	NA	46.66
Water (CFA / m3)	290	860	NA	311	273	NA	631
Telecom[b]							
- Local call: fixed line (CFA / 3min)	66	30	29	51	38	25	57
- Mobile phone call (CFA / min)	NA	NA	NA	NA	122,5	150	160
Petroleum products (CFA/liter)							
- Super	275	410	490	495	425	310	485
- Ordinary	260	355	NA	NA	340	305	NA
- Diesel	220	284	315	325	290	285	344
Road transport (CFA/tkm)[c]							
- Local transport	33.5	55.0	31.2	33.6	42.4	31.6	33.6
- WAEMU	47.0	42.5	37.2	43.6	50.1	36.7	NA
Rail transport (CFA/tkm)							
- Local transport	33.7	52.5	26.6	28.9	26.6	40.0	28.9
- WAEMU	28.3	52.5	31.4	26.3	31.4	42.1	26.3
Air transport (CFA/kg)							
- Within WAEMU	1,026	550	906	1,105	930	NA	1,190
- Towards France	2,110	2,090	2,140	1,930	2,025	2,140	1,785
Maritime transport							
- Inside WAEMU	280,000	NA	NA	NA	NA	NA	NA
- To France	800,000	NA	NA	600,000	NA	NA	549,000

Notes: [a] Based on a monthly salary equivalent to about 173 hours.
[b] Base tariff, 1998 data.
[c] Tkm = tonne kilométrique.
Source: Groupe de Reflexion pour la Competitivite et la Croissance (GRCC).

Producers suffer from frequent electricity outages, irregular voltage flows and high cost. Most of them rely on expensive electricity generators as stand by solutions. Next to

Burkina Faso, Senegal's electricity rates are the highest of the other countries in the WAEMU, which reflects a combination of factors. First is the existence of a very old and inefficient stock of electricity generating equipment, management deficiencies in the various aspects of transport and distribution of electricity and high fuel cost due to a monopoly situation for the refinery and storage of fuel used in all electricity generation stations. Further undermining the competitiveness of national production, SENELEC's tariff policy reflects both social and economic objectives with the result that industrial users end up subsidizing the electricity use of households. Given the generous low tariff consumption allowances, these subsidies poorly target the poor.

Key Actions

- Re-launch negotiations with bidders for the management contract for SENELEC when business conditions improve. This contract should: (i) revise the tariff policy to better target the poor's access to electricity and lighten the burden for industrial users; and (ii) include tariff adjustment clauses (up and down) that allow for a pass through of the changes in cost due to fluctuations in world market prices for fuel.
- Extend competition in the petroleum sector to attract new investment, particularly in the storage of petroleum products. Support PETROSEN initiatives in that direction.

Telecommunications

The telecommunications sector in Senegal represents around 4 percent of GDP and contributes to overall economic competitiveness. The state-owned enterprise, SONATEL, was privatized in 1997 when 34 percent of the shares were sold to France Telecom. Subsequently, the government also sold 9 percent to France Telecom in 1999 and 18 percent through the regional stock market. SONATEL was privatized before any sound regulatory framework was established, and SONATEL almost performed from 1997 to 2001 as the sector regulator though the Ministry of Communications was officially in charge of both policy setting and regulation. An exclusivity period of 7 years over basic telecommunication services (voice fixed telephony, telex, telegraph, and public data service) was included in the concession agreement. In line with the above, GOS awarded a license to SENTEL (consortium led by Millicom) in 1998, introducing competition in mobile communications services.

By the end of 2001, the sector's overall performance was globally satisfactory. Specifically:

(i) Fixed tele-density was improved from 0.98 percent in 1996 to 2.46;
(ii) Mobile subscribers had reached 390,800 compared to 1,800 in 1996;
(iii) Four hundred additional rural localities were connected to the telecommunications network; and
(iv) SONATEL had rebalanced its tariffs.

By failing to establish a sound regulatory framework, GOS has, however, limited the scope and impact of the reform. Although SONATEL has been successful in improving its overall performance (accessibility and affordability of telecomm services), the company also engaged in anti-competitive behavior that has so far constrained the development of a vibrant ICT sector. SONATEL monopoly (due to the exclusivity period) over leased lines and international gateways has negatively affected the Internet and VAS businesses.

For Senegal to tap into new opportunities provided by the new economy and become a knowledge-based economy, GOS needs to adopt a proactive approach and tackle the key issues highlighted above. The sector policy needs to be reassessed to promote overall economic competitiveness, and to improve the country's connectivity including in rural areas.

Key Actions

- GOS should engage in preliminary discussions with the concessionaire in view of an early termination of the exclusivity period (for example, obligations relief on provision of telecommunications service to the 1000 rural localities attached to the concession, against the opening of international gateway and leased lines in 2003);
- Establish a sound regulatory framework by strengthening the newly created regulator (ART);
- Re-establish the notion of one ministry in charge of ICT development with mandate to quickly prepare and implement a national ICT strategy. To avoid conflict of interest, the regulator should not play the role. The role could be located within an existing ministry. The national strategy will provide a credible roadmap for further sector liberalization in telecom, and will pave the way for the society-wide transformation comprising a pervasive use of ICT.

Water

Water prices are high in Senegal relative to other WAEMU countries. The assets of the urban water sector are owned by a parastatal *Societe Nationale des Eaux du Senegal* (SONEL) that is responsible for the new investments as well as the upkeep of the water sector infrastructure. The operational aspects of the sector—distribution and billing — have been given (through a management contract) to *Senegalaise des Eaux* (SDE), which must meet set performance indicators. As is the case in the electricity sector, water tariffs aim at making the consumption of this essential basic commodity affordable to the poor. As such, all households (also small vegetable growers) obtain relatively large levels of consumption at the minimum tariff level. Large users pay high prices and as such subsidize this social objective, undermining competitiveness.

Key Actions

- Adjust tariff level and structure to eliminate cross-subsidization.

Air Transport

Export performance depends heavily on efficient air transport, particularly high value agricultural products and fish. Export diversification is likely to increase this dependency. While costs do not seem excessive in a regional context, the availability of air cargo recently presented severe problems with the bankruptcies of SABENA and Air Afrique as well as the scaling down of the worldwide operations of SwissAir. As a result, Air France had a monopoly on direct flights to Paris, the main destination of most international passengers and cargo. Since then the problems was eased as SABENA was replaced by SNBrussels Air, Swissair resumed its flights and Air Marco bought Air Senegal and planned to initiated flights to Paris. This has caused some temporary problems for the the horticulture export sector. Also the absence of cold storage facilities at the airport hampers the exports of fresh produce, where meeting the quality standard is of crucial importance (see Chapter 3). But investments are under way to add cold storage facilities at the Dakar airport, under financing of the World Bank supported export promotion project.

Senegal adheres to the usual international agreements that regulate air traffic and has recently signed an open sky agreement. Its airports are managed by a public enterprise.

The Dakar airport is suffering from little new investments in recent years. This is reflected in excessive crowding of the passenger terminal at peak hours, even as the capacity of the port has not yet been reached. This phenomenon, in addition to poor passenger services at the exits of the terminal, reflect badly on the image of Senegal, an essential ingredient for a dynamic tourism development.

Measures are underway to improve the operational environment for airport operations, but GOS still needs to make progress towards the drafting of a new Civil Aviation Code, the *Code de l'Aviation Civile*, as well as drafting a restructuring plan for the Civil Aviation Authority.

Key Actions

The GOS has identified several responses to the present shortcoming and now needs to implement them with a sense of urgency:

- Ensure that the investment in the cold storage facilities for the Dakar airport is completed in time and satisfies the requirements of the sector.
- Implement the draft regulation/legislation to restructure the Civil Aviation Authority and to adopt a new Aviation Code.
- Implement as thoroughly as possible the *open-air policy*. .

Maritime Transport

Maritime transport has been fully liberalized since 1995 so that all maritime transport companies can now carry freight into and out of Dakar. The Port Authority manages the port infrastructure but private firms undertake all port operations. Transport costs from Dakar to a variety of world destinations, however, are higher than those from Abidjan or Lagos, despite the fact that the distances are shorter. Sending goods to New York can cost up to 63 percent more from Dakar than from the other two destinations. Some of this may be due to restrictive labor regulations and practices in the Dakar port.

Key Actions

- Continue ongoing discussions aimed at making the port a more competitive mode of transportation for Senegal.
- Systematically search for private parties to invest and manage the port infrastructure.
- Negotiate with labor unions to revise the high cost contracts that inflate port costs.

Railroad Transport

Rail transport is notoriously unreliable, expensive and time consuming in Senegal. It effectively cuts off the Mali export market from Senegalese exports.

The *Societe Nationale des Chemins de Fer* (SNCN), a parastatal, manages the railroad infrastructure and its rolling stock. It operates the Dakar-Bamako line in cooperation with its Malian counterpart. Merchandise traffic now is less than half what it was 10 years ago and passenger traffic has stagnated at best during this period. The poor and deteriorating performance of the railroad is largely due to the deteriorating and antiquated rolling stock and poor state of the infrastructure. Transit time from Dakar to Bamako is now often in excess of one month. The transport of phosphate uses the railroad to evacuate its production to the port for export, and is hampered by its inefficiencies. GOS has initiated a process of privatizing the railroad operations in cooperation with Mali for which it is obtaining World Bank support. This will greatly reduce transport costs for landlocked Mali, assist the phosphate exports and put pressure on more efficient operation of the Dakar port, where transit trade for Mali will originate. A well functioning railroad is expected to assist in the export of cement. Production should come on stream when the new cement factory comes on stream and will create the capacity to export part of its production to Mali.

Key Action

- Pursue the privatization option of the railroad, with an emphasis on mobilizing the necessary capital to rehabilitate the infrastructure.

Road Transport

No full assessment of the road sector is available at this time, but there is general agreement that the sector suffers from poor maintenance and less than optimal management. These shortfalls increase road transport costs. Several initiatives are under preparation and implementation that could provide a partial remedy to this situation. With World Bank support, a new road survey should be available by end 2002, which will constitute an essential element in the design of the future road strategy. To improve management of road maintenance, a new Road Agency (*Agence Autonome des Travaux Routiers*) was created, with half of the Board of Directors representing the private sector. An assessment of the Road Agency's performance and efficiency is being carried out with European Union financing. The Agency is preparing long term

Performance Based Management and maintenance contracts to improve management and efficiency of road maintenance. Road congestion in the Dakar area adds to production cost for all economic operators. Particularly difficult and time consuming is the access to the Dakar port area, where trucks tend to spend hours in traffic jams. A partial solution under consideration is to invite the private sector into a BOT (build–operate–and transfer). A new law on land transport is being finalized to modernize the policy framework and streamline the administrative framework. At the same time, the World Bank provides support to improve delivery of administrative transport licenses to accelerate procedures and make them more transparent and less costly.

A new road to connect Dakar with Bamako in Mali will be completed in 2003 with European financing, particularly the segment linking Bamako with the Mali-Senegalese border that is presently a dirt road. This would substantially lower the transport costs between Dakar and Bamako, and open a new market for Senegalese exports to Mali, which already is the fifth most important export market for Senegal.

The proposed rural road program, defined with substantial community involvement, also promises to open up new agricultural areas with export potential, areas that so far have been isolated from urban and export markets. As poverty is most acute in the rural areas, the program is an urgent one.

Key Action

- Finalize the road infrastructure database to permit the implementation of an efficient road maintenance program.
- Pursue the ongoing initiatives to ensure that the high costs imposed by the inefficient road system are alleviated.

2.2.4 Labor

Relative labor costs are a major determinant of external competitiveness. In the 1980's and till 1994, when the CFAF was devalued by 50 percent, relative labor costs in Senegal are estimated to have risen, thus gradually undermining external competitiveness. In 1994 as result of the 50 percent devaluation, relative unit labor costs dropped by about 10 percent against a sample of African and European countries and by more than 20 percent against a sample of Asian and Latin American countries. Preliminary research suggests that as of 1995 the relative unit labor cost began to rise against all comparator regions and between 1994-97 the annual increase in relative unit labor cost was 2.6 percent against African countries, 3.6 percent against Asian countries, 5.5 percent against Latin American countries and 6.6 percent against Europe[35]. Reversing this trend will help external competitiveness.

No recent labor market study is available in Senegal. Consequently, it is impossible for the authorities to assess the implications for employment of policy measures such as relaxing regulations that govern releasing workers for economic reasons, or permitting

[35] Ahmadou Aly Mbaye and Stephen Golub (2002), Explaining manufacturing Competitiveness in Senegal: Sector Analysis of Cost and Price incentives, (mimeo)

the hiring of temporary workers. Similarly, no systematic analysis has been undertaken of the impact of using informal sector operators as subcontractors (*Bourse de Soustraitance*), a labor market feature that could be most useful in the garment sector. This situation could be remedied in the future if GOS were to undertake a National Labor Market Survey and a periodic overview of the labor market conditions. GOS has expressed intentions to do just this. The exiting labor legislation is criticized as being too inflexible to permit remuneration according to piecework, a practice that is widely used elsewhere in the production for exports and that permits enterprises to reward worker productivity.

Key actions

- GOS should take the initiative to discuss with labor unions and the employers' association the advantage of modifying the labor legislation to permit piecework remuneration. Ideally, this should lead to changes in the labor legislation, including a consultative mechanism to avoid exploitation.
- Undertake a labor market survey and publish periodic update of the labor market situation.

2.2.5 Human Resource Base

Education is a critical productive asset and experience in successful economies suggests that economic success has largely been driven by the higher productivity of people who were initially poor.[36] A vibrant export economy also requires that workers be sufficiently trained to efficiently undertake new tasks. Senegal's current education system is generally described as inadequate and of very poor quality. It has not improved significantly since 1990 even though the country spends 35 percent of government expenditures (about 5 percent of GDP) on education. This is much higher than the average African or low-income county, and yet the country has much lower learning results and coverage. Gross enrollment rates are very low and rising slowly, while primary education completion rates and adult literacy have stagnated. Only about 5 percent of the people leaving primary school and entering the work force have received any kind of professional training

This situation arises because public resources in education are inefficiently deployed, with too many resources devoted to an antiquated university system that crowds out expenditures for other levels. Moreover, there is little public sector accountability for poor results, while attempts to reform the education system are stymied by vested interests of university students and teacher unions.

Key actions

The IF has no new suggestions to remedy this situation that have not already been widely discussed in Senegal. Earlier suggestions include greater private sector

[36] O'Connel, L. and Birdsall, N. 2001. Race, Human Capital Inequality and Income Distribution in South Africa, Brazil and United States. *Carnegie Endowment for International Peace.* Washington D.C.

involvement, a more dynamic partnership with teacher unions and the private sector to ensure consensus on the necessary reforms, and greater accountability for results. To develop a more vibrant export base, some urgency should be attached to improving lower secondary and technical vocational training for primary and lower secondary school leavers to provide the labor force for foreign direct investment in manufacturing and services industries. In vocational training, the public sector needs to allow for private service delivery and involve industry in designing and implementing programs. This program would benefit from better use of the employment tax and cost-recovery.

2.2.6 Judicial and Legal Framework

Senegal's business legislation conforms with that of the *Organization pour l' Harmonisation en Afrique du Droit des Affaires* (OHADA). OHADA provides assistance to strengthen the commercial expertise of judges. Senegal's judicial system suffers, however, from a shortage of judges well versed in commercial matters, which sometimes leads to somewhat arbitrary judgments, long delays in court procedures, and judgments that are inconsistent across similar cases. Other weaknesses of the system are weak enforcement of laws and in some instances also weak laws (see Box 2.1 for an example); court decisions that are not consistently made public; the absence of commercial courts; and excessively centralized appeals procedures.

BOX 2.1 THE COPYRIGHT LAW IN SENEGAL

The copyright law in Senegal is weak in protecting the rights of composers, lyricists and performers in the music industry, and it has also not been enforced properly. The law, which is only 3 pages long, has recently been evaluated (under financing by the World Bank and the Swedish International Development Agency) and found to be very inadequate, in particular as it allows for excessive government discretion over its application.

It has also not been enforced properly because it has prevented the distribution of royalties to poor musicians in Senegal. Specifically, under the copyright law, the collection society for musicians in Senegal (the Bureau Senegal des Droits d"Auteurs, or BSDA) is supposed to collect royalties on behalf of musicians from radio stations, advertisers, movie makers, etc. and distribute such royalties. This is the typical arrangement of collection societies in developed and developing countries around the world. However, between 1998 and 2001, the BSDA did not collect royalties at all from radio stations in Senegal, and only collected a very minimal amount from other sources. As a comparison, the BSDA has been collecting around US$25,000 a year for 30,000 Senegalese musicians, compared with US$500,000 that Cote d'Ivoire (which has less than double Senegal's population) has been collecting from its musicians.

Under the support of the World Bank and SIDA (as mentioned above), BSDA has started collecting royalties from all radio stations and started distributing such royalties to poor musicians. BSDA has also purchased 50,000 banderoles (under expert advice from the World Bank) to distribute to composers, lyricists and performers for the purpose of reducing piracy. The World Bank has also provided financing to support the rewriting of the copyright legislation which will, inter alia: (i) define the rights of composers, lyricists and performers; and (ii) reform the BSDA including privatization; having majority board members of the BSDA be elected by the Association des Musiciens Senegalese (already, in a step forward, the President of the Musicians

Association has been appointed Chairman of the BSDA); and (iii) require BSDA maintain transparent accounting records.

The above provides a good example of how T.A. could assist countries in benefiting the most from the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) which is mandated for all WTO member, and also for reforming TRIPS itself (see *Development, Trade and the WTO: A Handbook*, 2002, the World Bank).

Key Actions

- Create commercial courts staffed with well-trained judges. This will require: setting a deadline for the creation of the commercial courts; setting targets for the number of judges that participate in the OHADA training facilities; and making optimum use of the training facilities created for judges by OHADA. Private sector representatives should be involved in this initiative.
- Accelerate the processing of cases and make judgments available to the general public to enhance consistency and transparency. This will require: modernizing case management through a systematic reliance on computerized management techniques; setting targets to reduce caseload delays; and committing to a program to enhance transparency of judgments made.

2.2.7 The Fiscal and Administrative Environment for Enterprises

The fiscal regime and administrative arrangements that regulate the creation and operation of enterprises in Senegal are excessively complex and hamper their operation.

***Fiscal Regime*[37]**

The common taxation regime while not overly restrictive on paper is extremely complex in its implementation due to the existence of special surcharges. The corporate income tax is 35 percent while the VAT was recently unified at the WAEMU-wide rate of 18 percent. On the external side, import tariffs have been streamlined with the introduction of the CET. Many exceptions still exist, however, and additional taxes are still levied. Preferential rates for intra-WAEMU trades do not yet provide a substantial incentive to develop regional trade.

In light of the substantial burden imposed by this tax regime, the GOS has introduced a plethora of preferential regimes to attract investors and provide exporters duty free access to imported inputs. The present preferential regimes include:

- The regime of *Entreprise Franche d' Exportation* - EFE (legislation of 1995) was introduced to streamline the then prevailing preferential regimes of *Points Francs* and *Zone Franche* (see below). Corporate income tax is reduced from 35 per cent to 15 per cent and enterprises can purchase inputs free of duty on the domestic and foreign market.

[37] For details see FIAS (2000).

- The *Zone Franche Industrielle de Dakar* (ZFID) is a free trade zone (created by a 1974 legislation). The perceived poor results of the ZFID (for example only 3 of the 13 registered firms are functioning) led to a 1999 decision to stop granting new ZFID agreements. This decision, however, is not being enforced. In addition, the Government has recently agreed to allow firms which are already operating in the ZFID to continue doing so, with all the attendant benefits, until 2016. The benefits, aside from cheaper land and access to infrastructure, are exemption from import taxes and duties; lower corporate income tax (reduced from 35 to 15 percent); and reduced or even zero taxes on workers' wages depending on the size of the firm. To obtain the benefits, firms are committed to exporting 60 percent of their production.
- Some enterprises benefit from the *Point Francs* status which granting them the same benefits as those in the ZFID, without the obligation of locating in the FTZ. They can also opt for the EFE status. Like the ZFID, the *Point Francs* is also meant to be replaced by the EFE, but the decision has not been enforced, and firms already benefiting from Point Francs can continue to avail themselves of the benefits until 2016.
- The Investment Code (legislation of 1987) provides fiscal incentives—including zero tariffs on capital goods import—depending on the location of the proposed investment as well as other criteria.
- Some fiscal incentives are granted to SMEs that obtain the status of *Domaine Industriel.*
- Exporters have access to duty free inputs through a system of drawbacks or temporary admissions where each system is regulated by its own accounting and control mechanisms (see section 2.3.4 for details). Indications are that the drawback system is not working.

This situation is rather complex to participate in and manage, both for firms and for the fiscal authorities. Access to each of these different regimes is not fully transparent nor are firms sanctioned if they do not honor their commitments, particularly with respect to their exporting.

Key Actions

A more transparent incentive regime would reduce the administrative complexity of managing the current myriad preferential schemes. By emphasizing positive factors to encourage investment (such as clear property rights), the proposed WAEMU Investment Code does offer an avenue for streamlining the incentive regime, and at the same time lighten the tax burden on all enterprises, both with respect to the import taxes on capital goods and intermediate goods as well as for the corporate income tax. Customs regimes that help exporters gain access to duty free inputs should remain in place, but they should be substantially better managed so as to assist the exporters.

2.3 Customs Reform in Support of Trade Facilitation and Export Promotion

Cumbersome and expensive customs procedures produce an anti-export bias in two ways. First, they are equivalent to additional import taxes and bias production towards import substitutes. Second, their effect are similar to export taxes in cases where exporters have poor access to duty free imported inputs, or where customs procedures complicate exports.

The efficiency of the Customs Department which has purview over customs procedures therefore significantly affects the competitiveness of the economy. It is therefore important to monitor the workings of the Customs Department, in particular focusing on whether it fulfills its traditional obligations (revenue collection, enforcing safety and health standards as well as the country's import protection policy) at least cost to importers and exporters. Such monitoring should at least include keeping track of the time it takes to release goods from customs; the prevalence of "facilitation money"; the access to duty free inputs for exporters; and the transparency of the overall customs operation.

Recent years have seen substantial changes and progress in the functioning of the customs department. Tariff reforms and the elimination of import quotas and reference prices for most goods have simplified the work of the department. Greater use of information technology (see next section), streamlining of customs declarations in line with World Customs Organization guidelines (included in the Kyoto Agreement that Senegal is about to sign onto), and contacts with private sector operators (see section 2.3.4) have all helped to raise the efficiency of the department. As indicated in Chapter 1, between 1993 and 2001, the clearance time for imports was reduced from an average of 3-4 weeks to an average of one week. The Director General (DG) of Customs has a clear vision of the direction of the next steps in customs reforms, and has articulated this vision on several occasions. All this augers well for further trade facilitation. The rest of this section suggests 4 areas where there is scope for further efficiency gains in customs operations that will enhance the competitiveness of the Senegalese economy. These are: (i) management of import procedures; (ii) information management; (iii) customs valuation; and (iv) the organization of the Customs Department and its relationship with the private sector.

2.3.1 Management of Import Procedures

Import procedures are still excessively complicated and lengthy, while some key elements of the procedures need tightening up. Despite major improvements in the clearance time for imports, it still takes up to one week. By way of comparison, some other developing countries which have undergone customs reforms have managed to reduce clearance time by much more, such as to 2 days in Morocco (at the end of 1999), and even down to a matter of hours (4-6 hours) in the Philippines.

The activities of customs officers in the release procedure (for example documentation or site visits) are not documented, so these operations go unchecked. The present practice of using both the manual and the computerized approaches to manage customs procedures (see next section) allows for multiple contacts between importers and customs officials, which unnecessarily lengthens the procedures and facilitate the engrained habit of soliciting "facilitation money ". Finally, delays are also caused by few, if any, customs services being offered between Friday and Sunday.

The following key reforms are proposed:

- Initiate an overall review of the present customs procedures with a view to simplifying them and ensuring that the remaining procedures are fully adhered to and open to scrutiny by audit commissions.
- Require that shipping documents be submitted in a timely manner and contain all the required information; impose penalties to foster compliance;
- Customs officials should better document the findings of containers control and match their findings with shipping documents to correct frequent irregularities;
- Strengthen modern risk management techniques by relying on carefully designed criteria to identify the shipments that should be subjected to physical inspection; an initiative is being undertaken with the support of COTECNA (a Swiss pre-shipment inspection firm). A unit could be set up in the Customs Department that is responsible for risk assessment to select shipments that should be subject to Pre-Shipment Inspection (PSI), and for risk-based post-shipment inspection. Such a unit would replace the decisions made by a sole *Chef de Section des Ecritures.* Setting up such a unit could then permit the operation of effective "green" and "red" channels and thus lighten import procedures. Ensure that inspections undertaken for health and safety reasons are also subject to the same risk based assessment noted above to reduce the overall need for inspection. Set targets for the share of impors subjectedto inspection in coming years.
- The selection of inspection agents for the different interventions should be done through a fully random process, prohibiting any discretionary decision by management staff.
- Ensure the availability of key customs services seven days a week; staff required to work on these days should be given days off rather than extra pay that would add to customs clearance costs.
- Apply the newly designed trade facilitation procedures for imports and exports ("*Authorisation Provisoire d'Enlévement des Importations*" –APEI and "*Authorisation Provisoire d'Enlévement des Exportations*"--APEX**, "** *Déclaration d' Enlèvement Provisoire*" –DEP**)**, while putting in place transparent safeguards to ensure that these schemes are monitored and not abused. There is much to be gained from this simplification of export procedures given the numerous re-exports transactions in Senegal.
- Review the feasibility of selectively permitting customs clearance at the domicile of importers while providing assurances against customs fraud.

2.3.2 Information Support System

Senegal's present customs information system was introduced in 1990, but has been inadequate from the beginning. Despite repeated attempts to rectify the situation, the information system has remained inadequate; several connections between different parts of the customs chain were never completed (for example warehousing, Treasury, and certain local offices). Furthermore, the maintenance of the hardware has become extremely expensive, as the manufacturer has for several years now stopped supporting the systems in place. In part because of this situation, the present use of Information Technology (IT) is inadequate, and the manual and computerized treatment of files go on alongside each other, negating the benefits that the use of IT could bring in terms of speed and transparency.

In 2001, the Customs Department finished developing a new IT system—GAINDES 2000—that incorporates the usual customs processes as well as ORBUS 2000, an information system that was created by TRADE POINT that permits traders to download their documents into the GAINDES 2000 system (Electronic Data Interchange system, EDI). The system was designed by Senegalese information specialists in close cooperation with the community of traders and customs clearance professionals. The Department owns its source code, facilitating its maintenance without having to solicit the support of outside consultants. For the moment, GAIDES 2000 is only operational in the airport and for export related customs services.

The Director of Customs is fully committed to roll out GAIDES 2000 to all customs operations in the course of the first part of 2002. It is expected that by then all modules will be operational, including the integration of the modules pertaining to the management of the special import regimes and warehouses and the connection with Treasury and Direct Taxation. Exploiting the full capacities of the new IT system would represent a major step toward providing the speedy and transparent customs clearance services demanded by the trading community. The experience of other countries that introduced advanced computerization of their customs services suggest that staff training, motivation and redeployment in line with the new requirements of the implementation of the IT need to be carefully managed. This is an area where timely technical assistance might contribute.

2.3.3 Customs Valuation

The correct valuation of import values is key to proper customs practices. Senegal has notified the WTO that as of mid-2001, it has been applying the transaction value for imports. To assist customs in valuing imports, for several years now Senegal has contracted with a PSI agency. Imports above US$4000 are subject to PSI.[38] Since October 2001, the PSI service has been performed by COTECNA. The track record of using transaction values for imports for customs purposes is still weak because of a lack of documentation flow between the various agents responsible for enforcing this element of customs operations. There is a need to train more customs officers in modern valuation techniques.

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[38] Goods that are exempt from PSI are: object of art, used personal and household effects, perishable goods for human consumption, arms, ammunition, explosives, live animals, plants, flowers, cinematographic films, newspapers, books, crude oil, donations offered by foreign governments, charities, NGOs, etc., vehicles and parts, and cereals imported by the public sector.

COTECNA is to cooperate with the risk-assessment unit discussed in section 2.3.1 above. The Government can exempt from inspection those commodities for which it is reasonably assured that the correct import value is declared.

Elements of an action plan to correct these deficiencies are:

- Enforce PSI obligation on all eligible shipments;
- Maintain a valuation database in the *Bureau du Renseignement et de la Documentation* using the COTECNA value attests, past import declarations, and relevant data bases available in trade publications and on the Web; the database should be available to the customs staff responsible for value determination and control;
- Put in motion a reconciliation mechanism that compares the pre-shipment valuation data with those from the manifest and those used for the calculation of import duties and taxes. Publish results and corrective action programs;
- Implement an accelerated training program for the correct implementation of the import transaction value, taking fully into account the difficulties of valuing imports of second hand cars, used clothing and those effected by the informal sector. Request assistance from the WTO to provide such training.

2.3.4 Duty-Free Imports for Exports

Senegal has a range of instruments to provide exporters with access to duty free inputs. These are: Admission Temporaire Pour Perfectionnement Actif, Entrepot Industriel, Admission Temporaire Speciale*, the Drawback System*, Exportation Prealable *and Export Processing Zone.*

Similar schemes are used in many countries to assist their exporters, and are in conformity with the World Customs Organization Kyoto Convention. However, such schemes have generally not been very successful in developing countries, and Senegal is no exception. Very few firms in Senegal have actually used these regimes. There is significant leakage of duty-free imports into non-export production. Duty drawbacks are used by a handful of firms mainly in the apparel and textile sector; delays in reimbursement and high cost of credit (credit is needed by exporters to tie them over the period before they receive duty reimbursements) are often cited as reasons for the lack of use of duty drawbacks.

One of the main reasons for the general failure of these schemes is the lack of adequate administrative capacity in most developing countries to properly implement them. Under such circumstances, measures that depend on rules—such as trade policy—work better than those that require significant human and budgetary resources. In this regard, the Senegalese Government might wish to work towards having a rule-based measure of adopting the international classification of intermediate goods—this would mean that all such goods would face only 5 percent tariff, rather than 20 percent under the current Senegalese system which classifies many intermediate goods as consumer goods.[39] This would be a very important first step in easing the burden on exporters. However, even a 5 percent duty in some cases could make an important difference to the profitability of exporters. It would therefore still be useful for the Senegal to improve the functioning of such schemes in the meantime, as follows:

- Utilize the new information technology (GAINDE 2000) discussed above to follow up more tightly on imports and exports of firms that benefit from these schemes;
- Transfer the authority to grant these schemes from the Minister of Finance to the Director of Customs to ease the granting of such schemes to true export-oriented firms;
- Impose interest penalties on firms that do not adhere to their export commitments and that sell part of their production domestically to reduce the use of the schemes as a means to delay payments of import duties;
- Institute a mandatory time limit within which drawback requests are honored, with benefits built in for the taxpayer when the deadline is not met;
- Use transferable Treasury checks to pay drawback duties to exporters so that the latter can use them for the payment of any tax liability;
- Enforce the decree that ends the granting of new permissions for the ZFID and Point Franc, and require that all new export-oriented firms use one of the other schemes.

2.3.5 Customs organization and budget support

The customs reform of 2000 managed to instill a rational structure that differentiated between operational staff and staff that are responsible for strategy and planning. Offices have been set up to ensure that customs services are adapted to the demands of the private sector, including one that is in charge of public relations and communications with the private sector, and one to assist private sector operators with import procedures and customs. These initiatives are most welcome, but it is still somewhat early to evaluate their impact.

Still missing in the new organization is an Audit Bureau in the Customs Department to assist the DG with special audit assignment and to ensure that the Department operates in accordance with the specific regulations of the Customs Code. Most customs departments in other counties rely heavily on such an internal audit Office that is staffed with highly respected and qualified personnel. The creation of such an Audit Bureau is worth considering.

The Customs Department needs to establish clear performance criteria for the different services it provides in order to evaluate the performance of the staff and verify progress made. Such criteria need to be communicated systematically to the private sector. Having this information will help the private sector judge the performance of customs services as an outside observer and user of the services. Criteria could include time-

[39] Estimations show that if the international classification of intermediate goods were used, the direct impact would have been a decline of customs revenues of 7.5 percent. However, this decline would be offset by the increase in intermediate goods imports that would result from lower tariffs.

release data and PSI statistics. Using performance criteria to determine salary bonuses of customs officials could also be beneficial, as was the experience of another developing country Morocco which has been quite successful in improving customs services.

The customs department's budget is very tight, a predicament it probably shares with a number of administrations. However, in as far as Customs are responsible for mobilizing a major part of budget revenue, it might be useful to careful review their budget allocations particularly for the infrastructure required to combat smuggling (radio equipment, and boats in the Gambia river to fight the endemic smuggling coming from Gambia).

2.4 INSTITUTIONAL SUPPORT FOR EXPORT DEVELOPMENT[40]

The Government has stated that export development is a priority for meeting its objectives of faster growth and poverty reduction. This section explores the institutional support that could help achieve these objectives It (i) describes what the respective roles of the public and private sector in this area; (ii) compares this with the situation on the ground in Senegal; and (iii) presents a set of options and reform recommendations aimed at ensuring that Senegal has the appropriate institutions.

2.4.1 The roles of the Public and Private sectors in Export Promotion

In Senegal all exporting is undertaken by the private sector. The public sector is responsible for establishing an adequate incentive system for exports that includes a stable macroeconomic environment, a competitive exchange rate which entails a sustainable fiscal environment and efficient trade facilitation. In addition, the public sector must ensure that Senegal enters into favorable multi- and bilateral agreements and effectively implements them to monitor export performance and promote the "image de marque du pays". The operations of other government units whose activities affect export competitiveness should be coordinated to ensure that the overall incentive framework regarding exports is appropriate. As such, the public sector should have a focal point or unit that functions as an "antenna" inside the government to ensure that overall government operations are supportive of exports and that bilateral and international agreements are entered into and monitored to the advantage of Senegal.

In implementing these functions, the public sector should closely coordinate its activities with the private sector**,** since in the final analysis the success of the export promotion strategy depends on the performance of individual exporters. Exporters manage their business as separate entities but, as experience has shown, they can benefit from joining forces with other exporters. This is where Trade Promotion Organizations (TPOs) can come in handy. TPOs could assist private sector exporters (actual and potential) in the various aspects of exporting: identifying the products that are in demand, providing information on markets, training staff, connecting domestic firms with traders and the foreign markets, providing assistance to improve quality and reduce production costs,

[40] Details are provided in Volume 2, Chapter 1.

and easing trade transactions for the private sector. The performance of TPOs has often been disappointing; only a few—all in developed countries—have made valuable contributions to export performance. [41] The rest of this section will endeavor to incorporate lessons from country experience in the recommendations for institutional support for export promotion.

2.4.2 The present institutional framework for export promotion

A large number of institutions are directly or indirectly involved with promoting the private sector and by implication the export sector. The most important ones are outlined below, with some discussion on their objectives, strengths and weaknesses.

- The *Direction du Commerce Extérieur,* in the Ministry of Commerce and SMEs. Its responsibilities include: (i) defining an export strategy for which it solicited support from the ITC and the Canadian Government; (ii) representing Senegal's position and interest at the WTO and WAEMU (where responsibility is shared with the Ministry of Finance); (iii) protecting the domestic economy against unfair competition of imports. Staffing and facilities (telephone lines, offices, and so on) are totally inadequate for the *Direction* to fulfill its responsibilities.
- The *Agence de Promotion des Investissements et des Grands Travaux* (APIX) was created in 2000 to promote investments, manage the *Zone Franche Industrielle de Dakar* and grant access to the status of *Enterprise Franche D'Exportation* (duty-free zone) and the benefits of the Investment Code. It also operates a "*guichet unique*". APIX is placed under the direct supervision of the President of the Republic and, with its objective of attracting foreign investments, it clearly aims at promoting exports. APIX is as yet not fully functioning. For instance, the *Comité Stratégique pour la Promotion de l'Investissement*, which by law is to be the forum where the private sector could voice its opinions, has still not been set up. As a result, APIX is seen by the private sector as very much another public sector organization, largely preoccupied with supervising large infrastructure works that are high on the agenda of the Presidency. The absence of performance criteria and poor communication with the outside world leaves it without the necessary visibility that its few successes justify. To improve its functioning, APIX staff should enhance their contact with the private sector and the sectoral ministries to help them identify projects for potential investors.
- The *Centre International du Commerce Extérieur Sénégalais* (CICES) is a joint public/private organization that is responsible for export promotion and organizing trade fairs. Its mandate is broad and ambitious and covers a variety of activities intended to assist exporters: training, information gathering, preparation and follow up of fairs. In the event, the private sector does not attach great importance to the activities of the CICES and consults these services rarely. Also they complain that the fairs are poorly prepared and do not reach the intended objective. CICES's resources are meagre and premises poorly maintained and antiquated, which negatively affect the image conveyed to potential exporters and foreign interested parties. Budget

[41] International Trade Center, Executive Forum 1999, Redefining Trade Promotion, The Need for a Strategic Response, Geneva 2000. Luc De Wulf, Trade Promotion Organizations: Why Did They Fail and What Can Be Done About it? (World Bank PREM Notes, September 2001).

problems have led to the shedding of staff, and the remaining staff are poorly motivated. Its administrative status with a majority share owned by the public sector limit its operational flexibility, restricts its compensation practices and does not permit it to charge for services rendered.

- *Trade Point Senegal* (TPS) has basically a dual mandate: (i) providing an electronic information system at the service of exporters; and (ii) stimulating the efficient use of new technologies in the administration. The TPS has created and promoted the use of an excellent electronic trade declaration system that eases substantially the submission of import and export declarations at customs (ORBUS 2000 which has recently be taken over by the Administration of Customs). TPS was reorganized in June 2001 (including its large stock of debts) and has recently prepared a very ambitious work program. This work program confirms its intentions to be on the forefront of the introduction of e-commence, the use of new technologies throughout the economy, but particularly within the public administration and the SME sector. As a result the TPS now has a multiplicity of mandates and objectives.
- The *Chamber of Commerce* has the objective to help its members penetrate the world market. It operates under the umbrella of the Minister of Trade and SMEs and as such lacks autonomy. It lacks resources and fails to provide its members with information to improve their export performance. In addition, the specialized technical commissions that have been formed to identify problems and seek solutions are not operative.
- The *Tourism Ministry* was abolished last year and was recently re-established. It still needs to get on top of the important agenda of monitoring and guiding the sector and entering into a dialogue with sector operators (see Chapter 3).
- The *Ministry of Fisheries* issues legislation pertaining to the fisheries sector and ensures the quality of exports through its control bureau that relies on the services of laboratories.
- A number of *professional organizations* bring together the operators of different sectors. In the horticultural sector the two professional organizations (SEPAS and ONAPES) are closely associated with the World Bank’s Export Promotion Project (PPEA). The *Association pour la Promotion de l’ Industrie Touristique au Sénégal* (APITS) benefits from USAID support and represents about 66 professional; its staff is limited to a single secretary and its activities are not adequate to meet its proposed objectives. The *Groupement des Armateurs et Industriels de la Pêche Maritime* (GAIPES) represents the operators in the fisheries sector. In addition, there are two professional organizations which represent most Senegalese exporters – the *Conseil National du Patronat* that benefits from support of the ILO and the French Ministry of Cooperation, and the *Confederation des Employeurs du Senegal* that benefits from the German Konrad Adenauer Foundation for its publication “Entreprendre Plus”. So far these latter two organizations have not presented a solid program to assist exporters.
- The *Association Sénégalaise de Normalisation* (ASN) is responsible for promoting and certifying standards and norms for domestic products, but is not geared towards the export sector. The ASN emerged from the recent restructuring of the Institut Sénégalais de Normalisation (ISN) and is managed by a private sector board; 40 percent of its operational budget comes from the government budget. The restructuring should instil greater dynamism into the supervision and promotion of

good standards and ensure that its activity program is better attuned to private sector and exporters interest than was the case under the ISN. It is too early to assess the performance of the ASN.

2.4.3 Towards an effective Institutional Framework for Export Development

From the above discussion, it would appear that the export performance of Senegal could substantially benefit from the strengthening of the institutional framework to efficiently mobilize the energies of both the private and public sectors.

Recommendation 1. *Adopt a well articulated export promotion action strategy and strengthen the* Direction du Commerce Extérieur *at the Ministry of Commerce and SMEs to oversee its implementation.*

Senegal does not have a well-defined and politically-backed export strategy that aims at lifting export constraints and more generally fostering export performance. To enable its exports to reach their potential, Senegal would need to define a coherent export development program which is given high political support. The program should set out a clear priorities, allocate the implementation responsibilities to well identified institutions and actors and put in place a well defined mechanism to monitor progress, motivate all involved and hold them accountable. As most constraints facing exporters are not directly trade-related, but have to do with supply issues, the strategy should be sufficiently broad to deal with these "behind the border " issues.[42] Adherence to, and support for, this program will greatly depend on the degree with which the private sector has been involved in its design.

The program should emerge from the present exercise of the Integrated Framework which itself has drawn on the preparatory work reflected in the STRADEX (export development strategy), prepared with the assistance of the ITC and the Canadian Government.

The *Direction du Commerce Extérieur* at the Ministry of Commerce and SMEs should be made responsible for defining the program and monitoring its execution. The *Direction* will need to be reorganized and strengthened to fulfil this responsibility. Additional budget allocations will be required for the hiring of highly qualified staff as well as upgrading the present facilities.[43] A study on the subject should be commissioned and TA offered to put the recommendations in place.

Recommendation 2. *Support the newly created* Comité des Négociations Commerciales *Internationales.*

This Committee, created in December 2001 and chaired by the Minister of Commerce and SMEs, was created to assist Government in elaborating and monitoring its

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[42] See also OECD DAC Workshop (May 24, 2000) "Towards Good Practices for Donors on Capacity Development for Trade Senegal Case Study", p. 23 . The paper notes that trade policies have been largely developed in a reactive mode (Lome Convention and WAEMU agreements).

[43] See Volume 2, Chapter 1 for details on the proposed restructuring of the Direction.

international trade policy. It is intended to create a pro-active role in WTO, WAEMU negotiations and their follow up. Many of the issues that will be discussed are of a highly technical nature.[44] This *Comité* should also formulate trade-related Technical Assistance requests. As such it could counter the tendency of accepting trade-related TA that is largely donor driven, rather than concerning the very issues that are important for Senegal. [45] Also, the *Comité* should help Senegal go beyond the issues of complying with export rules and regulations to actively participate in the monitoring and design of such requirements. In the absence of strong leadership and technical expertise on the part of the Government ,donors will tend to attach greater importance to the former set of issues than to the latter. Well-targeted TA could help strengthen the Secretariate and the various sub- committees[46] in the preparation of the agenda for the meetings and in providing the necessary background to ensure that all members are equipped to fully participate and contribute to the deliberations. The Joint Integrated Technical Assistance Programme (JITAP) run by UNCTAD could be approached to provide such technical assistance.

Recommendation 3. *Consolidate export promotion efforts under a new Export Promotion Agency (EPA) to maximize impact of such efforts*

To maximize the impact and avoid the dispersion of export promotion efforts that are currently ongoing, as well as to economize on administrative costs and human resource capacity, the GOS should consider consolidating some of the functions performed by the various existing export promotion organizations under a new export promotion agency (EPA). The functions and organizations that could be consolidated under the EPA are: (i) the trade information system that is presently managed by *Trade Point*, which would free Trade Point to concentrate on fostering the introduction of new technologies inside and outside the public sector as well as e-commerce; (ii) the CICES; and (iii) the planned Centre du Promotion du Textile (CPT)[47], whose objective is to promote the textile sector in all its dimensions, with the EPA focusing initially on the possibilities offered by the remaining years of the Multi-Fibre Agreement and AGOA on this front.

The EPA should complement the activity of the *Direction* in managing the export promotion activities. It should operate as closely as possible to private sector operators. Based on the experience of EPA's around the world, to be successful the EPA should

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[44] Senegal could formulate with other LDCs positions to argue for the end of agricultural export subsidies granted by developed countries and that depress export prices, such as cotton. Another issue that could be reviewed is how Senegal could take better advantage of its newly acquired position as LDC.

[45] An example is the effective TA received from the EU to meet sanitary standards required for the export of fishery products to the EU (where these commodities do not compete with local production) with relative neglect of areas of TA where donor interest is less (e.g. countering the effect of the EU zero tolerance on certain pesticides on products trhat compete with EU producers). See OECD (May 2000).

[46] Six sub committes are foreseen each dealing with a specialized subject : trade in goods, trade in services, agricultural products, trade and the environment, trade-investment and development, intellectual property rights.

[47] UNIDO is assisting to put CPT in place.

operate along the following lines: (i) monitor the overall incentive system and advocate improvements; (ii) be operationally autonomous from the government; (iii) be demand-driven in its action program; (iv) strike a balance in its operations between offshore and onshore operations; (v) be staffed by well compensated and competent people; (vi) have adequate funding, initially some from the budget, but also raise revenues from fee-paid services and contributions from enterprises; and finally (vii) provide for the evaluation of results.

A thorough study (for which the ITC has promised support) should provide practical suggestions for the setting up of the EPA. This study should also suggest how best to best make use of the facilities of the *Foire de Dakar*, and how to ensure that the EPA is efficiently coordinating its activity with the other entities involved in export-related issues, such as APIX; the to-be-created "*Maison du Senegal*; the Fisheries Export Marketing/Promotion Promotion Unit and professional organizations. Some seed money will be needed to assist the operations of the EPA for an initial period of say one year or two.

Recommendation 4. *Create an* "Office du Tourisme"

Potential gains exist if private sector operators were to combine their efforts to promote tourism activities in Senegal though well-targeted promotion activities

As discussed in detail in Chapter 3, the "Office du Tourisme" would complement the Tourism Unit in the Ministry by bringing together private sector operators for the promotion of tourism products and by liaising with the ministerial Unit to put in place a clear and favorable incentive environment for the sector. Largely managed and financed by the private sector, the "Office du Tourisme" could provide a significant impulse to the sector and would replace the APITS. It could benefit from the totality of the Taxe d' Hébergement (See tourism section for details).

CHAPTER 3
SECTOR ANALYSIS

3.1 FISHERIES SECTOR [48]

3.1.1. Background

Fish and fish products constitute the largest export category in Senegal, contributing to an average of around 37 percent of total exports between 1996-2000 (Table 3.1). Frozen fish makes up by far the largest component of fish exports (over 60 percent), followed by fresh fish (around 22 percent) and processed (tinned) fish (18 percent) (Table 3.2). Exports of processed fish have been declining sharply, as the sector has difficulties obtaining the necessary fish resources. The fisheries sector accounts for about 2 percent of GDP and employs about 600,000 people.

TABLE 3.1 PERFORMANCE OF THE FISHERIES SECTOR, 1996-2000 (%)

	1996	1997	1998	1999	2000
Fisheries / GDP	2.1	2.3	2.1	2.1	1.9
Real Growth in Value Added	4.8	11.8	-3.4	4.0	-4.5
Share of Total Exports: all fish, of which:	34.9	40.0	36.3	36.9	37.7
Frozen fish	21.2	24.5	22.6	19.6	26.3
Fresh fish	6.5	7.3	6.2	12.8	7.4
Tinned fish	6.2	7.0	6.5	3.4	2.5

Source: Senegalese authorities; they note that these statistics may not be completely reliable because of the recent weakening of the institutions that collect them.

The fisheries sector has undergone a major structural change, with industrial fishing suffering a large decline, being replaced by small-scale fisheries, which in 2000 accounted for 90 percent of all fish produced in Senegal (Table 3.3), up from 65 percent in 1993-95. The small-scale fisheries sector, made up of 93,000 pirogues that ply the rivers and 7,600 that ply the sea, accounts for 50 percent of the supply of local processing plants. Depletion of fishing resources is the main reason behind the decline in industrial fishing, as discussed in the next section.

About 70-80 percent of the catches that land in Senegalese ports are coastal pelagic fish—mainly sardinella. They are used for local consumption and for providing raw materials for Senegal's fish processing industry. Coastal pelagic fish contribute relatively little to sector GDP and export earnings, and account for less than half of sector employment. About 20 percent of the catches are deep-sea pelagic fish (including tuna), while the remainder is made up of demersal fish (cephalopods, shrimp, dorado, sole).

[48] For details see Chapter 3 in Volume 2.

TABLE 3.2 EXPORTS OF FISH PRODUCTS
(VALUE IN BILLIONS OF CFAF; VOLUMES IN THOUSAND OF METRIC TONS; PRICES IN CFAF PER KILO)

	1996	1997	1998	1999	2000
Frozen Fish	98	111	106	133	108
Volume	68	72	72	97 [1]	63
Price	1449	1556	1495	1369	1711
Fresh Fish	25	28	30	30	37
Volume	12	12	12	11	12
Price	2,750	2,272	2,589	2,816	2,971
Processed Fish	23	24	31	17	13
Volume	19	19	18	12	9
Price	1,170	1,239	1,724	1,453	1,467
Total Value	**146**	**163**	**169**	**180**	**158**

[1] 1999 was, for unusual biological reasons, an exceptionally good year for cephalopod fishing.
Source: Senegalese authorities.

TABLE 3.3. FISH CATCH (BY FOREIGN AND DOMESTIC VESSELS) DELIVERED TO DAKAR PORTS AND ABROARD, 1996-2000
(THOUSANDS OF METRIC TONS)

	1996	1997	1998	1999	2000 [1]
Small-scale fishing	328	353	325	314	330
of which:					
Continental fishing	…	…	…	…	35
Industrial fishing	138	136	84	81	37
Sardines [2]	8	10	7	4	1
Trawler fishing	97	99	48	56	33
Tuna	33	28	29	21	2
Total	**466**	**489**	**409**	**395**	**367**

Notes: Fish delivered abroad are those caught under EU Convention.
[1] 2000 figures are estimated. [2] Domestic catch only for 1996.
Source: Direction de l'Océanographie et des Pêches Maritimes

3.1.2 Incipient Crisis in the Fisheries Sector

The fisheries sector is facing an incipient crisis arising from depletion of fisheries resources. Both the private and public sectors agree that if the deterioration of the sector were to continue, its contribution to income, employment and exports is doomed to sharply decline.

Depletion of fishing resources mostly affects high-value demersal species that are caught by the domestic industrial fleet, with the size of the demersal fish getting smaller and smaller over time. Deep-sea demersal species (which are exclusively exploited by foreign vessels) have reportedly not been over-exploited. Coastal pelagic fish—caught by about half of the artisanal fleet—are over-exploited on the Petite Cote, although healthy stocks prevail on the Casamance. Because of dwindling resources, the fish processing industry is facing increasing difficulty in acquiring raw materials for their operations, and smaller-sized fish are used than would otherwise be the case. The following discusses, in turn, the main issues facing the industrial and artisanal fleet and the fish processing industry.

The **industrial fleet** has very low or even negative profit margins because of the high cost of operations (due to the age of the fleet) coupled with dwindling demersal fish resources that has forced many boats to be inactive for large parts of the year. The situation was aggravated by the increase in the number and capacity of industrial vessels carrying the EU flag[49] which were exploiting the same demersal stocks as the Senegalese boats (65 percent of the industrial boats landing fish in Senegal are navigating under Senegalese flags, while 28 percent are navigating under EU flags). The EU fleet mostly directly shipped its catch to Europe, and since they are generally more efficient than the very old Senegalese fleet, they often did not need or use on-shore processing capacity.

In response to the drop-off in fisheries resources in the traditional fishing grounds, industrial boats have, with relative impunity, become much less rigorous in its observance of exclusive artisanal fishing zones and gear restrictions. They are also increasingly traveling to the coastal zones of neighboring countries, from where they obtain (sometimes illegally) an estimated 30 of their demersal catch.

Artisanal fishing has been maintaining its catch at around 320,000 tons since 1996. It has adjusted to the reduction in coastal fisheries resources by fishing in the waters of neighboring countries, as well as fishing for demersal species in deeper waters, which increases operating costs and increases conflicts with the industrial fleet operating in these waters. Such a strategy is obviously not sustainable and, ultimately, self-defeating for the entire fisheries sector.

Senegal's artisanal fishermen—often with a family history of fishing going back many generations—have for centuries exploited coastal fish resources, mainly small-pelagic fish. These fishermen traditionally believed that history provided them the 'right of free access'. The number of artisanal fishing vessels—which are generally very old and poorly equipped—has expanded greatly in recent years as large numbers of former agricultural workers have invested in artisanal fisheries. This belief of free and unlimited access to the fishing resources is widespread, constraining effective governance of a sector that has absorbed unemployed labor, and increase employment in rural, coastal areas.

[49] This was the result of the first fisheries agreement between the EU and Senegal which was in effect through end-2001 and which is being renegotiated.

The depletion of fish resources has led to the large decline in processed fish exports (Table 3.1). The **fish processing industry** has suffered further from the increasing diversion of tuna catches by foreign vessels to Abidjan, where port facilities operate more efficiently and where better prices can be fetched under an EU fishing agreement. This has resulted in serious raw material shortages for the domestic tuna canning industry which has been established to process foreign caught tuna for the African and European markets, and which has always been structurally dependent on catches of foreign vessels. Efforts to downsize or consolidate the industry has proved ineffective, and public support to keep one bankrupt cannery operating reflected political rather than sector strategic considerations.

3.1.3 A sector strategy to tackle the crisis

The root cause of the incipient crisis is the absence of regulations over fishing in a situation where the capacity to fish exceeds the availability of resources. This, in turn, is the result of Government reluctance to offend established industrial interest, as well as its concerns over the social and political impact of limiting access to fishing resources, especially for local artisans. The Government would need to reform current sector policies and practices to ensure that its very important fishing resource make the best possible contribution to its objective of growth and poverty-reduction. Such reforms are all the more urgent in light of the potential collapse of a large part of the export-oriented industry in the next couple of years.

The sector strategy will need to focus on the allocation of the future catches. Specifically, the strategy would need to ensure the regeneration of fish stock (primarily demersal primarily), determine the allocation of the stock between local industrial (ice and refrigerated and shrimp) trawlers, foreign trawlers and the artisanal fleet. Since each group is, in principle, technically and financially able to catch demersal species in coastal areas, the allocation of fishery resources between them should take into account the impact of each group on fish resources (notably juveniles), the relative economics of each type of operation, employment concerns, value added generated, and the demands of the world market and the local processing industry. This will require the limiting of fishing capacity as well as imposing restrictions on their activities.

Senegal could benefit from the experiences of other countries that are also heavily dependent on fishery resources and that have faced similar problems and successfully tackled them. The key elements of the solution that these countries have brought to their problems entail having the public sector assume an effective fisheries resource management plan which: (i) does not allow for free and unlimited access to fisheries resources; (ii) reduces fishing efforts; and (iii) compensate those who are denied access to fisheries resources.

The application of similar principles in Senegal will require that: (i) the sector issues are brought to the top of the policy agenda; and (ii) institutions that are to be put in place to draft a coherent development program take into account the respective roles of the public and the private sectors. The April 2001 Sector Strategy undertaken by the Ministry of Fisheries and Maritime Transport and a recent ITC study details a number of these issues.[50] This section takes these studies as a starting point and proposes an Action Plan that draw on successful experiences of other countries. The Action Plan emphasizes the full participation of the private sector in institutions that implement the relevant policy measures.[51]

Recommendation 1. *Create the momentum and authority for the reform program by the establishment of a Presidential Commission (PC) of limited (say 6-9 months) tenure which would launch the program.*

The Commission would be created immediately, and be made up of 5-6 respected private and public sector members.[52] It would benefit from the full support of the President and report directly to him. Its expected lifetime should not exceed six to nine months. It should develop the vision for the sector's future and the broad outlines of the measures required for implementing this vision. One of its main tasks would be to build consensus around the vision and articulate emergency measures to stop the deterioration of the sector. It would prepare the creation of the proper institutional framework. The Commission would be supported by a small Secretariat and carefully manage a communication strategy that should outlive the life of the Commission itself. The scientific staff of the Secretariat could be on loan from their regular jobs in the Centre de Recherchés Oceanographiques de Dakar –Thiaroye (CRODT), the Cellule d'Etudes et de Planification (CEP) and possibly foreign institutions. They would operate though a set of working groups around well-defined issues. The PC would reach out to the private sector operators active in the various segments of the sector.

Emergency measures that deserve immediate attention of the PC include:

- Measures to prepare for the immediate reduction of fishing effort on selected species;
- Implementation of the communications strategy;
- Arranging financing packages to fund future activities.

Recommendation 2. *Create a Fisheries Regulatory Agency (FRA) responsible for defining and ensuring the implementation of policies that ensure sector sustainability.*

Fishery resources are a public resource and need to be managed so as to maximize their sustainable contribution to employment and foreign exchange earnings. Several countries with a successful fisheries sector (for example Australia, Chile, Iceland, Namibia and New Zealand) have created autonomous fisheries regulatory agencies that prepare and ensure the implementation of sustainable sector policies.

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[50] Centre du Commerce International. 2001.: Grappe sectorielle d'exportation, *Produits de la mer*, Volume 1 Analyse de l'offre et des performances a l'exportation ; Volume 2 , Stratégie et Plan d'action de Développement et Promotion des Exportations, Genève.

[51] For details see Chapter 3 in Volume 2.

[52] Members of the Presidential Commission may be recommended to the President by the organizations representing the industrial sector, the artisanal sector and public sector. In addition the Commission may include one foreign member. The Chairman should be a recognized authority, able to handle a difficult and sensitive task.

Following these examples, the FRA in Senegal should be responsible for the introduction of an effective, quota-based fish management system for industrial fisheries; effective surveillance of industrial and artisanal vessels; and setting up a community based management system including a fee based licensing system for artisanal vessels. The FRA should also cover specific gear restrictions, and time and space restrictions on fisheries for selected species. Later on the FRA could also be made responsible for the regulatory framework guiding the creation of marine reefs to assist in the rejuvenation of fish species, and of marine parks (in cooperation with the Tourism Ministry).

These issues are complex and involve several implementing agencies. In addition, there is also a need to enforce established regulations, something that has been sorely missing sofar. The FRA should therefore be created in the very near future. Its priority work program should be to support the emergency measures created by the Presidential Commission. Substantial and well-targeted technical assistance would be needed to underpin this work program.

Recommendation 3. *Reduce the industrial and artisanal fleet.*

Prepare a program to reduce the industrial fleet though gear measures, an audit of fishing licenses, an increase of license fees and ultimately vessel buy-outs. A policy on vessel replacement should also be established to avoid the increase of fishing capacity when antiquated boats are replaced by new and powerful fishing vessels, a practice that would undermine the overall policy objective of the measure.

For artisanal boats, a freeze is recommended on the issuing of new licenses. In addition, long-term measures are recommended to gradually reduce the number of fishermen. The license freeze would be accompanied by a program of vocational training, education and micro credit programs in coastal regions to provide alternative employment for displaced fishermen. In this context, community-based fisheries management should be introduced as well. Support from the donor community should be solicited.

Recommendation 4. *Consolidate the fish processing industry*.

Allow the exit of unviable fish processing firms by not extending public support for their continued operations.

Recommendation 5. *Consideration to be given to the establishment of a Fisheries Development Agency (FDA) to improve the effectiveness of fisheries development activities.*

Sector-wide coordination of fisheries development activities undertaken by various public sector departments and private sector stakeholders is sorely lacking at present. The Ministry of Fisheries is not set up to undertake this development agenda or to coordinate this action with other public and private agencies. The Senegalese Government may wish to give consideration to the setting up of a FDA for such a purpose. The structure, operating regulations, Board of Directors and staffing of the FDA should be line with those operating in the private sector. A similar institutional setup has proven very useful to promote the coherent development of the fisheries sector in Malaysia.

The FDA would report to the Ministry of Fisheries, and would consolidate under its roof some of the functions currently being undertaken by the Ministry, such as those by the *Direction des Peches Maritimes* (DOPM) and the *Cellule d'Etudes et de Planification* (CEP). As an autonomous Agency it could attract competent staff and remunerate them with salaries in line with those in the private sector. By integrating private sector Board members and staff, it would be in a better position than any pure public entity to obtain the trust of the private sector and to have its activities monitored.

The responsibilities of the FDA are to: prepare a sector-wide development strategy; prepare economic studies and sector policy analyses; implement development projects and programs; develop capabilities for product development and for studying fisheries product markets; and monitor market intelligence sources.

Recommendation 6. *The voice of the private sector with respect to sector strategy could be better heard if it were to organize itself better. Revitalizing the* Conseil National des Pêches *could help in this regard.*

This *Conseil*, presently rather ineffective and largely run as a public sector institution, could be restructured and revitalized to represent the various segments of the private sector involved in the fisheries sector and defend its interests. Existing private sector professional organizations should be represented on its Board. The *Conseil* would become the main interface between the private sector and the Ministry of Fisheries, as well as the Regulatory Agency, the FDA and the to-be-created EPA.

Recommendation 7. *Strengthen the Ministry of Fisheries to enable it to efficiently discharge its remaining responsibilities.*

The Ministry of Fisheries has a substantial role to play in policy analysis, and the development and management of service activities such as the training, legal and international aspects of managing the fisheries sector. It would supervise the operations of the FDA and be represented on the Board of the FRA. The PC should establish a working group to plan how the Ministry should structure itself within the newly proposed institutional framework and prepare an action plan to provide the necessary training to Ministerial staff.

3.2 AGRICULTURE[53]

3.2.1 Background: Strengths and Weaknesses

Although accounting for only 17% of GDP (2000), agriculture plays a predominant role in the socioeconomic life of Senegal. Some 70 percent of the country's labor force is in the agriculture sector, and for the vast majority of rural households, agriculture represents the primary activity and source of income. Nearly 40 percent (in 2000) of the value-added from Senegalese agriculture is attributed to livestock production, both for subsistence and commercial purposes. The leading crops are groundnuts (for domestic and export markets), drought-tolerant staples such as sorghum, millet, and cassava, other cereals such as rice and maize (for which the bulk of domestic supplies derive from imports), selected industrial crops such as sugarcane (for the domestic market) and cotton (for export), and a range fruits and vegetables (largely for the domestic market yet exported in small quantities).

The historical development of agriculture in Senegal has featured heavy intervention by the state at the production level and throughout the marketing supply chain. The trend began in 1964 when a French organization (SATEC) took charge of agricultural extension in the so-called 'Groundnut Basin'. This marked the beginning of a supply-driven approach that led to the creation of six regional development agencies (RDAs) that were supported by international donors. The RDAs provided extension, training and other services to farmers. However, these were top-down agencies, hamstrung by government regulation, and program rather than market-driven. Since the early 1980s Senegal has slowly moved away from government management of the agricultural sector. However, structural reforms have been uneven across the sector and a range of parastatal agencies continue to play a significant if not dominant role in important input and product markets. Overall, the performance of the Senegalese agricultural sector has been relatively poor, as evidenced by slow (or negative) rates of growth in output, value-added, productivity, and exports (Table 3.4).

Traditionally, Senegal has been an exporter of groundnuts, groundnut oil, gum arabic and, since the 1960s, cotton lint. In the 1970s the country showed promise as an exporter of fresh fruits and vegetables to a European market that was opening up to off-season and tropical products. The value of Senegal's agricultural exports increased by nearly eight percent per annum during the 1980s and reached a peak in 1990 at $219 million. Since then, there has occurred a large and almost continuous decline such that the country's total agricultural exports in 2000 were about $146 million.[54] More than half of this can be attributed to the groundnut sub-sector, which has experienced a sharp decline in the volume of (relatively high value) confectionary nut exports, and a decline in both the volume and unit value (as international prices fell) of groundnut oil exports.

Senegal's agricultural exports continue to be dominated by groundnut oil and groundnut cake, the latter used for animal feed. Other relatively significant food and

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[53] For Details see Chapter In Volume 2.

[54] According to FAO data. FAO data for 2000 report over $18 million in Senegalese exports for palm oil. This was probably just trans-shipped through the country and is not included here.

agricultural exports are fresh fruit and vegetables (these grew 41 percent in volume terms between 1998 and 2001, and nearly 7 percent per annum in dollar terms which far exceeded total export growth during that period), hides and skins, cotton, and tobacco products. A range of other products are exported in small quantities.

TABLE 3.4 COMPARATIVE INDICATORS OF AGRICULTURAL GROWTH (AVERAGE ANNUAL RATES OF GROWTH, 1990-2000)

	Senegal	Sub-Saharan Africa
Value Added in Agriculture	1.9	2.6
Value of Agricultural Exports	-12.7	4.6
Food Production Index	1.5	2.7
Non-Food Production Index	-3.9	1.1
Crop Production Index	0.4	3.0
Yields:		
Groundnut	0.9	0.91
Millet	-0.5	0.13
Sorghum	-1.8	1.63
Rice	0.5	0.06
Cotton	-2.1	0.90

Sources: African Development Indicators; FAOSTAT.

TABLE 3.5 SELECTED AGRICULTURAL EXPORT PRODUCTS, 2000

Products	Value FOB (Million $)	Percentage of Total Exports
Groundnut Oil	67.2	9.7
Groundnut Cake	15.5	2.2
Fresh Fruit and Vegetables	7.7	1.1
Hides and Skins	7.8*	1.1
Cotton Lint	6.1	1.1
Tobacco (leaves and other products)	4.9	0.7
Confectionary Groundnuts	3.0*	0.4
Other Agricultural Exports	27.7	4.0

Notes : * - values are different from those provided by the Senegal Department of Statistics.
Source : Value of exports from Food and Agriculture Organization (FAO); percentages calculated using total exports figure from Senegal.

There is potential for a recovery in Senegal's agricultural exports over the medium term, with the largest growth potential likely to be among fresh fruits and vegetables, building upon the on-going momentum developed under the Agricultural Export Promotion Project (AEPP) of the World Bank. Such exports are expected to at least double over the next five years and could grow even more substantially if current plans for infrastructure improvement and supply chain development are brought to fruition. Smallholder farmers will continue to feature prominently in an expanded horticultural export drive. In the dominant groundnut sub-sector there is little prospect for growth in groundnut oil exports, given a stagnant world market with intensified competition from less expensive vegetable oils. There is, however, an evident opportunity to expand the country's exports of confectionery groundnuts for which market prospects are somewhat better and there is scope to substantially increase the returns to growers. Confectionary nut exports could be increased some five-fold over the next five years.

There are several other modest opportunities for agricultural export growth in the medium-term. One is for cotton, including high-quality long-fiber cotton grown under irrigation, although international cotton prices are expected to remain at historically low levels in the near term due to structural global surpluses and the high subsidization of production in several important countries. A reasonably effective support system is currently in place for Senegalese cotton. There are also considered to be modest opportunities for export growth for Senegalese cashew nuts, gum arabic, sesame, and natural herbs, although these sub-sectors have very limited support structures. Each of these crops are grown by low-income farmers and require relatively low cash outlay. Whether Senegalese producers (and exporters) can meet increasingly stringent quality and other standards is a major challenge cutting across the full spectrum of its agricultural exports. Attention here focuses upon the export prospects and challenges in those sub-sectors with greatest medium-term potential.

Fruit and Vegetable Exports

Exports of fresh fruit and vegetables to Western Europe were initiated in the 1970s, following a significant investment by a Dutch company. By the late 1970s the country was exporting nearly 13,000 tons of melons, green beans, and other vegetables. However, a dispute over labor practices and other factors led to the withdrawal of the Dutch company. What followed was the fragmentation of the industry, with exporters being very small in scale who enter and exit the export market opportunistically, who do not invest in long-term trading relationships or in post-harvest cold chain facilities. As a result, Senegal has failed to take advantage of the burgeoning demand for off-season vegetables and tropical fruits in Europe during the 1980s.[55] A modest expansion in these exports followed upon the devaluation of the CFA in 1994, yet the industry remained structurally weak with a narrow product focus and a lack of an effective cold chain.

In the past three years there has been a new dynamic in the fruit and vegetable export industry, in part driven by a series of catalytic interventions under an Agricultural Export Promotion Project (AEPP) and also supported by renewed interest by several international companies in investing in aspects of the Senegalese supply chain. Under the AEPP—implemented by an autonomous apex agency—measures have been taken to: (i) conduct market research on existing and prospective products; (ii) conduct field, post-harvest, and shipping trials on various products; (iii) promote increased plantings

[55] During the 1980s, Senegalese fruit and vegetable exports—dominated by green beans—averaged about 2,500 tons.

of products with high market demand; (iv) strengthen producer and commercial associations active in the sector; and (v) increase awareness about quality and phytosanitary standards in overseas markets. There are on-going plans to rehabilitate the freight handling facilities at Dakar airport, extend the cold chain upstream through the establishment of packing and cooling centers, and strengthen quality and company management capabilities through training, technical assistance, and demonstration projects.

The initial benefits from these catalytic interventions are already evident. Between 1998 and 2001 the volume of fruit and vegetable exports increased by some 41% and became more diversified with particularly rapid growth in exports of cherry tomatoes and mangoes—to complement the longer standing trade in green beans [56] For both cherry tomatoes and mangoes, Senegal is able to supply the European market at a time when other competitors have little or no supply—that is, Senegal services a distinctive 'market window'. The same applies for a variety of melons for which Senegalese exports have also increased. Significantly, most of the growth was associated with the sea shipment of produce which was only introduced a few years ago. Senegal has significant advantages over some of its competitors with regard to sea freight time[57] and costs, yet the absence of effective shipping services and the lack of supporting local port and other infrastructure prevented the realization of these gains under recently.

As Table 3.6 suggests, Senegal's fruit and vegetable exports are conservatively expected to double between 2002 and 2007, with virtually all of the growth coming from sea-freighted produce.[58] The fresh produce export basket is expected to become more diversified with especially rapid growth for cherry tomatoes and mangoes, the development of pre-packing of green beans, further growth in melon exports, and the emergence of exports in other products, including papaya and asparagus. There are also some significant opportunities for import-substitution in this sector, especially for onions and potatoes (see below).[59]

3.2.2 Several challenges on the road to realizing this growth potential

To realize these growth targets and enhance incomes throughout the export supply chain, Senegal will need to overcome a number of constraints and begin to broaden its market destinations beyond the current focus on the French and Belgian markets. With a well-focused sector strategy exploiting Senegal's propitious climate and favorable geographical position (near to Europe, North America), this is achievable. Challenges

[56] No reliable statistics are available on the number of farmers presently producing fruit and vegetables for the export market. The bulk of supply continues to come from smallholder farmers located in the Niayes

[57] Shipping times from Dakar to Northern Europe are five or six days, compared with up to 8 days for shipments from Cote d'Ivoire and Israel and two weeks or more from South America and South Africa.

[58] Geomar (2001) provides a more ambitious target of more than 54,000 tons of exports by 2006, which could result in some 30,000 jobs, either at the farm level or at other parts of the export supply chain.

[59] Onion imports have increased sharply in recent years, reaching some 52,000 tons in 2001.

that need to be dealt with in such a strategy include: (i) alleviating infrastructure bottlenecks and developing the export cold chain; (ii) instilling a total quality management ethos and adhering to increased product and process standards; (iii) diversifying the areas of production beyond the Niayes area; and (iv) improving managerial capabilities within the sector and specialized business support services.

TABLE 3.6 SENEGAL FRUIT AND FEGETABLE EXPORTS (TONS)

	1998	1999	2000	2001	2002 estimated	2003 projected	2007 projected
By Air							
Green beans	4,922	5,382	5,899	5,521	3,894	3,400	4,000
Cherry tomatoes	500	500	450	400	261	250	250
Mangoes	281	300	300	300	300	350	400
Melons	0	0	0	0	5	0	100
Others	300	300	324	350	350	450	2,000
Subtotal	**6,003**	**6,482**	**6,973**	**6,571**	**4,810**	**4,450**	**6,750**
Percent change		**8.0%**	**7.6%**	**-5.8%**	**-26.8%**	**-7.5%**	**51.7%**
By Sea							
Green beans	0	0	10	150	1,537	3,000	6,200
Tomatoes	369	301	1,426	1,875	2,181	2,800	4,000
Mangoes	0	377	317	650	1,500	2,000	3,000
Melons	220	517	503	106	50	300	1,500
Others	0	0	0	0	10	100	1,000
Subtotal	**589**	**1,195**	**2,256**	**2,781**	**5,278**	**8,200**	**15,700**
Percent Change		**102.9%**	**88.8%**	**23.3%**	**89.8%**	**55.4%**	**91.5%**
Total Exports	**6,592**	**7,677**	**9,229**	**9,352**	**10,088**	**12,650**	**22,450**
Percent Change		**16.5%**	**20.2%**	**1.3%**	**7.9%**	**25.4%**	**77.5%**

Source: PPEA, June 2002.

Alleviating infrastructure constraints. Air transport of fresh produce is comparatively costly[60] and was severely interrupted by the bankruptcies of a number of carriers, a situation that in recent months has been eased considerably. The construction of a modern cold storage and freight handling facility at the Dakar airport—in 2003 under the AEPP—will improve the quality of air-freight services. As horticultural production increases in the Fleuve, new and improved transportation and storage facilities will be required. Air shipment from St. Louis, which has relied on occasional charter flights for cargo space, may get more regular cargo service in the near future. Several private companies are currently exploring the feasibility of investments in port and related handling facilities for sea shipments. Such investments, by increasing the availability of refrigerated ocean transport from Dakar to Europe, would lower the cost of shipment of larger volumes.

[60] Although Senegal does enjoy lower airfreight rates than Kenya and Southern African suppliers which are considerably further from the European market.

Strengthening the upstream cold chain will also be essential to improving product quality and reducing post-harvest losses. The fragmentation and inherent risks of the industry imply that some kind of public involvement would be necessary. A model that could be used is to have the public sector fund the setting up of facilities, which are then leased to the private sector for a fee. The AEPP plans to adopt such a model in setting up a packing house facility in the Niayes which would rent out space to exporters and demonstrate a set of management and service 'good practices' for future replication by private entrepreneurs and others. Depending upon the particular products for export, such a model may also be used in establishing cooling and collection centers in or around the main production areas, under private management possibly with combined private and public investment. Such a model could also be used for the development of a more modern wholesale market for fruit and vegetables that would assist in directing produce more efficiently to alternate destinations – urban retail markets, the local food processing industry and export channels- and in improving quality and sanitary standards.[61]

Improving quality and meeting product and process standards in importing countries. The fresh produce industry is currently fragmented. Of the forty existing exporters, only two export more than 500 tons a year and only another eleven export more than 100 tons a year. Most firms in the sector trade opportunistically, seeking a margin on their sales but investing little in systems for quality control. Most exports are made on a consignment basis. This pattern of trade is not sustainable in the face of increased product and process standards and does not provide a basis to compete effectively with experienced international suppliers (that is, Kenya, Israel, Mexico, and others). There is a need to put in place systems for total quality management which will embrace the application of 'good agricultural practices' (GAP), the development of sound record-keeping systems (to facilitate traceability), the implementation of Hazard Analysis Critical Control Point (HACCP) principles throughout the supply chain, strict adherence to pesticide-related regulations, and dedicated quality control arrangements for different products.

A good start has been made under the AEPP with the compilation of a detailed reference manual on quality and food safety regulations and requirements, the establishment of an maximum residue limits (MRL) monitoring program with a private company under the authority of the Departement de Protection des Vegetaux, and a series of training and awareness workshops. The project will soon undertake an assessment of the quality and food safety management systems of individual export companies. There will likely be future technical assistance, training, and financial needs for companies to upgrade their quality control systems. There may be value for the industry to adopt and implement a 'code of practice' comprising business ethics, quality control, environmental management, and social welfare components, in alignment with similar codes being adopted within Europe.

A system for certifying adherence to quality, food safety, pesticide residue, and other requirements will need to be developed, yet this need not be within government and

[61] It is understood that the Japanese Government will be supporting a feasibility study for such a wholesale market in the near future.

could be delegated to a third-party certifying agency, perhaps even one which operates at the West Africa regional level. Technical assistance could help in identifying and applying appropriate best practice models from elsewhere in the world.

Diversifying production areas. Land and water shortages limit the possible expansion of production in the Niayes, where two thirds of horticultural production currently takes place. While water is plentiful and much cheaper in the Senegal River basin, which has begun to draw horticultural entrepreneurs from the Niayes, the expansion there may be constrained by uncertain land tenure security for investors (both domestic and foreign) [62] and by the lack of marketing infrastructure in that area.[63] However, it should be possible to develop arrangements for secure usufruct rights to irrigable land in the area (see recommendation in section 3.2.3). The continued expansion in export-oriented production in the Senegal River basin will eventually require investment in packing/cold storage facilities and perhaps the construction of an airport at St. Louis dedicated to the handling and uplift of fresh produce for exports. Again, the model of public funds and private management discussed above could be used here. The Senegal River basin—especially the middle and upper parts of the valley—is also the most appropriate locale for expanding domestic onion production and thereby substituting for rising levels of imports. The package of needed interventions includes the introduction of seed varieties which can extend the onion harvesting period, support for farmers in undertaking group marketing, and technical advice and investments to enable proper storage of the crop.

Improving managerial capabilities and business services. Weaknesses in agribusiness management skills hampers the ability of many Senegalese export operators from responding to the needs of their clients and prevents them from cultivating new, more demanding, clients such as supermarket chains outside of the traditional markets for Senegalese produce. On-the-job training programs and apprenticeships as well as increased participation in training programs at national or regional business and horticultural schools would be beneficial. There may be opportunities for twinning or network relationships with other privately or publicly sponsored programs for horticulture (in such countries as Kenya, Chile, Egypt, and Israel). There is also a need to develop a broader pool of national and regional business training and technical service suppliers to enable industry operators to upgrade their products and systems without having to rely upon more costly international consultants. This is an area where assistance from external organizations would be helpful and needed.

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[62] The national domain law of 1964 remains the operative legislation for land tenure. It makes access to irrigable land difficult, and is frequently seen as poorly adapted to local customs and out of tune with reality. It is also claimed that the absence of clear regulations on the right of Rural Communities to assign and reassign land has led to corruption, increasing conflict over land and outright hostility to the law in some areas. On the other hand, the 1964 law has given farming rights to numerous rural families who previously had none.

[63] There are also some concerns about possible shortages of labor in the Senegal River basin although this area has historically been an area from which people have emigrated and those investments which have taken place in the area have stimulated localized movements of people to take advantage of the job opportunities made available.

Groundnuts

For well over a century groundnuts have been the backbone of Senegal's agricultural sector and until the 1960s accounted for about 80 percent of its total export earnings. The majority of Senegalese farmers have for generations rotated groundnuts and millet in their fields, deciding how much land and labor to devote to each on the basis of relative prices, available stocks of seed and food, and access to fertilizer and animal traction equipment. Nearly three-fourths of Senegalese smallholder farmers still grow groundnuts for own consumption and sale, while many others derive income from the transport, storage, processing, and sale of this crop.

For many years, the Government's support to agriculture has had a distinct groundnut bias, in terms of official price supports, provision of credit, and technical and logistical services. Since the early 1970s, the processing and marketing of groundnuts has been dominated by a parastatal—SONACOS—making this entity a powerful force in distributing government resources (and collecting taxes via pricing arrangements) in the so-called Groundnut Basin in the center of the country.

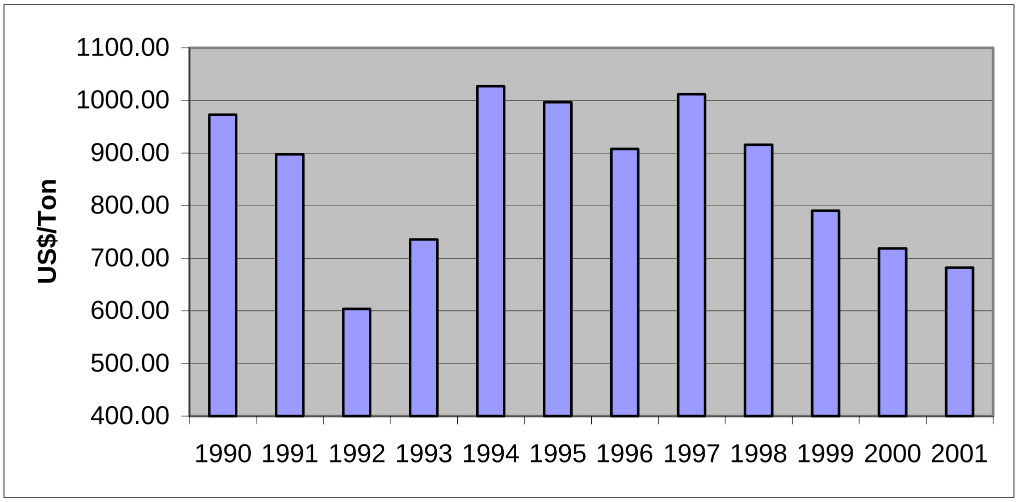
Senegalese groundnut production reached its peak level in 1975 at 1.25 million tons. With inadequate price incentives and declining yields, production declined sharply through much of the 1980s and by 1990 was down to 720,000 tons. A further decline occurred through much of the 1990s, with production reaching a low point of only 506,000 tons in 1997/98. Over the past three years, however, there has been a substantial recovery in national production, exceeding one million tons in both the 2000/01 and 2001/02 seasons.

This resurgence in production was driven as much by politics as by market or economic factors. In fact, over this (recovery) period world prices for groundnut oil have continued to decline as the product is coming under increased competition from less expensive vegetable oils which are also deemed to be more healthy. In 2000 and 2001 SONACOS paid producer prices well above their export parity level, in contravention of an existing 'framework agreement' which had provided the basis for international donor support for the sector.

Despite the recovery of production, there are major problems related to product quality, farmer productivity, and overall economic efficiency within the sector. Most groundnut farmers continue to use unimproved varieties and poor quality seed, utilize animal traction equipment which is at least twenty years old, and apply poor storage practices which result in high levels of aflatoxin contamination. The bulk of production is of low quality nuts which are processed into groundnut oil for subsequent sale in the domestic and European markets. Senegal has experienced a decline in its international market share over time.

SONACOS loses money on its groundnut operations but recoups some of it by importing vegetable oil, which it refines and sells domestically. A high tariff on imports of refined oil protects this market for SONACOS and penalizes Senegalese consumers. Several past efforts have been made to privatize SONACOS, yet these attempts were stymied by the government's refusal to modify the mandate of SONACOS (in particular the performance of social functions), by the cross subsidization of its various operations and by disagreements on the scope and manner of splitting SONACOS' various operations into different enterprises.

FIGURE 3.1 WORLD PRICES FOR GROUNDNUT OIL



Source: United States Department of Agriculture; FAO.

Given a stagnant world demand, Senegal's oil mills cannot profitably crush more than 400,000 tons of unshelled nuts. With another 100,000 tons used for seed and with domestic consumption not much higher than 200,000 tons, this leaves up to 300,000 tons for export to regional and other markets, where prices are weak; when the harvest is abundant, the problem is even worse. The growth potential, which does exist relates to increasing production of high-quality confectionery groundnuts for sale to European and perhaps to other markets.[64] Recently, total exports of confectionery groundnuts have been running at a meager 5000 to 10,000 tons per annum, mainly consisting of small lots sold on an *ad hoc* basis.[65]

The expansion of confectionery groundnuts therefore should be a priority for Senegalese agricultural sector. A study has shown that the (private sector) NOVASEN 's Arachide de Bouche (ARB) contract-fixing scheme significantly increases the incomes of contracting farmers and that poor farmers can benefit as much as anyone. Success will take time and should follow a carefully designed strategy to ensure that the Senegalese product consistently achieves the high quality and health standards requested by the world market so as to create a good reputation for the Senegalese product.[66] Particular

[64] The U.S. market is heavily protected and most of the preference market access there is reserved for Argentina.

[65] In contrast, some 49% of Argentina's groundnut production is exported as unshelled confectionary nuts. Oilseed groundnuts is the residual or by-product use, both domestically and for export.

[66] Throughout the 1990s, exports of confectionery groundnuts from Africa have generally received substantial discounts from prevailing world prices, primarily due to problems of

attention needs to be given to varietal selection, post-harvest handling, and subsequent storage to minimize the incidence and level of aflatoxin.

The *Comité National Interprofessionnel de l'Arachide* (CNIA) has initiated a pilot Arachide *de Bouche/Diversification* program in the Senegal River basin (the Fleuve) with EU financing and scientific and technical help from the *Centre de Coopération Internationale en Recherche Agronomique pour le Développement* (CIRAD). The pilot will test research results for the entire chain from seed variety selection to preparation for export. CIRAD intends to provide training and transfer a quality assurance system to the actors in the chain. It will monitor the operation for a year and undertake test exports. Under the project, the Institut de Technologie Alimentaire will be obtain equipment for its aflatoxin control laboratory and will subsequently need to obtain international accreditation.

Although the groundnut sub-sector and vegetable oil industry has been liberalized, the parastatal SONACOS continues to play a major role in the industry. For the 2001/02 season, SONACOS purchased about one-third of the domestic groundnut crop, and continued its past policy of paying the same price for oilseed and confectionary groundnuts.[67] While private companies—including NOVASEN—have begun to differentiate between oilseed and confectionary nuts—paying about 10% higher for the latter the past two seasons—for most farmers there is still little incentive to produce quality nuts. To reach Senegal's potential for confectionary nut exports—which could reach more than 50,000 tons in the next five years[68]—would require greater incentives (specifically market-based pricing) for quality production, and higher quality seed.

Cotton

In the West African context, Senegal is a very small producer of cotton. Its 2000/2001 seed cotton production was just over 20,000 tons compared with nearly 600,000 tons for Mali and nearly 300,000 tons for both Burkina Faso and Cote d'Ivoire.[69] Senegalese cotton production was considerably higher in the 1970s and 1980s and reached a peak output of nearly 50,000 tons in 1991. In the early to mid-1990s, seed cotton production fluctuated from year to year, yet declined sharply in 1998/99 and 1999/2000 due to virulent pest attacks which had a devastating effect on yields. There has since been some recovery in production—with the 2001/02 crop climbing back to 35,000 tons—and, despite very low current world prices for cotton, the *Société de Développement des Fibres Textiles* (SODEFITEX), the cotton parastatal, wants to expand rainfed cotton to 50,000 tons within four years.

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aflatoxin and the need for importers to have to crush the nuts into oil rather than sell them into the higher value confectionery market.

[67] The emergence of a very dynamic informal market, particularly around Touba, has been observed.

[68] Based on the experience of possible comparators are Vietnam and India, whose groundnut production is also based on smallholders, and which were able to achieve expansions of confectionary nut exports of 50,000 to 100,000 tons in the course of the 1990s. Total world trade of groundnuts is around 1 million tons.

[69] Senegal accounts for less than 1% of the total seed cotton production of sub-Saharan Africa.

SODEFITEX supports production, buys seed cotton, gins it and exports 90 percent of its production. Procurement prices for SODEFITEX are set by the Government and are not related to world market prices, so that the Government incurs substantial losses when world market prices for its production drop below what is required for breaking even. Its ginning capacity is twice the current level of domestic production although the company also gins seed cotton produced in neighboring Guinea. In addition to cotton, SODEFITEX has a rural development division that supports farmers with cereals and other crops and with livestock development. Maize production amongst the more than 50,000 supported cotton growers has increased substantially in recent years.

Government is looking to increase the capitalization of SODEFITEX and to reduce its own stake thus becoming a minority shareholder. The Federation of Cotton Producers is expected to become shareholders in the new entity. So as to better exploit Senegal's comparative advantage in cotton production SODEFITEX has recently started testing the possibility of producing long-fiber cotton under irrigation in the Senegal River Basin. Expansion of the pilot program to up to five thousand hectares will depend on getting access to land (see recommendation below) and investment capital. The availability of irrigation—which is contingent on access to financing—holds the possibility of double cropping with maize, and, it is hoped, will attract farmer interest in cotton production in a region that traditionally has not grown cotton.

3.2.3 Outline of an action plan

Recommendation 1. *Institute carefully designed but limited land reform measures in the Senegal River basin in order to provide land access to export producers while benefiting rural communities.*

Three options to modify the present land legislation have been explored in a 1996 *"Plan d'action foncier du Sénégal":* maintenance of the status quo, a privatization option and a mixed option where both private land and the national domain would co-exist. The third option appears the most realistic, and a decision should be made to change the present legislation to permit land transactions, which are now widespread but technically illegal, without allowing rural households to be exploited. Such legislation could recognize that usufruct rights are negotiable, create localized arrangements where usufruct rights could be leased, sold or loaned temporarily, authorize the transformation of usufruct rights into property titles, and require rural communities to establish plans for land use and development.

It would seem prudent to limit the application of such new legislation initially to a single agro-ecological zone, one where steps have already been taken in this direction and where the benefits could be substantial within a few years. The Senegal River basin is such a zone. The *Société d'Aménagement et d'Exploitation des Terres du Delta du Fleuve Sénégal (SAED)* has already developed land use plans, while the French Development Agency (AFD) has initiated the process of studying agricultural marketing finance and investment in the Senegal River basin. The study will examine the current situation, under which land tenure constraints stymie the initiative of both foreign direct and domestic investment in the agricultural sector. The new approach to land tenure in the

Fleuve area would provide enterprises with clear access to irrigable land and Rural Communes compensation for leasing their usufruct rights. There is some urgency in finalizing such legislation given the interest of CNIA in confectionery groundnuts, of SODEFITEX in long-fiber cotton, and of horticultural producers in expanding operations in the Senegal River basin.

Recommendation 2. *Ensure that the progress made by AEPP in promoting and diversifying horticultural exports products and markets is sustained and further developed by facilitating the evolution of the project's implementation unit into an autonomous, non-profit foundation or trust.*

AEPP's efforts to develop and diversify Senegal's exports of fruit and vegetables should be sustained after the closure of the project, now expected to be December 2003. There is a possibility of a second phase of the project, yet, regardless, there is a need to facilitate the continued functioning of an apex catalytic organization serving the industry. Converting the PPEA into a trust or foundation could be an appropriate approach, with its mandate being to assist the industry in identifying and meeting emergent threats and opportunities and future challenges in relation to quality control and SPS management, packaging, logistics, new product development and so on.

The trust (or other entity) could become the owner and leasor of common user facilities within the Senegalese cold chain and continue to work with industry players to develop and field and market test new products. The unit should be autonomous, independent of both the government and the export associations yet should be in a position to accept outside assistance. The unit should also be the promoter for increased access to market information and the point of contact for foreign investors and importers. In this it should cooperate with the to-be-created OPE and TRADE POINT.

While the primary focus of the unit would continue to be export-oriented horticulture, the unit could also provide assistance for supply chain initiatives in relation to other specialty products for which Senegalese firms are seeking to improve their international position. This might apply to sesame, herbs and medicinal plants, or other products.

Recommendation 3 *Provide continued assistance to horticultural exporters to facilitate further improvements in product quality and the compliance with SPS and other standards of export markets.*

Continue efforts to build awareness of and private operator capacities related to quality and food safety management. Facilitate training programs in this area and enable exporters to utilize matching grant or similar resources to upgrade their production, post-harvest, and related monitoring systems. Through training and other programs expand the local (and perhaps regional) pool of technical experts in quality and SPS management who can provide for-profit assistance to the horticultural industry. Instead of placing quality control responsibilities with government, efforts should be made to develop the capacities and institutional arrangements to enable the export perishables industry to self-monitor and self-regulate. This would include supporting the development of an industry 'code of practice'(embracing environmental, social, business ethics and other standards), supporting a program to develop and apply a “Qualite de Senegal” label for fresh produce, and enabling the industry to appoint a third-party organization to oversee pesticide residue monitoring and to certify products to meet the quality and other standards associated with the “Qualite de Senegal” label.

Recommendation 4. *Improve the infrastructure in support of agricultural exports.*

Cold storage freight facilities are needed in both the port of Dakar and the Dakar airport. A partial solution is on its way in that a cold storage freight facility, to be managed by the private sector on a commercial basis, will be built at the Dakar airport, probably within the next year. Even though the larger horticultural exporters load refrigerated containers at their own sites, a cold storage facility is also needed in the port. The proposal of a Dutch firm to build such facility in the port is to be welcomed and should be facilitated to a successful conclusion.

Producers and small operators need basic handling facilities. The concept of small vegetable and fruit-processing centers with individual leased units, to be managed by a real estate company, could be further explored, as proposed by the AEPP. AEPP intends to build a prototype of such a facility. The idea of introducing a Kenyan model of small, low-tech shelters at the field’s edge, cooled by charcoal-fired heat exchangers, could also be pursued and demonstration models put in place. Serious study is merited of ways to improve transport of perishables from production sites on the Senegal River, including barge transport, and of needs for expanded and improved infrastructure in the St. Louis area.

Reliable and regular sea transportation will be essential for large increases in horticultural exports. Melon and mango exports, for example, could be greatly increased if there were reliable sea transport and as well as adequate cold storage in the port. The prospect of having the *Compagnie Fruitière,* whose ships come from Douala and Abidjan with banana cargo for delivery to Europe, stop on a weekly basis in Dakar would cut transport time to Europe to five days from eight days to two weeks. To take full advantage of this development, the competitiveness of the port of Dakar should be urgently and substantially improved (see above).

Air carriers out of Dakar have been particularly unreliable in early 2002 as several airlines suspended operations or reduced flights, but the situation has drastically improved recently with the resumption of flights by the successor of SABENA, SWISAIR. And the initiation of flights to Paris by Air Senegal. . Export performance would greatly gain if a solution were to be found to this shortage of cargo capacity to Europe. The efforts of Royal Air Maroc, both independently and as a partner in Air Senegal International, to increase the cargo traffic out of Dakar need to be supported and monitored. The involvement of charter freight carriers should also be facilitated. Encouraging greater provision of air cargo services would require, inter alia, liberal licensing of such services, ensuring competitive rates for fuels and non-restrictive landing rights.

Recommendation 5. *Facilitate an expansion in domestic production and distribution of onions and potatoes—as import substitutes, yet with medium-term potential for regional exports.*

The use of improved potato seed can allow producers who are well organized to provide a steady supply of good quality to hotels, resorts and super markets in Dakar and on the Petite Côte. The Niayes would remain the preferred site for production because of its proximity. Onion production in the Senegal River delta needs to be improved so that it becomes economically feasible to transport the product to consumption centers further south. This will involve better field techniques, particularly irrigation applications, and both community-based and commercial storage. For both onions and potatoes, studies need to be undertaken on how the private sector can overcome constraints to increasing exports. In this regard, SAED is currently providing help with respect to irrigation techniques.

Recommendation 6. *Promote the expansion of confectionary nut exports.*

As confectionery groundnut production has a greater return than production for groundnut oil, the exports of the former should be expanded from the current level of 5000 to10,000 thousand tons to a medium-term target level of 50,000 to 75,000 tons. While Senegal cannot expect to compete for the high end segment of this confectionery nut market, it can compete for the segment devoted to smaller “spanish” nuts used in peanut butter and chocolate confections. But competing in that market will still require production of nuts of consistent size, roundness and quality. They must also meet the tough European standards for aflatoxin.

The prudent, systematic approach to the entire production chain that has been adopted by the CNIA *Arachide de Bouche* program should be pursued to its conclusion over the next three to four years. The availability of high-quality seed continues to be a bottleneck. Remaining constraints and barriers to entry in seed multiplication should be reviewed and addressed. To meet international aflatoxin standards will require more effective communication of advice to farmers on proper post-harvest and storage practices as well as further capacity building on aflatoxin monitoring and testing. Exports of higher quality confectionary nuts can be conducted up pilot, carefully monitored trials (either through the CNIA project or the AEPP).

The development of confectionary groundnut exports would likely be accelerated if SONACOS were privatized with its assets sold off to one or several companies. During the 1990s there were several unsuccessful attempts to launch a privatization process for SONACOS. A renewed effort is currently under way, with a planned completion date of March 2003. Should this process be delayed, it is important that SONACOS not undermine the trend toward offering differential prices and other incentives to farmers to produce quality (exportable) nuts. That is, the market signals which SONACOS sends to farmers—in the form of its prices and grading of nuts—should be consistent with the more market-oriented strategies being employed by the emergent private companies.

3.3 TOURISM[70]

3.3.1 Background

In the mid-1970's, tourism was included as a priority sector in the Development Plans of Senegal. The Government invested in the sector and assisted private sector investors in a variety of ways: access to the Investment Code and cost free use of state-owned land. These incentives were enough to precipitate investment in the sector and since then tourism has developed modestly.

Senegal has a variety of first-rate natural and cultural assets that compare favorably with other destinations. Resort assets are the principal attraction during the winter season in Europe. Furthermore, Senegal's variety of birds, wildlife, big game fishing, scenic areas, scuba diving potential combined with a rich traditional culture, a vibrant arts scene and attractive handicrafts present a strong base for diversified tourism products. There is general appreciation that the sector could do better, and benefit more from the unique assets Senegal has to offer, given the good growth prospects for the sector worldwide. However, between 1975 and 1997 , Senegal dropped from 7th to 16th in WTO's ranking of top twenty tourist destinations in Africa, and it needs to attract investment to maintain its market share in an expanding international and regional market.

It is estimated that in 2000, tourism receipts were around 3.6 percent of GDP (US$158m.), which were nearly double the proceeds from groundnut exports, and around 60 percent that of fish exports. The sector is estimated to employ 12,000 people directly, and indirectly ensures employment for another 25,000. Overall, this amounts to 14 percent of all paid employment in the country. The sector has provided the base for economic growth in Petite Cote—the principal tourist region—and has the potential to help develop other regions with similar tourist assets.

The weakness of Senegal's tourist industry can been seen in the short average length of tourist stay, the dependence on one source market (France), the apparent low rate of repeat tourism and a relatively concentrated peak season. According to industry sources, these, as well as low occupancy rates and dependence on international tour operators, affect hotel profitability. Low profitability would lead to deterioration in quality, which in turn would lead to low competitiveness.

Currently, resort and business travel are the main sources of demand. However, the potential is clearly under-exploited. As Table 3.7 shows, the occupancy rates are less than 50%, with average length of stay of 5 days for resort areas (Thies and Ziguinchor). As a comparison, Mauritius—which Senegal considers as a model for tourism—has an average stay of 10 days and much higher occupancy rates (over 65% is desirable for profitability).

The President of the Republic has recently affirmed his desire to see the tourism sector contribute better to growth and poverty alleviation. His vision calls for stronger

[70] Details in Volume 2.

government support for the sector including better land use planning and monitoring of the sector's development, and efforts to attract foreign direct investment. High on the agenda are the effective participation of the local population in any tourism development, and the protection of the environment. The World Bank is also planning to include a tourism component in a project that includes master plans (see below) for 4 tourist areas; a series of studies on economic impact, profitability, pricing and marketing, and investment incentives; support for an "Office du Tourisme"; and capacity building for stakeholders (mainly for the private sector).

TABLE 3.7 DISTRIBUTION OF BEDS, AVERAGE LENGTH OF STAY, TOURIST BED NIGHTS AND OCCUPANCY RATES BY REGION, 2000

Region	Beds (%)	Average Length of Stay (days)	Tourist Bed Nights (%)	Occupancy Rates (%)
Dakar	34.9	2.4	38.4	31.6
Thies	25.7	5.6	45.7	48.1
Ziguinchor	21.0	5.2	7.6	36.2
Saint Luis	6.4	2.0	4.4	20.0
Fatick	6.4	2.7	2.8	19.6
Tambacounda	3.0	1.6	0.6	9.4
Kolda	1.3	1.5	0.2	6.9
Kaolack	0.9	1.7	0.4	19.0
Louga (Grand Cote) & Diourbel	0.4		0.0	
Total		**3.4**		**35.4**

Source: Calculations from Ministry of Tourism data

Senegal can achieve considerable expansion of demand and investment for tourism if it plans for development effectively in a modular or phased way. Such an approach would take it through three five-year stages--transition, expansion and consolidation. During the transition stage, Senegal could focus on creating a sound business environment for tourism that will attract private investment and external assistance to help expand, diversify and support the tourism industry. This would benefit from improved dialogue between the public and private sectors and between the Ministry of Tourism and other government departments with tourism-related responsibilities, to formulate appropriate policies for the sector. For tourism development to be sustainable, master plans are essential. These would emphasize physical planning and zoning and putting in place environmental regulations, as well as incorporating cultural assets and local communities into the tourism product. They would be "blueprints" for development that would also address cross-cutting policy constraints and institutional issues that vary depending on the regions and types of projects.

3.3.2 Strengths and opportunities of the sector

- *High world demand for tourist products.* In the past decade, world tourism receipts doubled, a trend that is expected to continue according to the projections of the World Tourism Organization (WTO). According to World Bank projections, between 2000-2004, tourism is projected to grow at an annual rate of 9 percent, compared with an annual rate of 6 percent for world trade.[71] With a good tourism development strategy, Senegal could benefit from this favorable growth perspective.

- *Positive image:* Senegal's image abroad is positive in terms of hospitality of the population and political stability. In particular, the recent peaceful change in political leadership has been greatly appreciated internationally.
- *Diversity in offering*: Offerings of interest to tourism is potentially diverse, even if this has not yet been fully exploited. The sunny coasts attract tourists from Europe during the winter season; the city of St. Louis and the Island of Gorée have substantial historical interest and there is substantial scope for cultural and ecological tourism, as well as business tourism, targeting both African and non-African markets.
- *Proximity:* Senegal is close to Europe, a major tourist source, and is not too far from the US market.
- *Renewed interest for the development of the sector by the highest authorities:* On the occasion of the "*Journées Nationales de Concertation sur le Tourisme*" held in March 2002, the President announced Senegal's ambition to attract 1.5 million tourists by the year 2010 and to implement a number of policies that would make this possible. These measures include strengthening of the Tourism Ministry, creation of an Office du Tourisme that would facilitate private / public dialogue; manage promotion of the sector; tackle the issue of access to land and land use planning; and attract FDI.

3.3.3 Weaknesses of the sector

- There is no national development strategy for the sector. In the 1970s, the Government made heavy public investments in hotels and infrastructure. Since then, most of the~~se~~ hotels have been privatized. The Ministry of Tourism is not well structured to attract investment and regulate the sector (the Ministry was even abolished for several months in 2001).
- The tourism sector's strength in contributing to foreign exchange earnings, employment creation and regional economic growth is only partially known, and its potential to be an instrument of regional development has not been realized. As a result, the sector has not attained the visibility or importance it deserves. This has led in part to neglect of the sector, whose needs in terms of infrastructure, transport facilitation, professional training, environmental protection and so on, do not get the importance they deserve.
- As a result of the above, development of the sector has been haphazard, and did not follow a transparent planning process that would have permitted coherent investment in the various infrastructures in support of a dynamic sector. Only the Saly beach resort on the *Petite Côte Region* was developed by a parastatal organization (SAPCO) with the intention to provide a structured and coherent development plan for its geographic region, and that experience was only partially successful. These shortcomings are being addressed in the context of a World Bank project mentioned above.
- While the private sector has been active in identifying issues and making suggestions for progress, only recently has there been any meaningful dialogue (*les*

[71] Source: Global Economic Prospects, 2002, the World Bank.

journées) between the private and public sector on issues that are important for the development of the sector.

- The sector is excessively dependent on beach tourism that has a distinct seasonal pattern, and therefore leaves the tourism infrastructure heavily underutilized for the rest of the year (annual occupancy rates are less than 50 percent). The sector fails to take advantage of the rich cultural offerings that Senegal has to offer; the successful example of the well-attended Jazz festival in St. Louis could be repeated in other regions. Eco-tourism, hunting and bird watching are developed only in a very minor way, despite the substantial possibilities that the country offers.
- The promotional efforts of Senegal for major source markets are underdeveloped. As a result, Senegal loses potential tourists to better advertised destinations.
- Access to land, a major component for any tourism investment, is very difficult as most land is owned by the State and a special Presidential decree is needed to take ownership of the land or receive a long term lease. Under present administrative conditions, these procedures take on average 10 years. This situation also prevents investors to have access to medium and long term credit, for which land ownership or long term lease is required as a bank guarantee.

3.3.4 Suggestions for an action plan

Implementation of coherent and well thought out initiatives will help Senegal take better advantage of the great potential that tourism brings for development and employment creation. The following set of recommendations help define such initiatives.

Recommendation 1. *Create a Presidential Commission that will define and implement a well-articulated tourism sector strategy.*

Such a strategy should include a vision for growth and diversification of the sector, how this will be accomplished, with priority actions and an implementation plan. In his address to the *Journées Nationales de Concertation sur le Tourisme*, President Wade sketched in broad lines what the objectives of the plan could be and highlighted some of the elements of such a strategic plan. These ideas now will need to be fleshed out. This will obviously be a gradual process, but in the early stages the strategy should include the various steps that will be undertaken within a clearly defined time frame. These steps should identify why they are part of the strategy, what their objectives are and who will be accountable for their implementation.

First and foremost, the strategy should be given high political endorsement. Experience of other countries has shown that the tourism sector benefits greatly from this support, as it mobilizes the energies of other sectors that are crucial for the success of the tourism sector.

Recommendation 2. *Strengthen the Ministry of Tourism that is to coordinate public sector support.*

The Government has the role of writing policy and regulating the sector, spurring investment and acting as advocate for the sector both inside and outside the country. To achieve this, it must be well informed and operate within the framework of a transparent plan. Now that the Government has decided to accord importance to tourism, it is time to strengthen the Ministry by giving it the human and physical resources necessary to lead a modern, dynamic tourism sector.

While the Ministry of Tourism has overall responsibility, tourism is cross-cutting and will require inputs from a variety of ministries and institutions. Hence a coordinating Committee may well be needed, which will serve as a mechanism that monitors progress and can call on the highest authority to solve disputed issues and prompt recalcitrant parties into action. This Committee-for which the Ministry of Tourism might be the secretariat—should preferably be placed under the authority of the Prime Minister and should have representation of the Ministries of Finance, Commerce, Transport, Culture, APIX, and so on.

Recommendation 3. *Create an* "Office du Tourisme " *to formalize the dialogue between the private and the public sectors and to undertake promotional activities.*

Private sector providers of services to tourists are the ones that are most interested in the development of the sector. They should have a voice in the decisions pertaining to the development of the sector and should be made responsible for the promotion of tourist services. An *Office du Tourisme* that is properly set up and run could serve this purpose. The experience of other countries suggest that these tourist boards work best if they are run by a majority private sector board of directors, are staffed by professionals that are paid private sector salaries, and have financial autonomy even though they may benefit from budget support. The board should also have well defined evaluation processes to ensure that they are responsive to the demands of professionals and that they actually achieve results. They should also be closely monitored. In some countries this support is in the form of an earmarked tax that in fact would take the form of a cost recovery charge on the provision of selected tourist services, much as the present tourist tax. The *Office du Tourisme* would replace the *Association pour la promotion de l'industrie du tourisme au Senegal* (APITS).

Recommendation 4. *Access to land should follow a well thought out strategy and made easier* (plans d' aménagement du territoire).

Tourism development greatly depends on access to land and adequate infrastructure. The present situation in this respect seriously handicaps the development of the sector. The government should explore options as to how to manage land issues for tourism, including drawing from the experience of the Societe d'Amenagement de la Petite Cote and other approaches to *agences foncières.* A master plan should then be developed and managed by the agency proposed. Studies should be undertaken to define the feasibility of such an agency and work should be undertaken for the preparation of these *plans d' aménagement du territoire* for the various areas where tourist development is to be stimulated. While it might appear attractive to have a single *agence*, it might be more economical and rational to have an *agence* for each of the regions that are targeted for tourism development. Such a decentralization of the effort could better take into account the considerations of the local population and the special tourism assets of these regions.

The infrastructure that would be accompanied by the implementation of the master pan would also need to fit into the overall regional development plan. A streamlined procedure would then need to be put in place to permit private sector operators to promptly accede to the land at reasonable cost. Access to land should come in a form that permits the owners or long-term leaseholders to use their ownership or lease as collateral to obtain bank credit. Competitive bidding should be strictly adhered to in the process of giving access to development sites.

Recommendation 5. *Improve business environment for enterprises engaged in the tourism industry.*

Improvements in the business environment would be important for the tourist industry as for other industries (see Chapter 2). Given its very nature as an export industry, tourism should benefit from the same advantages granted to export firms. A review of the incentive framework of the sector as compared with other sectors of the Senegalese economy and the tourism sector in other countries should be undertaken. This would clarify the situation and provide the basis for a dialogue between tourism operators and the authorities, in view of making the necessary corrections if these are warranted by the study. Such a study is proposed under the forthcoming World Bank financed project to support private sector development.

Recommendation 6. *A marketing strategy should be elaborated to guide promotion activities.*

Successful tourism promotion strategies are well-targeted exercises and need to be managed professionally. An initial approach to such a targeted exercise was undertaken under the recent “Etude de Grappe” for the sector. The operational implications of the strategy should be elaborated and measures taken to implement it. Such a strategy would greatly help in the elaboration of a business plan for the “Office du Tourisme”.

Recommendation 7 *The sector suffers from weak human resources at various levels.*

Evaluate the present training facilities for staff active in the tourism sector and assess the needs for improvements, either though pre-employment training or though continuing education.

Recommendation 8 *Seek out ways and means to have the tourism sector better benefit from the rich cultural heritage of Senegal.*

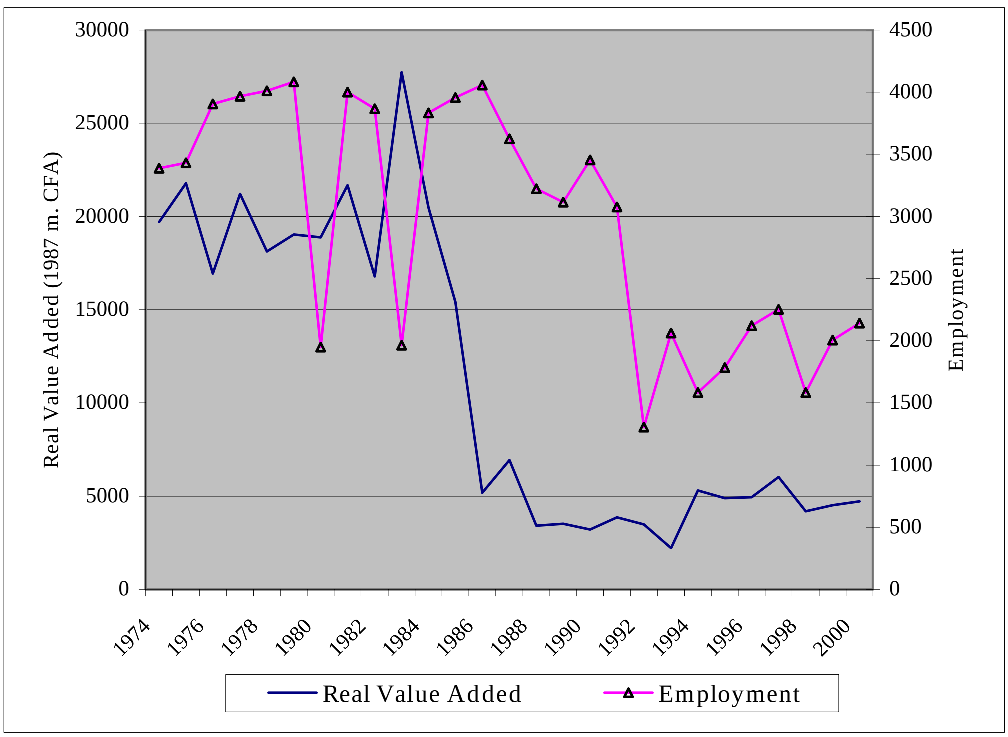
Events such as the Jazz Festival of St. Louis set an example of the cultural events that attract tourists. The review of the sector compared with other tourist destinations has also highlighted the contribution that cultural activities can make in enhancing the attractiveness of a country as a potential tourist destination. Exploiting the rich cultural heritage of Senegal in a way that both preserves and develops this heritage as well as benefits the tourism sector will require the participation of private sector representatives of the cultural sectors (music, handicrafts and so on) as well as those responsible for tourism development in the development of an action plan.

3.4 Garment and Textile Sector[72]

3.4.1 Background

Senegal is a small to medium-sized producer of high quality cotton. Much effort has gone into setting up an integrated textile-garment sector. Before independence, heavily protected and inefficient French textile firms were active in Senegal. Protection increased after independence and government support was given to major investments in the sector. Despite the provision of generous export incentives, advantages of the Investment Code and the establishment of a free-trade zone, this policy failed to foster a competitive sector. In addition, the overvaluation of the CFAF hampered the sector for the decade before the 1994 devaluation. The textile industry's production and employment fell over time. (Figures 3.2).

Figure 3.2 Senegal Textile Industry (Real Value-added and Employment)



Source: Golub, Stephen and Ahmadou Aly Mbaye, "Obstacles to export-led growth in Africa: industry case studies in Senegal", November 2000, mimeo. The data series was extended since the paper was written.

The sector presently consists of:

- A cotton-ginning factory (SODEFITEX) that exports about 90 percent of its production. All of SODEFITEX's output is sold at world market prices, but the price it pays to the local farmers is policy determined. This disconnect between input costs

[72] For details see Chapter XX, Volume 2

and world market prices strains the financial situation of the SODEFITEX when world market prices are low, as they have been the case for the last year.

- Three large textile enterprises (SOTIBA, ICOTA ,NSTS) operate in conjunction with five smaller firms (CCV, FTT, COSETEX, TSSEN and SOSEFIL). All struggle and operate substantially below capacity. According to most observers, their equipment is outmoded and costly to maintain, and management of the big firms is rather poor. FTT, created by the NSTS group, is the only firm equipped with new equipment. Since 1995 three new investments were made in the sector, but they failed to establish themselves and disappeared after a short period of operation.
- The garment sector is made up of 15 small and medium enterprises, mostly established in the industrial zone, with many tailors and few workers. A survey of the sector in 1996 counted 15,335 enterprises with employment of 32,696 owners/workers. The SMEs in the sector are mainly oriented towards making uniforms.

Much like a number of other cotton growing countries in the region, Senegal has failed to establish a competitive textile sector. It has also failed to benefit from the global trend of outsourcing clothing production that has characterized the success of many developing countries in the sector. Any chance of reversing this trend will need to take realistically into account the strengths and weaknesses of the sector and the opportunities offered by developments in access to consumer markets.

3.4.2 Strengths and weaknesses of the textile sector

Strengths of the textile sector are: (i) the proximity of a steady supply of domestically grown high quality cotton; (ii) the substantial technical skill that is present in the textile sector; and (iii) a garment sector that could draw upon the tremendous creativity and skill of the many tailors and artisans in the clothing sector that largely produce for the domestic market but have made some inroads in foreign markets.

Opportunities are presented by the Multifibre Agreement (expires in 2004) and AGOA that provide for a limited time privileged access to foreign markets. Skillful exploitation of such opportunities could be used to attract FDI to the sector. Moving to free trade within WAEMU (as advocated in Chapter 1) and increasing access to the markets of non-WAEMU ECOWAS member states present additional opportunities.

Weaknesses by and large are those shared with other industrial sectors of the economy, but sector specific issues also weigh heavily on the sector. Textile firms operate with a low level of efficiency due to obsolete equipment, poor management and overstaffing that will require substantial restructuring efforts and new investment to overcome. Extensive smuggling across the borders of Gambia as well as under-valuation of imports is practiced widely to circumvent the high levels of effective protection granted to domestic production. Large-scale imports of second hand clothing from developed countries further affected the survival of a number of firms.

The issues raised by the firms in the garment sector include: (i) lack of information on standards of import markets, and on outsourcing and partnership possibilities with foreign firms; (ii) unreliable local suppliers in terms of quality and timeliness; (iii) time-consuming and costly access to duty free inputs though recent improvements on this front were noted; (iv) erratic electricity supply that forces firms to purchase their own generators which substantially adds to the cost of production; (v) poor access to and high cost of credit; and (vi) near absence of formal training for garment sector workers. On the positive side, most of the firms interviewed had few problems with their labor relations or with the judiciary, probably because of their near informal nature.

3.4.3 Elements of an action program to invigorate the sector[73]

Recommendation 1. *Improve the competitiveness of the Senegalese economy and its investment climate.*

Many of the issues that handicap the textile sector also affect other sectors of the Senegalese economy, particularly the SME sector. The same recommendations for enhancing the competitiveness of the economy and improving the business environment (see Chapter 2) also apply here.

Recommendation 2. *Attract foreign direct investment.*

It is unlikely, but not impossible, that domestic investment alone will provide the quick impulse to invigorate the textile and garment sectors so as to benefit from the market opportunities presented by the MFA and AGOA. Moreover, experience in other developing countries shows that FDI has often promoted export growth, in addition to introducing new technology and improving management and marketing acumen. In the textile sector in particular, firms are highly mobile internationally to take advantage of low labor costs and favorable investment climate. Many countries inside and outside of Africa have benefited from this trend and have built up a significant industrial base and substantial exports. Senegal has so far failed to participate in this trend but has recently created APIX, which has a mission to correct this situation. APIX should be supported in this initiative and should focus its efforts on attracting foreign investors to the sector and assisting them in setting up their production facilities.

[73] Policies, heard at times by sector proponents, that should NOT be included in the Action Plan are: (i) implementing a program of compulsory school uniforms to enlarge the domestic market; given the widespread poverty prevailing in the country, such a policy would counter the government 's policy to increase school enrollment; (ii) prohibition of the import of second hand clothing (7,000 tons in 2001) that provides an economical way for the poor strata of the population to avail themselves of decent clothing; and (iii) new protective measures that would undermine the export orientation of the sector, which is its only chance for survival, and the free trade orientation of the Government of Senegal and WAEMU.

Recommendation 3. *Help SME penetrate foreign markets*.

The proposed Export Promotion Agency (EPA) (see Chapter 2) could help Senegalese SMEs—which dominate the garment sector—by providing market information and local producers with information on outsourcing possibilities. It will be up to the SMEs to demand such support from the EPA, and to participate in finding the necessary solutions.

Recommendation 4. *Education and Training*

Low wages are no guarantee for low production costs, as these costs are the result both of per unit labor cost and their productivity. As Senegal's labor cost is not particularly low in comparison with wage costs in the region or in other developing countries with which it would be competing on the world market, it is important that labor productivity be high. This will require that the general education levels of the labor force be raised and that well-targeted initiatives be undertaken to provide workers in the textile sector with the necessary training. Well targeted on-the–job training programs and demand-driven professional training initiatives need to be developed. Those that have been operative (for example *Federation des Professionnels de l"habillement, FENAPH*, launched in 1999 by the Government with support of the *Coupe Internationale de Paris* an "école de formation") should be evaluated and their *modus operandi* altered where needed (for example the requirement for the first batch of trainees to have a bachelor degree seems excessive and does not guarantee success and motivation).

Recommendation 5. *Strengthen the subcontracting practices already practiced in the sector, as this provides one avenue for small enterprises to join forces to honor contracts that exceed the capacities of a single SME.*

One avenue would be to build on the recent experience of the FENAPH, where a number of tailors were brought together to honor an important schools uniform contract. Also the experience of the functioning of the *Bourse de Sous Traitance* might contain useful lessons.

CHAPTER 4
TRADE AND POVERTY

Despite improvements in macroeconomic conditions since 1995 (see Chapter 1), poverty remains widespread in Senegal. Preliminary results from the 2001 household survey indicate that 54 percent of the Senegalese population live below the poverty line (defined as people living on less than 2400 calories per adult person per day). Poverty is concentrated in the rural areas, where 70 percent of the poor live. According to the PRSP (Box 4.1), this persistence of poverty in the face of good macroeconomic performance has been explained by investment weaknesses, and agricultural and industrial stagnation, which has hampered job creation even as the economy has grown.

BOX 4.1 THE STATUS OF THE SENEGAL POVERTY REDUCTION STRATEGY PAPER

The Interim Poverty Reduction Strategy Paper (I-PRSP) for Senegal was presented to the Executive Boards of the IMF and IDA in June 2000. In December 13-14, 2001, a seminar was held to discuss the first consolidated draft of the PRSP. The participatory process involved participants from various regional, educational, social and professional backgrounds. The PRSP was presented to the staffs of the IMF and IDA around the same time as the seminar.

The Joint Staff Assessment of the PRSP Preparation Status Report (March 20, 2002) concluded that the progress in developing the full PRSP was satisfactory. As such, it was recommended that further access to Fund concessional assistance and IDA adjustment lending be approved by the Executive Directors of the IMF and the World Bank. On May 15, 2002, the final version of the PRSP was sent to the IMF and the World Bank and a Joint Staff Assessment (JSA) of the PRSP was drafted. However, the clearance process was postponed until the Bank and the Fund finalize a timetable.

The most recent household survey, the 2001 Core Welfare Indicators Questionnaire (CWIQ), indicate that the poor are mostly working in agriculture, while those who are among the richest in Senegal are mostly employed in commerce, services, health and administration (Table 4.1 and Annex 4). At the same time, rural unemployment is much lower than urban unemployment—7 percent versus 25 percent in 2001, but also reflects significant underemployment. This means that reducing poverty would require raising incomes of those who work in agriculture, or that agricultural workers find alternative forms of employment that provide higher levels of income.

The measures proposed in the earlier chapters of this report are aimed at addressing these income and employment issues. Attaining higher growth in agricultural and non-agricultural exports would lead to higher overall economic growth, which is a key contributor to poverty alleviation. This would reverse Senegal's experience in the second half of the 1990s, during which exports actually contributed negatively to GDP growth (Chapter 1, Table 1.2). Specifically, the proposed measures could contribute to poverty alleviation in the following ways.

i. Fisheries. The proposed policy measures are intended to avert the potential collapse of fish exports, and help ensure sustainability of the sector. Initially, such measures may present transitional problems in terms of less absorption of poor agricultural workers into the fisheries sector. However, over the long run the policies should permit the sustained growth of the sector and hence improve the incomes of the people employed in the sector.
ii. Horticulture. The promotion of horticulture, which is labor intensive, should diversify agricultural employment and improve rural incomes.
iii. Groundnuts. Improving incentives through market pricing and higher quality seed could increase exports of confectionary groundnuts and incomes of producers.
iv. Tourism. This industry, again a very labor intensive one, would also provide employment and income opportunities.
v. Attracting more FDI. Increased FDI would boost employment opportunities both in the agriculture and industrial sectors. The textile industry, for example, is a promising one due to preferential access arrangements under the MFA and AGOA.
vi. Import policy changes. Reductions in tariff rates on products such as vegetable oils could increase real incomes of consumers, while producers of the substitute, groundnut oil, could be worse off.

TABLE 4.1: EMPLOYMENT DISTRIBUTION IN SENEGAL BY INDUSTRY AND QUINTILES

	1	2	3	4	5	Average
Agriculture	69.26%	65.95%	52.46%	37.24%	19.98%	50.14%
Mining	0.91%	0.52%	0.58%	0.46%	0.85%	0.67%
Manufacturing	3.92%	5.43%	7.52%	10.03%	10.56%	7.32%
Construction	2.62%	2.83%	4.22%	4.52%	4.65%	3.71%
Transport	2.37%	2.08%	2.42%	3.60%	4.09%	2.87%
Commerce	12.16%	11.79%	17.38%	22.17%	26.77%	17.68%
Services	4.25%	5.88%	8.66%	12.20%	16.75%	9.27%
Health	0.45%	1.15%	1.05%	2.71%	5.42%	2.06%
Administration	0.30%	0.67%	1.20%	1.82%	5.03%	1.72%
Other	3.75%	3.70%	4.50%	5.25%	5.90%	4.57%

Source: World Bank staff estimates using CWIQ, 2001.

Unfortunately, data limitations prevent the quantitative estimation of the impact of trade policy changes and trade expansion in these areas on household incomes. Specifically, the Senegalese Social Accounting Matrix (SAM) inadequately reflects actual channels between sources of income and their final destination, which means that it is not possible to use the Computational General Equilibrium framework (which is built around the SAM) to simulate changes in macroeconomic policies (including changes in tariff rates) on relative prices. Also, the most recent household survey, the 2001 CWIQ, suffers from two drawbacks. It only provides information for the third quarter of 2001 and hence suffers from seasonality bias. Moreover, it does not provide data on total income or sources of household income, which is crucial for assessing (albeit on a partial equilibrium basis) the impact of trade expansion across socio-economic groups.[74] In light of the shortcomings of available statistics, the rest of this chapter draws on existing information and is largely descriptive in nature.

4.1 POVERTY PROFILE: A RECAP AND AN UPDATE[75]

Poverty appears to have declined between 1994 and 2001, from 58 percent to 54 percent (with poverty defined as consumption of less than 2,400 calories per adult equivalent per day). Using an international poverty line of $1 per day,[76] about 50 percent of the population would have been classified as poor in 2001[77]. The main factor explaining the drop in poverty may be the increase in per-capita incomes over the last 6 years.

While poverty rates are high across the whole country, poverty is more prevalent in rural areas. The poverty incidence rate is about 70 percent in rural areas, about 20 percent in Dakar, and 37 percent in other urban areas. As would be expected, the level of education among heads of poor households is very low. In fact, more than 89 percent of the heads of households in the first quintile[78] have no formal education at all and only about 8 percent have primary-level education. The data also indicate that poverty incidence increases with household size. The average household size in the case of the poorest quintile is over 10 persons while for the richest quintile the number is 8. Male-headed households tend to be poorer than female headed households (67 percent versus 59 percent).

The survey data suggest that total land size, number of livestock owned, number of working individuals in the household, education, working in commerce industry, and living in urban areas are some of the factors that help increase total household welfare. Factors that negatively affect household welfare are household size, working as hourly or daily worker, and being unemployed.[79]

Preliminary analysis suggest that income inequality, as measured by the Gini coefficient, worsened slightly between 1994 and 2001. The Gini coefficient using total per-capita expenditures is estimated at 0.54 in 1994, compared with a Gini of 0.60 in 2001 (Figure 4.1).

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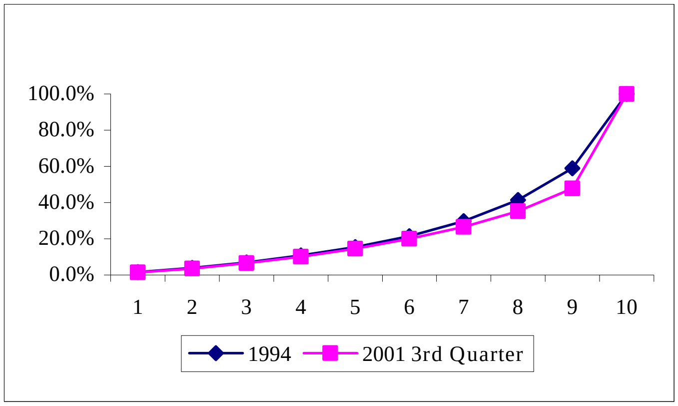
[74] The option of using the 1994 survey is rejected because income data are poorly measured: transfers are given as one-third of total income across income levels (a level that greatly exceeds what is given in national income data) and total income exceeds total consumption, which is unusual as income is generally under-reported (for a discussion of this issue see Deaton, 1997).
[75] This section draws heavily on the PRSP (2002).
[76] Measured at 2000 purchasing power parity (PPP) exchange rate.
[77] 72 percent of the population lived on less than $2 a day (also based on a PPP adjusted exchange rate).
[78] First quintile: the 20 percent of the population with the lowest level of consumption.
[79] See Annex 4.

FIGURE 4.1: LORENZ CURVE



Source: World Bank Staff estimates using ESAM-I (1994) and CWIQ (2001)

4.2 CONCLUSIONS

With 70 percent of the poor working in agriculture, reducing poverty would require raising incomes of those who work in agriculture (such as through raising returns to agriculture), or that agriculture workers find alternative forms of employment that provide higher levels of incomes. The measures proposed in this report pertaining to fisheries, horticulture, groundnuts, tourism, FDI and import policy changes are aimed towards addressing these issues for the purpose of alleviating poverty. Also, in light of the finding from the household survey data that education plays a very important role in determining poverty and welfare, and given high illiteracy and low enrollment rates, investment in human development would be one of the more urgent needs for alleviating poverty, as also discussed in Chapter 2.

ANNEX 1
MACROECONOMIC STATISTICS

TABLE A1.1. SENEGAL--SAVINGS AND INVESTMENT BALANCE

	National Savings			Foreign Savings	Investment		
	Total	Private	Public		Total	Private	Public
1995	9.4	5.4	4.0	5.3	14.7	10.2	4.4
1996	12.0	7.5	4.5	4.3	16.3	9.9	6.4
1997	11.6	5.1	6.5	4.2	15.8	9.4	6.4
1998	12.9	6.5	6.4	4.6	17.5	10.4	7.2
1999	13.2	6.8	6.4	6.2	19.4	11.1	8.3
2000	11.2	5.3	5.9	6.7	17.9	11.7	6.2
2001	11.7	8.3	3.3	4.8	16.4	10.0	6.4

Notes: Total National Savings + Foreign Savings = Total Investment.
Foreign Savings = - Current Account Balance (inclusive of official transfers).

TABLE A 1.2. SENEGAL–COMPOSITION OF NATIONAL SAVINGS

	Public Savings	Private Domestic Savings	Net Factor Income	Private Current Transfers	Total
1995	4.0	8.0	-3.5	0.9	9.4
1996	4.5	8.2	-1.6	0.9	12.0
1997	6.5	5.9	-1.6	0.8	11.6
1998	6.4	6.9	-1.2	0.8	12.9
1999	6.4	7.0	-2.0	1.7	13.2
2000	5.9	4.2	-2.1	3.2	11.2
2001	3.3	6.0	-1.6	3.9	11.7

TABLE A 1.3. SENEGAL GDP BY ECONOMIC SECTORS

	1995	1996	1997	1998	1999	2000
Real Growth (in percent)						
Total GDP	**5.2**	**5.1**	**5.0**	**5.7**	**5.0**	**5.6**
Primary	**2.2**	**6.1**	**-2.5**	**-2.7**	**5.7**	**10.6**
Agriculture	0.5	10.6	-10.6	-7.3	7.3	21.3
Livestock	4.7	0.6	5.4	3.3	4.8	3.1
Fishing	3.1	4.8	11.8	-3.4	4.0	-4.5
Secondary	**11.7**	**5.3**	**5.9**	**8.4**	**6.7**	**6.1**
Industry	17.2	4.2	4.3	7.2	4.3	5.2
Energy	2.4	8.8	6.5	5.5	0.5	6.6
Construction and Public Work	-3.1	9.6	14.9	12.7	15.7	4.4
Tertiary	**4.2**	**4.8**	**7.3**	**7.5**	**4.2**	**4.0**
Transport and Telecommunications	3.7	6.0	12.0	7.5	6.6	8.0
Commerce	6.0	8.7	7.4	7.8	4.1	2.1
Public Administration	0.3	0.3	0.8	2.9	3.9	5.5
Other Services	4.7	2.2	7.9	9.4	3.2	2.9
Shares of GDP (in percent)						
Primary	**20.3**	**20.5**	**19.0**	**17.5**	**17.6**	**18.5**
Agriculture	10.3	10.8	9.2	8.1	8.2	9.5
Livestock	7.2	6.9	6.9	6.7	6.7	6.6
Fishing	2.1	2.1	2.3	2.1	2.1	1.9
Secondary	**19.5**	**19.5**	**19.6**	**20.1**	**20.5**	**20.6**
Industry	13.2	13.1	13.0	13.2	13.1	13.0
Energy	1.8	1.9	1.9	1.9	1.8	1.9
Construction and Public Work	3.5	3.7	4.0	4.3	4.7	4.7
Tertiary	**60.2**	**60.0**	**61.3**	**62.4**	**61.9**	**61.0**
Transport and Telecommunications	10.9	11.0	11.7	11.9	12.1	12.4
Commerce	20.5	21.2	21.7	22.1	21.9	21.2
Public Administration	10.0	9.5	9.1	8.9	8.8	8.8
Other Services	18.9	18.3	18.8	19.5	19.2	18.7
Contribution to growth (in percent)						
Primary	**0.5**	**1.2**	**-0.5**	**-0.5**	**1.0**	**2.0**
Agriculture	0.1	1.1	-1.0	-0.6	0.6	2.0
Livestock	0.3	0.0	0.4	0.2	0.3	0.2
Fishing	0.1	0.1	0.3	-0.1	0.1	-0.1
Secondary	**2.3**	**1.0**	**1.2**	**1.7**	**1.4**	**1.2**
Industry	2.3	0.6	0.6	0.9	0.6	0.7
Energy	0.0	0.2	0.1	0.1	0.0	0.1
Construction and Public Work	-0.1	0.4	0.6	0.5	0.7	0.2
Tertiary	**2.5**	**2.9**	**4.5**	**4.7**	**2.6**	**2.4**
Transport and Telecommunications	0.4	0.7	1.4	0.9	0.8	1.0
Commerce	1.2	1.8	1.6	1.7	0.9	0.4
Public Administration	0.0	0.0	0.1	0.3	0.3	0.5
Other Services	0.9	0.4	1.5	1.8	0.6	0.5

Notes: Contribution to growth = share of GDP * real growth; it measures what total GDP growth would be if the growth of all the other sectors is zero.

ANNEX 2
TARIFF RATES

TABLE A 2.1. AVERAGE MFN IMPORT TAXES IN 2002 BY H.S. CHAPTER
(PER CENT)

H.S. Chapter	Description	Number of lines	Simple Average, 2002		Import-weighted Average	
			Average tariff	Standard deviation	Total imports as weights	WAEMU imports as weights
	Total	**5,862**	**14**	**7**	**13**	**16**
01-24	**Agriculture**	**841**	**18**	**7**	**21**	**22**
25-97	**Industry**	**5,021**	**10**	**7**	**10**	**14**
01	Live animals	22	16	7	8	0
02	Meat and edible meat offal	53	22	0	22	0
03	Fish and crustaceans, molluscs and other aquatic invertebrates	90	16	5	17	22
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	39	17	7	10	20
05	Products of animal origin, not elsewhere specified or included	18	7	0	4	0
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	12	17	9	19	8
07	Edible vegetables and certain roots and tubers	61	22	6	33	22
08	Edible fruit and nuts; peel of citrus fruit or melons	60	23	5	31	40
09	Coffee, tea, maté and spices	63	21	3	14	22
10	Cereals	18	15	10	26	0
11	Products of the milling industry; malt; starches; inulin; wheat gluten	37	15	5	16	20
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder	50	7	1	7	7

H.S. Chapter	Description	Number of lines	Simple Average, 2002		Import-weighted Average	
			Average tariff	Standard deviation	Total imports as weights	WAEMU imports as weights
13	Lac; gums, resins and other vegetable saps and extracts	12	7	0	7	0
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	11	8	3	7	0
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	56	16	6	16	21
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	28	22	0	22	0
17	Sugars and sugar confectionery	18	18	12	30	22
18	Cocoa and cocoa preparations	40	15	7	19	17
19	Preparations of cereals, flour, starch or milk; pastrycooks' products	17	20	5	9	12
20	Preparations of vegetables, fruit, nuts or other parts of plants	51	23	5	17	22
21	Miscellaneous edible preparations	22	18	6	12	13
22	Beverages, spirits and vinegar	28	22	2	19	17
23	Residues and waste from the food industries; prepared animal fodder	26	12	1	11	12
24	Tobacco and manufactured tobacco substitutes	9	16	11	7	0
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	77	9	4	9	0
26	Ores, slag and ash	38	7	0	7	0
27	Mineral fuels, mineral oils and products of their distillation; bituminous	58	8	2	5	12

H.S. Chapter	Description	Number of lines	Simple Average, 2002		Import-weighted Average	
			Average tariff	Standard deviation	Total imports as weights	WAEMU imports as weights
	substances; mineral waxes					
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	189	7	1	7	7
29	Organic chemicals	635	7	1	7	7
30	Pharmaceutical products	30	2	0	2	2
31	Fertilisers	26	7	0	7	7
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and	57	12	6	13	13
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles	40	18	5	16	21
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modelling pastes, 'dental waxes and dental preparations with a basis	26	17	5	19	22
35	Albuminoidal substances; modified starches; glues; enzymes	15	11	2	11	12
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain	9	15	8	21	0

H.S. Chapter	Description	Number of lines	Simple Average, 2002		Import-weighted Average	
			Average tariff	Standard deviation	Total imports as weights	WAEMU imports as weights
	combustible preparations					
37	Photographic or cinematographic goods	38	21	4	21	22
38	Miscellaneous chemical products	66	11	3	13	10
39	Plastics and articles thereof	134	13	6	12	21
40	Rubber and articles thereof	73	13	6	13	6
41	Raw hides and skins (other than furskins) and leather	35	10	2	11	7
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut)	24	21	3	22	22
43	Furskins and artificial fur; manufactures thereof	18	11	5	17	0
44	Wood and articles of wood; wood charcoal	70	13	5	12	12
45	Cork and articles of cork	7	13	7	16	0
46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	7	21	4	22	0
47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper and paperboard	20	7	0	7	0
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	110	14	6	12	20
49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans	21	9	5	11	5
50	Silk	10	15	7	23	0
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	36	14	7	21	0

H.S. Chapter	Description	Number of lines	Simple Average, 2002		Import-weighted Average	
			Average tariff	Standard deviation	Total imports as weights	WAEMU imports as weights
52	Cotton	143	18	5	20	16
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	32	13	6	17	0
54	Man-made filaments	67	19	5	19	23
55	Man-made staple fibres	118	19	5	18	23
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	35	19	5	14	13
57	Carpets and other textile floor coverings	23	23	0	23	0
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	41	23	0	23	0
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	27	19	5	21	23
60	Knitted or crocheted fabrics	18	23	0	23	0
61	Articles of apparel and clothing accessories, knitted or crocheted	114	22	2	22	22
62	Articles of apparel and clothing accessories, not knitted or crocheted	119	22	0	22	22
63	Other made up textile articles; sets; worn clothing and worn textile articles; rags	59	22	2	22	22
64	Footwear, gaiters and the like; parts of such articles	31	20	4	21	22
65	Headgear and parts thereof	11	18	5	19	22
66	Umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof	7	18	5	22	22
67	Prepared feathers and down and articles made of	8	22	0	22	22

H.S. Chapter	Description	Number of lines	Simple Average, 2002		Import-weighted Average	
			Average tariff	Standard deviation	Total imports as weights	WAEMU imports as weights
	feathers or of down; artificial flowers; articles of human hair					
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	54	19	5	19	22
69	Ceramic products	30	20	5	22	22
70	Glass and glassware	75	18	5	10	22
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	52	13	6	22	0
72	Iron and steel	177	10	6	10	18
73	Articles of iron or steel	151	18	6	16	21
74	Copper and articles thereof	61	14	7	11	0
75	Nickel and articles thereof	18	15	7	19	0
76	Aluminium and articles thereof	41	15	7	15	21
78	Lead and articles thereof	10	12	6	8	0
79	Zinc and articles thereof	11	13	7	14	0
80	Tin and articles thereof	8	14	7	22	0
81	Other base metals; cermets; articles thereof	72	14	7	13	0
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	67	17	5	20	21
83	Miscellaneous articles of base metal	37	20	3	19	14
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	521	9	4	9	8
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such	299	14	7	12	20

H.S. Chapter	Description	Number of lines	Simple Average, 2002		Import-weighted Average	
			Average tariff	Standard deviation	Total imports as weights	WAEMU imports as weights
	articles					
86	Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment of all kinds	24	7	0	7	0
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	151	14	6	4	13
88	Aircraft, spacecraft, and parts thereof	15	7	0	7	0
89	Ships, boats and floating structures	27	10	5	13	0
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	163	11	6	10	7
91	Clocks and watches and parts thereof	55	22	2	22	22
92	Musical instruments; parts and accessories of such articles	23	19	5	21	21
93	Arms and ammunition; parts and accessories thereof	21	18	6	13	0
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated name-plates and the like; prefabricated buildings	37	20	5	21	22

H.S. Chapter	Description	Number of lines	Simple Average, 2002		Import-weighted Average	
			Average tariff	Standard deviation	Total imports as weights	WAEMU imports as weights
95	Toys, games and sports requisites; parts and accessories thereof	44	21	4	21	0
96	Miscellaneous manufactured articles	51	22	3	22	22
97	Works of art, collectors' pieces and antiques	6	22	0	22	22

Source: World Bank calculations based on data provided by the Direction Générale des Douanes, Dakar.

ANNEX 3: EMPLOYMENT DISTRIBUTION IN DAKAR AND OTHER URBAN AREAS BY INDUSTRY AND QUINTILES

TABLE A.3.1

	1	2	3	4	5	Average
Dakar						
Agriculture	5.79%	1.22%	1.56%	1.00%	0.78%	1.97%
Mining	0.09%	0.45%	0.62%	1.32%	1.05%	0.72%
Manufacturing	16.11%	15.97%	15.89%	15.12%	11.42%	14.78%
Construction	7.75%	8.57%	7.86%	6.55%	4.64%	7.00%
Transport	4.87%	4.67%	5.18%	5.53%	4.25%	4.88%
Commerce	27.88%	30.44%	28.57%	32.04%	28.30%	29.42%
Services	25.09%	28.87%	23.82%	20.98%	28.13%	25.45%
Health	2.60%	2.41%	4.97%	5.74%	7.19%	4.70%
Administration	2.53%	2.79%	3.34%	5.51%	8.98%	4.79%
Other	7.31%	4.61%	8.18%	6.21%	5.26%	6.29%
Other Urban						
Agriculture	10.70%	3.90%	5.38%	4.48%	5.76%	6.01%
Mining	0.62%	0.00%	0.22%	0.75%	0.30%	0.38%
Manufacturing	13.47%	11.45%	13.64%	13.31%	12.71%	12.91%
Construction	8.02%	9.81%	5.95%	6.89%	3.10%	6.62%
Transport	5.90%	6.64%	6.42%	7.38%	5.18%	6.28%
Commerce	26.10%	35.85%	35.10%	37.27%	36.59%	34.32%
Services	19.20%	17.10%	16.13%	14.66%	16.05%	16.58%
Health	2.71%	2.78%	4.07%	4.92%	9.22%	4.90%
Administration	3.73%	5.22%	4.17%	4.04%	6.23%	4.72%
Other	9.55%	7.25%	8.91%	6.31%	4.86%	7.28%
Rural						
Agriculture	73.70%	75.77%	74.61%	69.44%	70.65%	72.84%
Mining	0.84%	0.86%	0.51%	0.89%	0.47%	0.71%
Manufacturing	3.19%	3.62%	3.93%	5.19%	4.57%	4.10%
Construction	2.21%	2.07%	1.80%	2.80%	1.99%	2.18%
Transport	2.37%	1.55%	1.42%	1.36%	1.25%	1.59%
Commerce	10.88%	9.87%	10.53%	11.52%	11.98%	10.96%
Services	3.34%	2.56%	3.17%	3.78%	2.81%	3.14%
Health	0.35%	0.64%	0.58%	0.83%	1.25%	0.72%
Administration	0.07%	0.23%	0.27%	0.10%	0.54%	0.24%
Other	3.04%	2.83%	3.18%	4.10%	4.49%	3.52%

Source: World Bank staff estimates using CWIQ, 2001.

ANNEX 4: DETERMINANTS OF WELFARE

TABLE A.4.1

	Model	Coefficients	t	Significance
	Constant	5.90	51.40	***
	Total land size	0.01	7.15	***
	Number of livestock owned	0.01	8.26	***
	Household Size	-0.04	-19.61	***
	Number of working individuals in the family	0.03	7.11	***
Characteristics of the household head				
	Age of the household head	-0.01	-2.21	**
	Age squared	0.00	1.95	**
	Number of years of schooling for the household head	0.03	12.34	***
	Married	-0.19	-3.33	***
	Widowed	-0.14	-2.03	**
	Divorced	0.00	0.04	
	Male household head	0.11	3.52	***
Industry of employment of the household head				
	Agriculture	-0.12	-0.95	
	Mining	-0.06	-1.39	
	Manufacturing	0.01	0.19	
	Transportation	0.05	0.80	
	Commerce	0.09	2.62	***
	Services	0.03	0.70	
	Health & Education	0.02	0.27	
Employment characteristics of the household head				
	Working for salary	-0.01	-0.28	
	Tacheron (hourly or daily worker)	-0.21	-4.15	***
	Self-employed	0.02	0.67	
	Government sector	0.24	3.58	***
	Semi-private sector	0.36	4.27	***
	Private sector	0.09	1.52	
	Dakar	0.61	12.81	***
	Ziguinchor	-0.32	-5.44	***
	Diourbel	0.30	5.97	***
	St-Louis	0.30	5.90	***
	Tamba	0.11	1.95	**
	Kaolack	0.12	2.54	***
	Thiès	0.18	3.79	***
	Louga	0.88	17.64	***
	Kolda	-0.18	-3.01	***
	Urban	0.65	22.07	***

Notes: Dependent variable is the log of per-capita total expenditures.
Source: World Bank staff estimates using CWIQ, 2001.

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