A COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN SENEGAL

Sustaining growth in an uncertain environment

APRIL 2020

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ABBREVIATIONS AND ACRONYMS

ADIE	State Informatics Agency (Agence de l'Informatique de l'État)
AGEROUTE	Road Management Agency (Agence des Travaux et de Gestion des Routes)
ANSD	National Agency of Statistics and Demography of Senegal (Agence Nationale de Statistique et de la Démographie)
ATM	Automated teller machine
Bac	Baccalaureate
BCEAO	Central Bank of West African States (Banque Centrale des États de l'Afrique de l'Ouest)
BNDE	National Bank for Economic Development (Banque Nationale de Développement Economique)
BRVM	regional stock exchange for all Member States in the West African Economic and Monetary Union (Bourse Régionale des Valeurs Mobilières)
CNCAS	National Fund for Agricultural Credit (CNCAS) (Caisse Nationale de Crédit Agricole du Sénégal)
DGID	General Directorate of Taxes and Domains (Direction Générale des Impôts et des Domaines)
DPV	Directorate of Plant Protection (Direction de la Protection des Végétaux)
EU	European Union
FERA	Autonomous Road Maintenance Fund (*Fonds d'Entretien Routier Autonome*)
FONGIP	Priority Investment Guarantee Fund (Fonds de Garantie des Investissement Prioritaires)
GDP	Gross Domestic Product
GER	Gross enrollment ratio
IFC	International Finance Corporation
IMF	International Monetary Fund
kbps	Kilobits per second
kW/h	Kilowatt-hour
MICE	Meetings, incentives, conferencing, and exhibitions
MSME	Micro, small, and medium-sized enterprises
OECD	Organization for Economic Co-operation and Development
OHADA	Organisation for the Harmonisation of Business Law in Africa (*Organisation pour l'Harmonisation en Afrique du Droit des Affaires*)

OPS	private trader organizations (organismes privés stockeurs)
OQSF	Observatory on Financial Services Quality (OQSF) (Observatoire de la Qualité des Services Financiers)
PPP	Public-private partnership
SENELEC	National Power Utility Company (Société nationale d'électricité du Sénégal)
SME	Small- and medium-sized enterprise
SSA	Sub-Saharan Africa
STEM	Science, technology, engineering, and mathematics
VAT	Value added tax
WAEMU	West African Economic and Monetary Union

All amounts are U.S. dollars unless otherwise indicated.

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EXECUTIVE SUMMARY

Senegal's strong economic growth since 2014 represents a positive departure from weaker past growth performance since independence. Just this past year, in 2019, Senegal crossed the threshold to become a lower-middle-income country. The country remains challenged, however, in addressing poverty reduction and unemployment.

An additional challenge has been created by the novel coronavirus (COVID-19) pandemic that reached Senegal in early March 2020. In response to the outbreak, the Government of Senegal has taken strong measures to contain the spread of the virus. In early March 2020, it declared a state of emergency, suspended international air travel and shut borders. To ensure social distancing, the government closed entertainment, religious and education venues, cancelled events, prohibited public gatherings, and imposed a nighttime curfew.

Further, the government is implementing a comprehensive plan to support the population and the economy, which is estimated to amount to around 7 percent of GDP, according to the IMF COVID-19 Policy Tracker. The plan revolves around: (i) improving the health system, (ii) strengthening social protection, (iii) securing supplies and distribution for key goods (for example, foodstuffs and medicine), and (iv) stabilizing the economy and the financial system.

Yet, despite these significant measures, the economy and the private sector will suffer from the crisis. Senegal is exposed to the COVID-19 shock through a mix of external and domestic transmission channels. Externally, international supply chain disruptions and weaker demand in key export markets will affect export performance, particularly tourism and transport-related services. Terms of trade effects should be favorable given Senegal is a net oil importer and gold exporter. At the same time, a sudden stop in remittances should increase the current account deficit and weaken private consumption. Domestically, containment and mitigation measures have already disrupted economic activity – notably in services. Further, private capital is likely to seek safer haven assets in face of heightened uncertainty and volatility (World Bank 2020b).

It is still too early to assess the detailed impact of this epidemic, and this is not the objective of this report. However, after the crisis, it will be of paramount importance for Senegal to find innovative ways to revive and sustain economic growth, (re-) create more jobs, and provide a new horizon for its population.

One of those pathways forward involves boosting the role of the private sector in the economy and developing investment opportunities that will generate the required growth and jobs. This Country Private Sector Diagnostic for Senegal helps identify structural reforms for post-crisis recovery that take into account a changing economic landscape in which oil and gas is part of the future of the country.

BETWEEN 2014 AND 2019, SENEGAL ENJOYED AN ECONOMIC GROWTH SPURT.

Since 2014, the gross domestic product (GDP) in Senegal has grown on average about 2.5 times faster than in Sub-Saharan African countries (SSA), at a rate of about 6.6 percent annually until 2017. GDP growth reached 6.7 percent in 2018—much of which reflects government investment in large-scale infrastructure projects and favorable terms of trade, including lower oil prices and higher commodity prices for some of the country's main exports. While agriculture contributed to GDP growth, a productivity increase in several other sectors bolstered the improvement. From 2014 until 2018, Senegal saw a shift in its economy from agriculture to informal commerce, partly due to trends in the country's increased urbanization. Importantly, some limited shifts in the economy also took place to sectors with high and growing productivity, such as high-value-added services and manufacturing.

During the recent growth spurt, the primary sector has grown the fastest, increasing 7.7 percent on average from 2014 to 2017, particularly in agriculture. Growth in the tertiary sector has been a close second, increasing 6.2 percent on average, thanks largely to expansion in the financial and insurance services, real estate, and tourism sectors. Finally, performance in the secondary sector has depended heavily on construction, growing 15.4 percent on average over 2014–2017, largely from infrastructure investments.

Because economic growth has accelerated only recently, the country remains challenged with high rates of poverty and limited jobs in the formal sector. World Bank estimates suggest that, while extreme poverty has decreased, the pace of this reduction has been slow, and inequalities persist (World Bank 2020a). According to computations based on data from the National Agency of Statistics and Demography of Senegal (ANSD), it is also estimated that formal employment only amounts to around 8 percent of the working age population, largely because the formal economy is burdened by high regulatory rigidity. This in turn also affects gender disparities which, despite an incipient decline, remain high in Senegal—particularly for women's access to education and participation in the labor market (35 percent in 2018). This is problematic since it is now recognized that increasing women's participation in the economy, by eliminating discrimination and barriers, is likely to significantly increase the country's growth performance (Cuberes and Teignier 2016, IMF 2017b).

According to available data, the recent momentum in economic growth has been driven partly by export diversification, particularly in terms of the number of products exported, and by growing foreign direct investment. Indeed, over the period from 2013 to 2018, exports of goods and services grew 4.9 percent on average per year and export growth reached 7.1 percent in 2018, while inflows of foreign direct investment increased to 2.6 percent of GDP in 2018, compared to 2.4 percent in 2014. Sources of foreign direct investment are expanding beyond the traditional leading investor, France, and now include Turkey, Morocco, Switzerland, the United Arab Emirates, Luxembourg, Germany, the United States, India, and China. In recent years, foreign direct investment has largely been focused on construction and transportation. Economic reforms, improvements to the country's investment climate, investments in infrastructure and energy, and increased private investment in 2018 also played a role. Recent trends represent a good beginning and are underpinned by improvements in the business environment (in 2015 and 2016, the country appeared on the list of the "top 10" global Doing Business reformers) in the context of the Plan for an Emerging Senegal (Plan Sénégal Émergent)—the country development strategy.

THE CHALLENGE IS NOW TO FURTHER ENHANCE THE ROLE OF THE PRIVATE SECTOR IN SENEGAL AND ADAPT TO A CHANGING ENVIRONMENT.

Despite the recent growth, Senegal still has some way to go to catch up with the performance of aspirational peer countries. Domestic and foreign investment and export diversification remain below levels attained by countries, such as Morocco and Vietnam, whose development trajectory Senegal aims to emulate. Because its recent growth reflects higher government spending, Senegal needs to be vigilant in containing spending. As its recent growth is also a result of increased public spending, Senegal must continue to improve fiscal management, in particular through greater mobilization of revenue and better expenditure oversight. The country is under fiscal pressure because world oil prices have in recent years (with fixed domestic energy prices) led to declining incomes and higher energy subsidies. An International Monetary Fund (IMF) and World Bank debt sustainability analysis shows that the risk of financial distress in Senegal has risen from low to moderate (IMF 2020, 16).

It is imperative that the private sector plays a greater role in Senegal. According to the latest general business census (ANSD 2017), Senegal's formal private sector is relatively small, and geographically concentrated, which accentuates spatial inequalities, and lacks large enterprises able to drive a structural transformation toward sectors in which Senegal has a comparative advantage:

1. **It is relatively small**, accounting for only 3 percent of total economic units, with the formal private sector only occupying about 4.6 percent of the active population.[1]
2. **It is geographically concentrated around Dakar, leading to regional inequalities, and it is mostly present in a few sectors**, including the construction, transport and telecommunications, light manufacturing, and services sectors.
3. **Its firms are micro, small, and medium-sized enterprises (99.8 percent of the economic units) and the few larger formal firms in operation have limited competitiveness in international markets.** For example, labor productivity in Senegalese manufacturing is about $4,700 of value added per worker per year, higher than many SSA countries, but five times lower than some peers such as South Africa.[2]

Senegal is at a crossroads with two changes on the horizon that could significantly impact economic growth and the role of the private sector in the future.

1. **Most importantly, in a potential long-term game changer, Senegal discovered oil (2014) and gas reserves (2015) off its shores.** While the oil and gas sector produces few direct jobs, domestic gas could produce power, substantially reducing the cost of electricity in the country, possibly by as much as 30 percent.
2. **Secondly, the worldwide digital technology wave is also sweeping through Senegal,** and it has yet to fully embrace its potential. Senegal's government made information and communications technology (ICT) development one of the pillars of its development strategy, but it needs to do much more to catch up with aspirational peer countries.

Since 2012, Senegal has implemented major structural reforms, including improvements to the road network, electricity provision, and the general business environment, as part of the Plan for an Emerging Senegal (Plan Sénégal Émergent). For the future, the government of Senegal's plans are bold and ambitious and involve numerous reforms, that, if properly implemented and prioritized, would improve significantly the business environment for the private sector.

ENHANCING THE ROLE OF THE PRIVATE SECTOR REQUIRES ALLEVIATING FOUR KEY CROSS-CUTTING CONSTRAINTS TO BOOST INVESTMENT.

1. **Lack of a level playing field for businesses.** This is largely the result of the still important role of the state in economic affairs, through regulations, as well as the high degree of informality in the economy. The persistence of a large number of state-owned enterprises is an example of the importance of the state in economic affairs. Another example is the persistence of a heavy regulatory framework, which despite significant improvements (such as progress recorded in the Doing Business indicators), remains relatively uncompetitive. This contributes to the existence of a large informal sector (estimated to represent over 40 percent of GDP), which also distorts competition with formal firms.
2. **Difficult access to finance is a major constraint for private sector firms**, and micro, small, and medium-sized enterprises (MSMEs)—the largest class of firms—are among the most credit constrained. Less than one of four firms in Senegal, or 22.6 percent, have been able to get a bank loan or a line of credit, close to the average for the SSA region (World Bank, 2017a). When they do manage to get a loan or line of credit, they must pledge significant assets to secure their loans. The value of the guarantee required is very high, on average 271.7 percent of the loan—but 160.7 percent for large firms and 428.7 percent for small enterprises (World Bank, 2017a). Constraints to improved access to finance include limited competition among financial services providers, weak financial infrastructure, weak financial sector policies as well as inherent weaknesses among MSMEs.
3. **Despite relatively robust access, electricity supply in Senegal is expensive.** In 2017, 61.7 percent of the Senegalese population had access to electricity—much higher than the SSA average of 44.6 percent. However, access in rural areas remains low and the distribution network does not reach many locations, including where industries are actually active. Senegal's reliance on heavy fuel oil for its power plants means that the sector's cost base is high and that even high consumer tariffs cannot cover it in full, forcing the government to step in with subsidies and leading to the accumulation of arrears. The average cost of electricity in 2018 was around $0.24 per kilowatt-hour (kW/h), significantly higher than the global benchmark of $0.10 per kW/h.
4. **Digital and physical connectivity needs to be improved.** While infrastructure is a critical enabler for development, Senegal has major weaknesses in transport and ICT that hinder connectivity:
   - **Road freight transport, even though it is the most important means of transportation in Senegal, is largely unreliable and expensive.** Axle overloading and lack of maintenance of vehicles negatively impact the quality of road networks. In addition, poor road safety and related accidents, and the poor

performance of the Dakar-Bamako road corridor affect reliability. There are an estimated 600 direct deaths on the road annually. Transportation costs on the Dakar-Bamako corridor are high, estimated at 30 percent of the value of goods in 2016, while the costs of a competitive transport system should be between 8 to 15 percent.

- **Despite significant progress accomplished over the past two years, digital connectivity in Senegal is still lagging behind peer countries.** In addition, although progress has been made in recent months with regard to the cost of internet access (with the entry of new internet service providers and the arrival of Free), the quality of the mobile internet network remains weak. This is due to a lack of access to digital infrastructure, which reflects weak competition, particularly on the wholesale markets; limited sharing of infrastructure; and a relatively high cost of radio frequencies. The situation is more critical for fixed broadband: access to fixed broadband, while at a lower cost than the regional average in SSA, remains of low quality. Similarly, the data infrastructure (data centers) is insufficient to support the growth of internet traffic, with the possible consequence of a deterioration in the quality of access.

In addition, taxation, land access, and labor issues are key hindrances for the private sector. Tax administration is complex compared to other SSA peers.[3] Formal sector firms suggest they consider the application of the tax code to be sometimes arbitrary, and the resulting uncertainty is a significant business constraint. Firms also have major difficulties accessing land. The current system is marked by a growing discrepancy between an old legal framework (from 1964) and local land management practices, which gives rise to social tensions and is on occasion prone to corruption. Lastly, high wages (relative to productivity) and rigidity of the labor laws are important constraints to private sector investment.

ALLEVIATING CRITICAL CROSS-CUTTING CONSTRAINTS COULD ACCELERATE SENEGAL'S STRUCTURAL TRANSFORMATION AND SUSTAIN GROWTH AND JOBS POST–COVID-19 BY HARNESSING OPPORTUNITIES IN SEVERAL SECTORS.

The primary sector will remain important in the future. It employs about half of the population, and about 70 percent of the rural population depends on agriculture or related activities for their livelihood. The development of new export markets has helped Senegal strengthen the horticulture sector. Agribusiness and processing also have the potential to boost productivity and create new jobs.

The services sector has also grown in recent years and is likely to continue to expand. The education sector is a critical enabler for all the sectors of the economy and deserves sustained attention. The tourism industry is a major source of employment and foreign exchange revenues. There is a potential for consolidating and growing the meetings, incentives, conferencing, and exhibitions (MICE) segment in business tourism as well as leisure tourism, but this segment will need sustained support post crisis. Finally, the real estate sector has grown in recent years, spurred by growth in Dakar and the infrastructure drive in the Plan for an Emerging Senegal. Given existing population pressures and planned activities within the strategy, this sector is likely to be important in the future.

It is thus key to focus on the following:

- **Agriculture.** The sector contributes to 15–16 percent of GDP. Since the early 2000s, it has experienced significant changes, including rapid growth and diversification of exports. The horticulture market has the potential for export growth. The size of agribusiness is still small, at about 5 percent of GDP in 2015 and about one-third of industrial value added. Constraints to private sector development in the sector include limited access to arable land and irrigation facilities; difficult access to finance, compounded by a lack of appropriate harvest insurance mechanisms; and poor links, including processing infrastructure, between smallholder farmers and commercial off-takers. Senegal also has room for improving the quality of backbone services to exports.
- **Education.** The education system faces access and quality issues. A Senegalese four-year-old can only expect to complete 7.2 years of school by his 18th birthday, compared to 12.3 years in Vietnam. Only 20 percent of sixth graders meet desired proficiency in French and 10 percent in mathematics. In addition, only a minority of students chooses science, technology, engineering, and mathematics (STEM) and technical tracks starting at the secondary level. The number of private sector education providers in Senegal is increasing but they still have only a limited share of the market, averaging about 20 percent across all sectors. In tertiary and technical and vocational education training, private providers absorb about 60 percent of students. Significant constraints restrict wider private sector involvement that could better complement the public sector, including low-quality teachers and financial constraints experienced by students.
- **Tourism.** The tourism sector suffered from the 2014 Ebola crisis and amounted to about 10 percent of GDP and about 9 percent of employment before the 2020 COVID-19 crisis. After the crisis, the sector will still offer opportunities but will need sustained support to ensure renewed growth and reduced structural obstacles. Senegal has traditionally been branded as a sand-and-sun destination for the francophone European market, but the MICE sector is also important. Key constraints to private sector activity in the tourism sector include access issues, such as connectivity, high airport taxes, and an overdependence on tour operators; environmental issues, such as beach erosion and waste mismanagement; weak human resources; and relatively limited government support for the sector.
- **Real estate and housing.** Senegal is currently witnessing significant growth in the real estate industry, with 5.5 percent average growth over the period from 2014 to 2017, especially in Dakar and other major urban areas. While dynamic, the real estate market still faces a housing deficit, due to a rapid urbanization and an insufficient supply of housing resulting from limited availability of serviced land, few financial products, high construction costs, and poor-quality housing. Key constraints for the development of services and real estate sectors are high informality due to the uneven regulatory environment, access to finance, and poor urban infrastructure in secondary cities.

Table ES.1 proposes a strategic reform agenda aimed at supporting the development of the private sector to help sustain growth and foster job creation. The core of this report provides the background information and justifications for such proposals.

TABLE ES.1 POLICY REFORM PROPOSALS

AREAS	CONSTRAINTS	SHORT-TERM PRIORITY INTERVENTIONS	MEDIUM-TERM, LONG-TERM INTERVENTIONS
LEVEL THE PLAYING FIELD			
COMPETITION POLICY	Some sectors - (groundnuts, edible oil, sugar, and information and communications technology) face competition restrictions. The National Competition Commission is institutionally weak.		Delegation by the WAEMU Commission of powers to national competition authorities to examine anticompetitive practices that do not have cross-border effect and issue rules regulating cooperation on a regional level. Strengthen the WAEMU Commission and Senegal's National Competition Commission to enhance competition enforcement at the regional level. Depending on the clarification of regional vs. national powers, consider reinforcing the National Competition Commission, with adequate financial, human, and technical resources to make it fully operational and independent in the enforcement of competition law.
TAX ADMINISTRATION	Numerous low-yielding taxes generate significant reporting and payment obligations; weak VAT management, especially for tax credits; existence of complex preferential tax treatments.	Accelerate reimbursement of VAT credits to businesses (as planned in the medium-term revenue strategy), by deploying widely used risk-management procedures, and streamlining procedures for restitution claims. Finalize the cost-benefit analyses underway on tax incentives and exemptions and select strategies to pursue.	Reduce and consolidate the number of low-yielding taxes; reduce requirements for registration and stamp duties.
LAND ACCESS	Legal framework of land rights and tenure is ineffective.	Extend the network of land bureaus to register usage rights, record transactions, and transfer information to establish a national database.	Modernize related infrastructures, such as land information system and acquisition of satellite images and strengthen the General Directorate of Taxes and Domains (DGID), both in human and financial resources. Develop and implement a training plan for related professions (property experts, notaries). Reform the legal framework to validate the evolution of customary law rights toward real, codified rights.

Note: WAEMU = West African Economic and Monetary Union. VAT = value added tax.

IMPROVE ACCESS TO FINANCE			
FINANCIAL SECTOR COMPETITION	Despite the entry of new banks, competition in the financial sector remains weak with limited financial innovation and digital finance.	Increase and improve market information via regular publication of fees and interest rates charged by financial institutions by the Observatory on Financial Services Quality (OQSF).	Modernization by the Central Bank of West African States (BCEAO) of regulations on banking agents to enable banks to deploy agents flexibly (regional level). BCEAO should adopt more risk-based customer due diligence and know your customer regulations to facilitate enrollment of customers at the regional level.
FINANCIAL INFRASTRUCTURE	Credit information remains limited in coverage, poor insolvency regime, uncertainty of secured transactions; opening of offshore accounts has limitations, regulations on international financial transactions hinder external financing, and capital markets remain small.	Foster market access by insurance and pension funds, including by revising asset allocation rules. BCEAO should develop a clear and transparent framework for authorization of offshore accounts on a regional level.	Implement an action plan of the 2015 Organisation for the Harmonisation of Business Law in Africa (OHADA) Insolvency Act; Implement the OHADA law on secured transactions; Develop the regional securities market, build market supervision, and align regulation with international standards on a regional level.
PUBLIC INTERVENTIONS AND CAPABILITIES OF MSMES	Public strategies need to improve credibility and better target their support. MSMES often lack capabilities to adequately access finance.	The Priority Investment Guarantee Fund (FONGIP) should continue to pursue efforts to ensure credibility toward banks by ensuring effective and timely payments of eventual defaults. Strengthen and develop capacity-building programs for MSMEs in financial education and management.	Support improvements in operating modes of the National Bank for Economic Development (BNDE) and the National Fund for Agricultural Credit (CNCAS) to reorient their portfolios toward underserved MSMEs and help crowd in private money by not expanding anymore toward activities already served by private banks. Strengthen and develop capacity-building programs for MSMEs in financial education, management, and financing applications.

Note: MSME = micro, small, and medium-sized enterprise

REDUCE ENERGY COSTS			
ENERGY COSTS	Reliance on heavy fuel oil increases power costs. Proper development of gas-to-power needs to be ensured.	Enhance the energy sector institutional and financial arrangements for improved performance and financial sustainability. Enhance sector policy coordination on strategic planning issues related to the timely payment of financial obligations to Senelec.	Provide adequate planning and timely construction of the physical infrastructure for pipelines. Foster gas-to-power through development of midstream and downstream processes. Expand access to electricity services in underserved rural areas by addressing key barriers to access in six concessions already awarded to private operators.
IMPROVE CONNECTIVITY			
TRANSPORT	Road transport is unreliable, expensive, and unsafe, while maritime transport is inefficient and lengthy.	Streamline oversight to ensure better coordination, for example by establishing a broader interministerial coordination unit. Ensure enforcement of existing rules (technical regulations and controls, axle load, safety, and labor) and extend to the countryside technical controls of vehicles done at the Technical Control Center of Automotive Vehicles (CCTVA) in Dakar. Finalize amendments to the PPP law. Improve customs performance by reducing control times and customs clearing circuits and increasing the opening time of custom offices, particular at land borders.	Improve preparation and management of PPP by setting up an independent regulatory authority. Programming, financing, and execution of road maintenance should be strengthened through the implementation of performance-based contracts financed either publicly or privately. Strengthen contractual management and oversight capacities at the Road Management Agency (AGEROUTE) and Autonomous Road Maintenance Fund (FERA-SN). Implement a nationwide port master plan to improve traffic within existing and planned ports.

Note: PPP = pubic-private patnership.

INFORMATION AND COMMUNICATIONS TECHNOLOGY AND DIGITAL TECHNOLOGIES	Proper foundations for a digital economy are weak, including infrastructures, financial services, entrepreneurship, regulatory framework, and skills.	Strengthen the effectiveness of sectoral regulation, in particular by consulting alternative operators on constraints to access to digital infrastructure and by considering asymmetrical regulation when justified in order to rebalance market shares. Maintain competition in the mobile retail market by promoting the entry of mobile virtual network operators. Encourage the entry or establishment of independent private operators of data centers, building on the projects currently being considered by the government through State Informatics Agency (ADIE).	Encourage sharing of infrastructure, for example by promoting the entry or establishment of independent private infrastructure operators, including for the terrestrial fiber optic network, international connectivity by submarine, or satellite cables and towers. Review the cost of allocating new radio frequencies, with a view to facilitating the deployment of new generations of mobile networks by all main network operators. Encourage investments in fiber optics, especially for businesses, by facilitating the entry of new operators into the wholesale market for fixed broadband internet. Strengthen digitization by (a) developing the digital economy to promote infrastructure sharing, improve spectrum management, grant 4G licenses, allow Internet of Things experiments; (b) adopt the Digital Senegal Strategy 2025 to simplify processes, interoperability, shared services, and cyber security; (c) boost the entrepreneurial spirit to operationalize a digital development fund, support hubs of digital entrepreneurs and clarify and implement all provisions of the new Senegal Startup Act; and (d) support development of human capital.

IMPROVE OPPORTUNITIES FOR THE PRIVATE SECTOR			
AGRICULTURE AND AGRIBUSINESS	Sector development and investment opportunities are constrained by land and water access issues, concerns about access to finance, and limited backbone services, as well as some restrictive labor regulations.	Support the diffusion of climate-smart, high-yielding, early-maturing, and drought-resistant seed varieties.	Develop agriculture insurance by reinforcing the capacity of regulators, improving the regulatory framework, allowing for digitalization of insurance distribution, and building the capacity of insurance companies. Develop warehouse financing. Pursue gradual digitization of the operations of the Directorate of Plant Protection (DPV) and the sanitary and phytosanitary controls. Reform formal labor market regulations to make hiring and separation easier, review wage-setting mechanisms, and introduce random selection processes for labor inspections.
EDUCATION	Sector development and investment opportunities are limited by access and quality issues. Private sector involvement is lacking. Only a minority of students choose STEM and technical tracks.	Allow private providers to train and certify teachers to improve quality.	At the technical and vocational education training level, reform the bourse system to give students more choice and save costs, such as through student financing initiatives, and provide incentives for STEM. To foster STEM, develop advanced secondary schools, such as the Prytanée Militaire de Saint-Louis, in underserved areas, with a focus on STEM. Simplify education structures to facilitate transition from technical and vocational education training to tertiary education and vice-versa.

Note: STEM = science, technology, engineering, and mathematics

TOURISM	Private sector activity in the tourism sector is limited by poor market access, environmental issues, weak human resources, limited sector support, and inefficient public-private dialogue, given the multiplicity of public actors. Limited capacity in key public agencies translates into limited sector support, weak human resources, weak destination promotion, poor branding, and lack of diversification of products.	Mitigate coastal erosion, clean key beaches and tourist attractions, and improve waste management. Minimize unsolicited vending and crime by properly enforcing existing law. Improve skills and training of the workforce by fostering more specific programs in technical and vocational education training institutions, including language, hospitality industry-specific training, and soft skills.	Diversify the offer by developing cultural, ecological, medical, and religious tourism and by better linking these to the promotion of MICE. Ensure effective representation in priority markets and develop the appropriate promotion strategy and communication tools. Provide technical support needed centrally and locally, clarify the roles of each public actor, and ensure the effective implementation of strategic documents.
REAL ESTATE AND HOUSING	Key constraints are high informality due to an uneven regulatory environment, poor access to finance, poor urban infrastructure in secondary cities, and lack of properly targeted state support.	Streamline permit and inspection procedures to accelerate administrative processes and decisions. Limit the use of the "Regime Global Unique," a government tax regime that targets small firms only and ensures larger informal firms do not use it.	

Note: MICE = Meetings, incentives,conferencing, and exhibitions.

INTRODUCTION

EMERGING SENEGAL

After decades of subpar growth, Senegal's economic performance has shifted considerably in recent years. The country has become a fast-growing economy, with an average gross domestic product (GDP) growth of 6.6 percent during the 2014–17 period. In 2018, growth reached 6.7 percent. This performance was driven by stronger exports, a favorable external environment with lower oil prices and higher growth in the European Union, and better climatic conditions boosting agricultural production. Services and investment, including government spending on infrastructure, also contributed significantly to the country's growth.

However, given that growth has accelerated only relatively recently, Senegal remains challenged in addressing poverty reduction and formal sector job creation. Past levels and patterns of growth have resulted in persistent unemployment, high underemployment, and a high share of low-productivity employment, despite some improvement over the last three years.

In addition, a new health crisis on account of the novel coronavirus (COVID-19) pandemic, arrived in Senegal. The first case of COVID-19 in Senegal was registered on March 2, and as of July 15, 2020, the country counts 8,243 confirmed cases and 150 deaths (WHO data). In response to the outbreak, the Government of Senegal has taken strong measures to contain the spread of the virus. In early March 2020, it declared a state of emergency, suspended international air travel and shut borders. To ensure social distancing, the government closed entertainment, religious and education venues, cancelled events, prohibited public gatherings, and imposed a nighttime curfew.

Further, GoS is implementing a comprehensive plan to support the population and the economy, which is estimated to amount to around 7 percent of GDP (IMF Covid-19 Policy Tracker). The plan revolves around: (i) improving the health system, (ii) strengthening social protection, (iii) securing supplies and distribution for key goods (foodstuffs, medicine…) and (iv) stabilizing the economy and the financial system. The latter pillar allows for direct support (via a 100 Billion Cfa.F fund and additional financing of up to CFA.F 200 billion through a credit guarantee fund) to strongly impacted sectors such as tourism and transport, an extended deadline for paying suspended tax obligations of up to 24 months, a partial write-off of tax debt, a faster reimbursement of VAT credits to firms, the possibility for people and companies that contribute to the COVID-19 Fund to make these gifts tax deductible… (IMF Covid-19 Policy Tracker).

Yet, despite these significant measures, the economy and the private sector will suffer from the crisis. Senegal is exposed to the COVID-19 shock through a mix of external and domestic transmission channels. Externally, international supply chain disruptions and weaker demand in key export markets will affect export performance, particularly tourism and transport related services. Terms of trade effects should be favorable given Senegal is a net oil importer and gold exporter. At the same time, a sudden stop in remittances should increase the current account deficit and weaken private consumption. Domestically, containment and mitigation measures did disrupt economic activity – notably in services. Further, private capital is likely to seek safer haven assets in face of heightened uncertainty and volatility (World Bank 2020b). As a result, July 2020 WBG estimates under a baseline scenario suggest that real GDP growth may slow down to 1.3 percent in 2020 (against a pre-crisis baseline of 6.8 percent), this being likely accompanied by large external and fiscal deficits and increasing debt (World Bank 2020b). A gradual recovery would then follow.

It is still too early to assess the detailed impact of this epidemic, and this is not the object of this report. However, once the health crisis is finally over, it will be of paramount importance for Senegal to find innovative ways to revive economic growth, (re-) create more jobs and provide further hope to its population.

One of those pathways forward involves boosting the role of the private sector in the economy and developing investment opportunities that will generate the required growth and jobs. This Country Private Sector Diagnostic helps identify structural reforms for the post–COVID-19 recovery, taking into account a changing economic landscape in which new oil and gas discoveries are part of the nation's future. Country Private Sector Diagnostics are a joint International Finance Corporation (IFC)-World Bank diagnostic tool aimed at developing concrete recommendations for supporting private sector investment and growth. This report discusses the most binding constraints facing Senegal and the most promising opportunities it can seize to recover from the economic crisis and create more jobs. The Country Private Sector Diagnostic comes at a crucial time when Senegal faces changes that could improve its economic future, jobs growth, and private sector opportunities.

First, the discovery in 2014 of offshore oil and gas is a potential long-term game-changer, with first gas expected in 2024. This creates new opportunities and challenges for Senegal. Additional income from oil and gas could boost fiscal revenue and expand the fiscal space available to address needs in infrastructure and social sectors, while gas could lower the cost of power. The country, however, has to be mindful of the "Dutch Disease" effects of large inflows of oil and gas revenue on Senegal's external competitiveness.

Second, digital technologies are spreading worldwide, and Senegal could enhance its growth potential by reaping the benefits of this phenomenon. This would allow Senegal to exploit economies of scale and network effects, raise productivity, and facilitate access to global value chains. Developing a digital economy may also contribute to greater inclusion by lowering transaction costs and addressing information asymmetries associated with activities such as access to finance. Senegal has launched some efforts towards digitalization, but more work needs to be done. It could support the gains in productivity necessary to sustain high growth.

Finally, changes induced by the government of Senegal should also have a favorable impact. Over the past decade, Senegal has embarked on a series of economic reforms and public investments, notably in infrastructure. Reforms accelerated with the launch of the 2012 Plan Sénégal Émergent, the country's development plan. It aims to boost sustained and inclusive economic growth and turn Senegal into an emerging economy by 2035. Provided proper implementation, this will contribute to enhance the competitiveness of the economy and create conditions for increased development of markets and opportunities for the private sector.

In this context of higher growth and significant changes in economic environment, Senegal needs to address four principal challenges to boost investment:

1. **Transform** the role of the state to create a more level playing field for businesses.
2. **Increase access** to finance for the private sector.
3. **Lower** energy costs.
4. **Improve** digital and physical connectivity in the country.

Private sector investment would thus create jobs in sectors that are growing quickly and others that are key enablers for growth. Such sectors include agriculture—which employs more than half of the population—and agribusiness, education, tourism, and housing.

This document offers an analysis of Senegal's recent growth pattern, sources of growth, and upcoming economic changes. It conducts a diagnostic of the main cross-cutting constraints to private sector growth based on data analysis, research synthesis, and stakeholder consultations. Finally, the report identifies broad sectors that could play a key role in sparking growth and job creation in Senegal.

1. COUNTRY CONTEXT

Since independence in 1960, Senegal has benefited from enviable political stability and has recently been emerging from a low-growth trap that resulted in high levels of poverty and limited job creation in the formal sector. As a net importer, Senegal has been highly dependent on migrant remittances, which equaled 10.2 percent of GDP on average between 2015 and 2018, compared to an average of 2.6 percent in Sub-Saharan Africa. Over the same period, the country has also relied upon net official development assistance, equal to about 4.3 percent of GDP, versus a regional average of 2.2 percent. The country has remained vulnerable to external shocks. Low productivity and widespread informality have characterized economic activity. Still, the country's growth performance has sharply improved in recent years.

With previous spurts short lived, Senegal is now challenged to sustain its recent surge and sow the seeds for post–COVID-19 recovery while fostering increased job creation, tackling obstacles to growth, and carefully selecting future growth drivers, led by the private sector in Senegal's fast-evolving environment.

1.1. GROWTH SPURT BETWEEN 2014 AND 2019

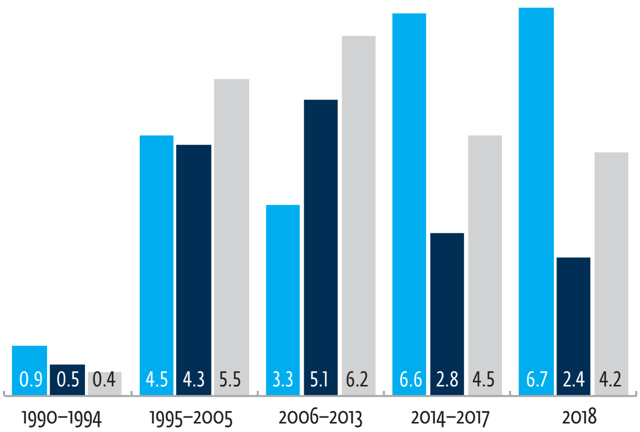
Strong growth allowed Senegal to become a lower-middle-income country.

From independence until 2013, Senegal saw relatively low levels of growth; GDP growth was often below the average of Sub-Saharan Africa (SSA) and the least developed economies (figure 1.1), with substantial annual variations associated with the country's vulnerability to climatic and exogenous shocks. Over the years, Senegal's economy has experienced successive shocks, from poor rainfall and high price volatility for commodities, food, and capital to the global financial crisis of 2008.[4] On the other hand, membership in the West African Economic and Monetary Union (WAEMU) and its common currency—the CFA franc—have brought to Senegal greater fiscal and price stability compared to other SSA countries (World Bank 2018a). However, at the same time, with its currency being tied to the eurozone, the government of Senegal has not had control over its monetary and exchange rate policy.

Past low growth performance was associated with weak productivity, including low productivity of public and private investment. Total factor productivity growth was negative in periods of weak economic performance and positive during high growth periods, but not that high (World Bank 2018a). Since independence, investment was slow to take off, only averaging 22.9 percent of GDP from 1995 to 2012, and while at levels similar or slightly higher than Sub-Saharan Africa, it was much lower than in Asian countries (figure A.1). In particular, foreign direct investment remained relatively low until recently. Inflows averaged 1.4 percent of GDP in Senegal, compared to 2.1 percent in SSA and 1.7 percent in East Asia and Pacific for the period from 1990 to 2012. With weak productivity growth, GDP growth had small responses to increases in capital stock (World Bank 2018a).

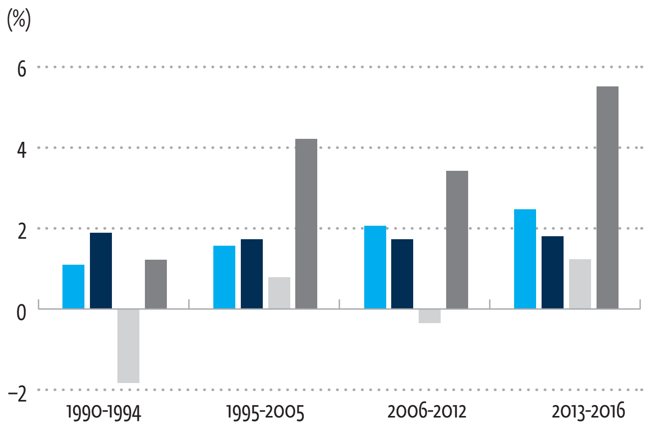
Since 2014, Senegal's growth performance has taken off. The country has become a fast-growing economy, with an average real GDP growth of 6.6 percent from 2014 to 2017. As a result, in 2019, Senegal crossed the threshold to becoming a lower-middle-income country with a gross national income per capita of $1,410. Growth reached 7.1 percent in 2017 and 6.7 percent in 2018 (World Bank 2019d). This growth spurt was associated with some productivity increase within sectors and a shift from agriculture to informal trade and commerce. This was partly due to urbanization but also some limited shifts to sectors with higher and growing productivity, such as high value-added services (World Bank 2018a). Growth also reflects higher government spending, especially in infrastructure and energy. As a result, construction saw average growth of 15.4 percent from 2014 to 2017. Moreover, the financial and insurance sectors grew by 11.4 percent, because of financial deepening that reflected the rapidly growing economy but also a low base. In addition, Senegal has seen stronger export performance, a more diversified basket of goods, and improved terms of trade.

FIGURE 1.1 REAL GDP GROWTH, 1990–2018



Source: World Development Indicators, retrieved April 2020.
Note: GDP = gross domestic product; UN = United Nations.

FIGURE 1.2 CONTRIBUTION TO GDP GROWTH



Source: World Bank 2018a.

Senegal's recent growth partly reflects higher government spending. The country needs to be vigilant in managing public spending, as it has faced rising debt in recent years —debt incurred to finance public investments and energy subsidies. Public debt has continued to increase until 2019, and the country was considered at moderate risk of distress as of end-2019, pre-COVID 19 epidemic (IMF 2020). Debt, using a definition including state-owned enterprises and para-public entities, is estimated to have risen from 61.2 percent of GDP in 2017 to 63.7 percent in 2019[5] but should then decrease (IMF 2020). Furthermore, debt service as a share of revenue is rising (estimated at 42.7 percent in 2018 and projected at 29.8 percent in 2019), limiting the scope of discretionary spending. Given Senegal's growth prospects, Moody's is rating Senegal as Ba3 (stable) while S&P has rated the country B + (stable). Access to financial markets is expected to remain adequate.

With high growth a recent achievement, Senegal remains a country challenged with poverty reduction and formal sector job creation. World Bank estimates suggest that, although extreme poverty has decreased, the pace of reduction has been slow and income inequality persists. According to the most recent projections, about a third of the population (33 percent) lives below the international extreme poverty line of $1.90 per day, compared to 38 percent in 2011 (latest official statistics). Compared to other countries[6] and despite rapid economic growth, the pace of poverty reduction in Senegal has been relatively slow. In addition, certain inequalities (for example in income) seem to have persisted during the same period.

Past levels and patterns of growth have resulted in high underemployment and a high share of low-productivity employment (World Bank 2018a). From 2011 to 2015, employment improved, but the jobs created were of poor quality and concentrated in commerce, a sector with high informality and low productivity. Formal employment only amounts to 7.8 percent of the active population (figure A.2 in appendix A), largely because the formal economy is burdened by high regulatory rigidity. The estimated official unemployment rate in Senegal was about 15 percent for the last quarter of 2018, and it was accompanied by high underemployment, which affects one-fifth of the employed population, mostly prevalent in rural areas.

Recent data suggest that formal job creation slightly accelerated between 2016 and 2018. Over a 12-month period, job growth in the formal sector increased by 7.9 percent at the end of 2017 and 7.4 percent at the end of 2018. The improvement represented a sharp acceleration compared to 2016, when the annual increase was just 0.7 percent. Construction and trade were the main sectors contributing to this increase (World Bank 2019d). While encouraging, this does not fix the country's persistent problems with high underemployment, low-productivity jobs, and, more fundamentally, the small size of formal sector employment.

There have also been recent advances in gender equality in certain areas, such as female enrollment in primary education and female labor market participation, which should have a positive impact on growth. From 1999 to 2016, the gross enrollment rate in primary education increased from 59 percent to 88 percent for girls while that of boys increased from 71 percent to 78 percent (IMF 2019b). Women's labor participation rate increased from 34 percent in 2000 to 41 percent in 2016 (IMF 2019b). These improvements are important because gender inequalities are associated with lower economic growth (Hakura et al. 2016; Gonzales et al. 2015), with higher income inequality (Gonzales et al. 2015, IMF 2016) and with lower economic diversification (Kazandjian et al. 2016).[7] However, much remains to be done. In 2017, Senegal was only ranked 124th out of 160 countries in terms of gender equality (United Nations Development Programme). Significant gaps remain in income disparities, and women face greater barriers to entering and advancing in the labor market, particularly as entrepreneurs. In addition to wage inequality, difficulties in accessing property and obtaining loans further constrain women's economic contribution in Senegal (IMF, 2019b).

Finally, low productivity and high underemployment partly stem from low levels of human capital in the country. Over 70 percent of workers are unskilled, (meaning they have completed an education level of primary or below), reflecting a weak education system (World Bank 2018a). Gross primary enrollment has increased slightly to 81 percent in 2018, compared to 97.3 in Sub-Saharan Africa and 102.9 percent in less-developed countries. Meanwhile, net primary enrolment rate has been stagnating between 70 and 75 percent since 2011. The quality of education in Senegal is low and constrained by several shortcomings: a high number of students per class, a dearth of trained teachers, and a shortage of instructional resources. Therefore, many Senegalese children have insufficient skills for their grade level, especially in the areas of reading and mathematics (World Bank 2018a).

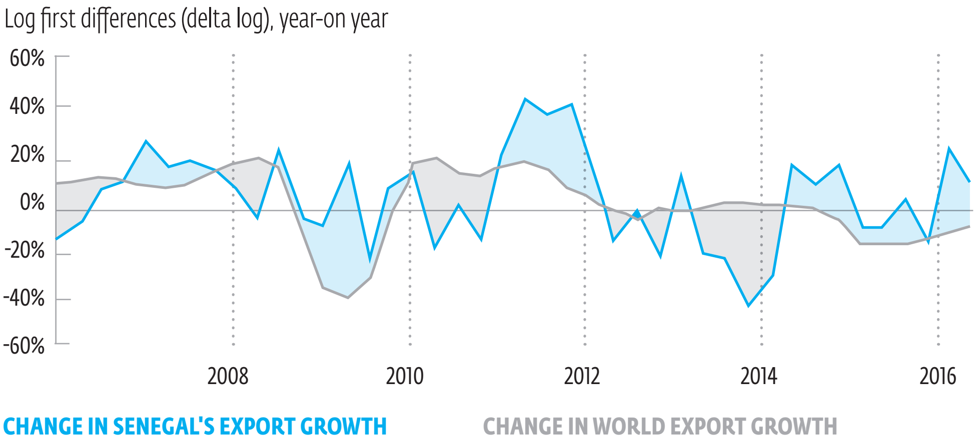
1.2 RECENT GROWTH IS LARGELY DRIVEN BY EXPORTS, AGRICULTURE AND SERVICES

A growth decomposition exercise, completed for the recent World Bank Group Systematic Country Diagnostic, shows the importance of exports in explaining the recent growth performance. In addition, the primary sector and some service activities have been growing fast due to support programs and robust external demand (figures A.3 and A.4). Economic reforms improving the country's investment climate, investment in infrastructure and energy,[8] and increased private investment in 2018 have also played a key role in boosting the country's economy (World Bank 2018a and 2019d). Some structural reforms have played a role, including the strengthening of the agency in charge of controlling compliance with phytosanitary standards and increased reliance on privately owned and privately managed independent power providers, the opening up of the cement industry to private investors and the restructuring of the chemical industry, the curtailing of power outages since 2014, and the partial digitization of customs clearance through the online Gainde 2000 platform (World Bank 2018a).[9]

1.2.1. Increased and more diversified exports

In recent years, exports have been an important driver of growth. From 2013 to 2018, exports of goods and services grew by 4.9 percent on average per year and export growth reached 7.1 percent in 2018 (figure 1.3). This is a departure from pre-2013 trends, when export volumes were nearly flat and the increase in the value of exports was mostly due to prices. In 2018, exports accounted for about 22 percent of real GDP, but contributed 23.5 percent of total growth. In 2018, strong increases in extractive industries, notably gold and phosphoric acid, and agri-food led to export growth (World Bank 2019d).

FIGURE 1.3 GROWTH OF EXPORTS IN SENEGAL



Source: World Bank, Measuring Export Competitiveness Database.

The country exports several products: raw materials, which make up about 40 percent of exports; intermediate goods, which see a similar share; consumer goods, which make up about 20 percent; and some capital goods, which represent about 5 percent of exports. In 2017, 44 percent of exports were within Africa and about 27 percent went to Europe.[10] In 2017, 30.8 percent of total exports went to the WAEMU area, which shares the same currency. Exports consist of gold, petroleum products, manufactured goods, and agroindustrial products. From 2013 to 2017, the country's top five exports were refined petroleum (13 percent), gold (10 percent), phosphoric acid (10 percent), non fillet frozen fish (8.1 percent), and cement (6 percent).

While exports have diversified, product quality remains low (World Bank 2018a). In 2018, Senegal exported 198 products,[11] an increase from 131 products exported in 1995. This represented more export categories than for several countries in the region in 2018: neighboring Mali (173 products) and fast-growing Ethiopia (164 products). It was close to the number of products exported by Côte d'Ivoire (205 products) but much less than more diversified economies, such as Morocco (241 products), Vietnam (250 products), and Malaysia (253 products). The Economic Complexity Index confirms Senegal's competitiveness, revealing that Senegal has a relatively complex product space, suggesting potential for future growth. In 2017, Senegal was 79th of 126 countries in the economic complexity ranking, ahead of Côte d'Ivoire, which was 110th in the ranking. However, Senegal's export quality remains low. It was stagnant for most of the 1980s and 1990s, and it only started to increase slowly in 2000, while still lagging the average for the West African Economic and Monetary Union and Sub-Saharan Africa.[12]

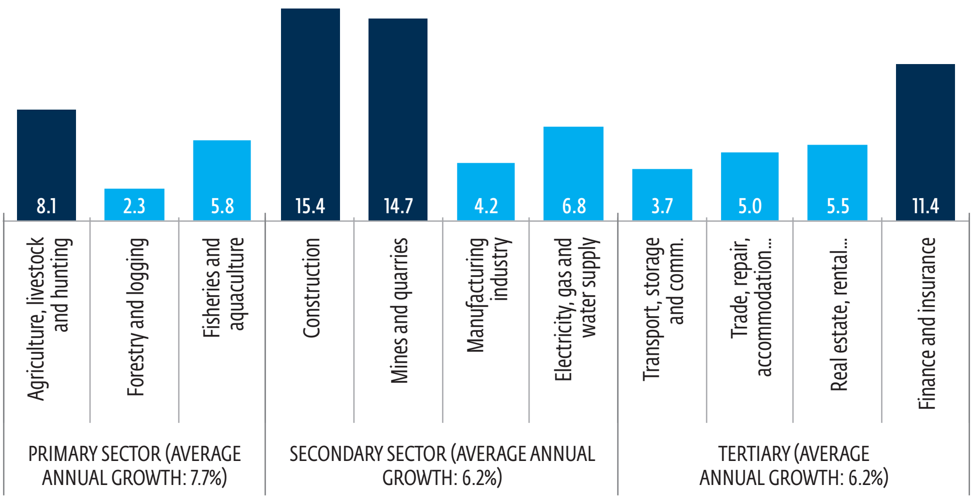
1.2.2. Agriculture and services as key sources of growth

Consistent with a stagnation in complexity of exports, during the recent growth spurt the primary sector has been growing the fastest (7.7 percent on average over 2014-17), particularly agriculture (crops, livestock, and hunting—figure 1.4) and fishing and aquaculture. The production of key staples has surged in recent years due to the expansion of cropped areas and an increase in inputs use. The government of Senegal has implemented policies (developing skills and financial capabilities of farmers and supporting the use of high-quality seeds and agricultural mechanization) to boost yields. Hence, output for rice, onions, and groundnuts increased by 160 percent, 74 percent, and 108 percent, respectively, between 2013 and 2017. In addition, continued support for rice over the last two decades (increasing investments, reforms in the irrigation management systems, expanding low-land cropping systems) has also led to higher yields.

Growth in the tertiary sector has been a close second over 2014–17 (6.2 percent on average), largely thanks to financial and insurance services, and to a lesser extent real estate and the hotel/accommodation sector. The financial sector has expanded with the stock of total bank assets growing from 48.7 percent of GDP in 2015 to 53 percent of GDP in 2016 and deposits growing from 35.7 percent of GDP in 2015 to 37.3 percent of GDP in 2016. This is consistent with strong overall economic growth but also reflects a low starting point (World Bank 2018e). Large public works projects and an increasing demand for housing in the Dakar area have largely driven real estate growth. Finally, the tourism sector has started to recover from the 2014 regional Ebola crisis that led to plummeting tourist arrival numbers.

Performance in the secondary sector has depended heavily on construction, which had a 15.4 percent average growth from 2014 to 2017. This growth in construction relies on infrastructure spending. The overall improvement from 2014 to 2017 was also fueled by the extractive sector, particularly phosphates, and chemical industries, largely due to the mechanical, food, and chemical industries, building materials, and power generation. Sector growth was 6 percent in 2018.

FIGURE 1.4 SECTOR GROWTH RATES, 2014–2017



Computed based on national accounts data post rebasing. Average of 2014–2017 yearly growth rate of gross value added in the local currency unit at constant prices. Dark blue bars represent the largest increases.
Source: National Accounts.

1.2.3. Rising and increasingly diversified foreign investment

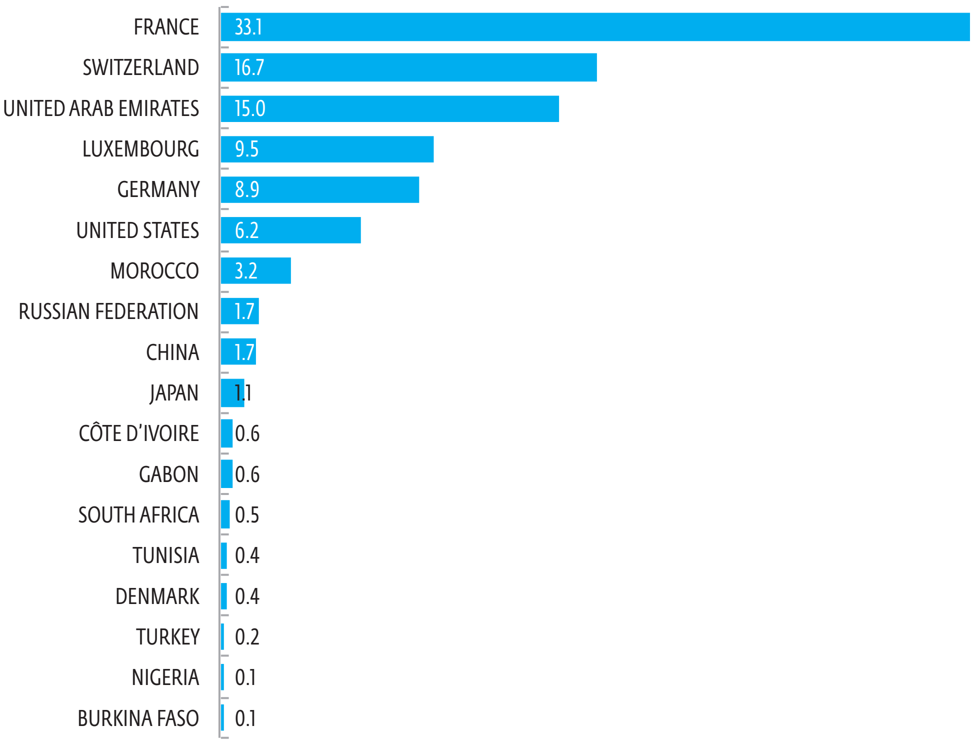
From 2009 to 2014, the flow of foreign direct investment into Senegal has been lower than in SSA, LICs, and East Asia.[13] **Since 2015, foreign direct investment inflows have increased however, reaching 2.6 percent of GDP in 2018** (figure A.5), but they still remain modest compared to countries such as Ethiopia (4 percent of GDP) and Vietnam (6.3 percent of GDP).

Over the past five years, France remained the traditional leading investor in Senegal, providing about one-third of the value of new foreign investments (figure 1.5) and a foreign direct investment stock of nearly €1.7 billion at the end of 2014. Sonatel, a subsidiary of Orange, the leading operator of telephony and internet, is a key French investor in Senegal, with the largest turnover of the country and the largest capitalization on the Regional Stock Exchange (the BRVM in Abidjan). French companies account for more than 15,000 formal jobs (Government of France, 2014).[14]

In recent years, the sources of foreign direct investment in Senegal have been expanding beyond France. Other important investors include Switzerland, the United Arab Emirates, Luxembourg, Germany, and the United States of America, China.[15] Also, foreign direct investment has largely focused on different areas: construction (59.5 percent of investments), dominated by Turkey; transportation (13.8 percent); information and communications technology and electronics (11.4 percent); and the remaining amount (15.3 percent) divided among other sectors (figure 1.6).

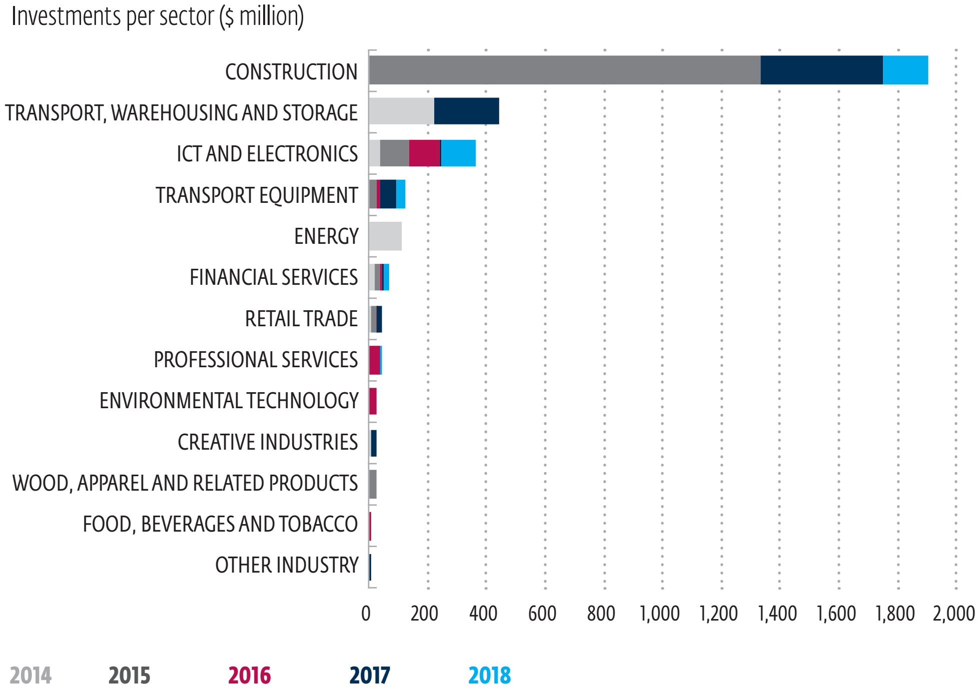
FIGURE 1.5 SOURCES OF CAPITAL INVESTMENT

Percentage, Average 2014–2018



Source: fDi Markets database, from the Financial Times Ltd 2020.

FIGURE 1.6 CAPITAL INVESTMENT IN SENEGAL, 2014–2018



Source: fDi Markets database Financial Times Ltd 2020.
Note: ICT = information and communications technology.

1.2.4. Formal and private sectors remain small

The formal sector[16] is small, accounting for only 3 percent of economic units.[16] Formal firms are significant players or dominate in only a few sectors. They account for 31 to 60 percent of economic units only in construction, transport and telecommunications, and services to firms. They are negligible in other sectors (ANSD 2017). Formal private sector employment is small and amounts to 4.6 percent of the active population while public sector employment is about 3.2 percent. Overall, formal employment is only 7 percent of the active population (figure A.2). The economy consists predominantly of small economic units, with 99.8 percent of firms in Senegal being small and medium-sized enterprises. One-person enterprises and very small firms make up the largest share of all sectors in Senegal.

Moreover, the country's few formal firms have limited competitiveness in international markets. Data for manufacturing firms reported in the 2007 and 2014–15 Enterprise Surveys suggest that Senegalese firms are relatively competitive on a regional basis in West Africa, but they are significantly below middle-income comparator countries from other regions. For example, labor productivity in Senegalese manufacturing (about $4,700 of value added per worker per year), while higher than in many Sub-Saharan African countries, is over three times lower than in China, four times lower than in Brazil, and five times lower than in South Africa (World Bank 2017a).

1.3. A CHANGING ECONOMIC ENVIRONMENT

Against this background of promising, albeit embryonic, trends toward greater economic dynamism, the country is at the cusp of major changes that could further affect economic recovery post–COVID-19 and the role of the private sector in the economy.

The most important development is the recent discovery of offshore oil and gas, a potential long-term game-changer. A second change factor relates to the current wave of new digital technologies that Senegal has begun to embrace and that will fundamentally affect many aspects of the economy. These two events are likely to take place in a changing business environment, as policy changes envisioned by the government of Senegal will impact opportunities for firms and market prospects in the country.

1.3.1. Oil and gas finds may drive down energy costs

In 2014, significant volumes of offshore hydrocarbon were discovered. Cairn Energy discovered the FAN field[17]and the SNE field[18] in the Sangomar Deep block. Woodside (an Australian company) acquired a material position in the exploration license in 2016 and has since end-2018 been the operator. In 2015, Kosmos Energy made the giant Tortue gas/condensate discovery in Mauritania, and then managed the extension of the Grand Tortue Ahmeyin complex south into Senegalese territory. BP (British Petroleum) is now the operator. In 2017 and 2018, Kosmos Energy made two large gas discoveries in waters off the shores of northern Senegal, Teranga and Yakar, estimated at 5 trillion cubic feet. In addition, the ultra-deep oil potential has not yet been fully explored.

The focus is now on the development of these recently discovered fields. The final investment decision for phase I of the development of Grand Tortue Ahmeyin was announced on December 21, 2018, the start of exports being expected in 2022. The final investment decision for SNE development took place in January 2020, with the first production of oil expected in 2023. The Yaakar-Teranga deposit near the Dakar region also constitutes an opportunity to supply gas to the domestic market for different purposes, notably for the production of electricity and fuels for certain industries.

Production of oil and gas within the next five years, if realized according to schedule, could have a significant impact. On the risk side, transparent governance of the sector could become a challenge, and financing difficulties may also arise. On the benefit side, additional oil and gas revenues should boost tax revenues and broaden the fiscal space available to meet needs in infrastructure and in the social sectors. It is estimated that total government revenues from these new fields could vary between 1 and 8 percent of GDP annually depending on oil and gas prices, with a baseline of 4.4 percent of 2017 GDP (World Bank 2018a).

There are prospects that gas could be used to produce power, which could substantially reduce the cost of electricity. The development of gas to power is a priority for the government of Senegal—and a part of the strategy for the energy sector—as domestic electricity costs are very high. It is estimated that domestic gas may reduce generation costs by up to 30 percent. It is estimated that gas prices from Greater Tortue Ahmeyim and SNE would be more competitive than with heavy fuel oil for power generation.[19]

Besides developing the relevant gas-to-power infrastructure, ensuring proper management of the oil and gas income will be key to ensuring that expected macroeconomic benefits materialize and that financing issues are dealt with. A strategy to ensure an effective use of these resources should involve both improved expenditure and revenue management.

- **Expenditure policy and management need to be improved.** On the policy side, it is important to prioritize infrastructure expenditures. Senegal has considerable infrastructure needs, including in the transport and energy sectors. Addressing these infrastructure needs would not only help improve Senegal's competitiveness and business environment, but also lead to capital outflows that would reduce upward pressure on the exchange rate. In the area of expenditure management, it is essential to strengthen execution of infrastructure projects and transparency of spending with a view to limit leakages.
- **In the area of revenue management**, the government declared its intention to manage revenues in line with the objectives of macroeconomic stability and fiscal sustainability, and in accordance with the WAEMU convergence rules and goal of sharing benefits with future generations. The government plans to set up an intergenerational fund, to be managed by the Strategic Investment Fund (FONSIS) in accordance with the Santiago principles,[20] as well as a stabilization fund (World Bank 2020a, 12). While limiting Dutch Disease risks, this would also allow Senegal to spread the benefits of additional revenue from exhaustible resources over time and create buffers to deal with unforeseen shocks, such as a global financial crisis, a decline in commodity prices, or an epidemic.

1.3.2. Digital technologies will impact productivity and development

Digital technologies are expected to impact the productivity of firms in Senegal, as it contributes to global development. The digital economy spans a range of technologies, some which have been around for a couple decades (for example the personal computer and the internet) as well as more recent technological breakthroughs disrupting existing business models. They include ubiquitous internet access, data analytics, cloud services, digital platforms, the "Internet of Things," and distributed-ledger technologies, such as blockchain, machine learning, and artificial intelligence. In any economy, the transition to a full-fledged digital economy will have far-reaching impacts on productivity and growth (table A.1). Yet, the most impressive transformation of productive capacities—namely those of artificial intelligence—have not yet diffused widely and will depend on a range of complementary innovations that will impact our lives in the future in yet largely unpredictable ways (Brynjolfsson, Rock, and Syverson 2017).

The digital economy is growing at an estimated 10 percent a year—significantly faster than the global economy as a whole. Growth in the digital economy is even faster in developing markets, at 15 percent to 25 percent per year. The digital economy is an increasingly important source of jobs globally, and digital technologies are enabling far-reaching social and political changes (Boston Consulting Group and World Economic Forum, 2017).

In Africa, the development of the digital economy has led to considerable gains from mobile money to distance learning, market access of informal firms, and the mobilization of citizens. The region posted the highest growth of internet use globally, increasing from 2.1 percent in 2005 to over 24 percent in 2018, according to the International Telecommunications Union. Still, affordability and connection speeds lag behind other regions. Since its initial availability in Senegal, Kenya's M-Pesa payment system reached 80 percent of households in Senegal, resulting in a flow of more than $34 billion in 2017, nearly half of Senegal's GDP. Remote regions of Africa are a hotspot for cutting-edge technology applications, such as drone-assisted delivery of medical supplies in Rwanda and Ghana or microgrids powered by renewable energies in Kenya and Nigeria. In Tanzania and Zimbabwe, innovators are leveraging technology to reach out-of-school children and track student progress, identifying students' strengths and weaknesses with quizzes connected to the national curriculum. On the government side, Kenya's eCitizen digital platform has reduced bureaucracy and improved access to government services such as business licenses, permits and registrations, official land title searches, and passport applications.

Senegal's government is aware of this global change and opportunities in the digital economy. It has made support for information and communications technology development one of the foundational pillars of its development strategy. The long-term sectoral vision is laid out in the Senegal Digital Strategy 2025 plan released in 2016, detailing prerequisites and priority axes.

Despite good intentions, a lot will have to be done to make potential benefits a reality given Senegal's low starting point (box 1.1). Over the medium term, it is critical for Senegal to get the basics right, generalize access, lower prices, support private sector competitiveness, and stay engaged with technological change (see chapter 2 for more details).

BOX 1.1 SENEGAL STILL HAS A SMALL DIGITAL ECONOMY

Starting from a low level where few formal companies operate in information technology services and software development, the Senegalese private sector is steadily becoming more active in the digital world. New activities featuring information and communications technology are steadily developing. For example, Gainde 2000 is a Senegalese company that specializes in trade efficiency, customs modernization, and paperless public formalities. It has been a key player helping improve customs clearance processes via digital solutions, including the ORBUS Single Window services for facilitating foreign trade formalities. The government of Senegal is also developing online services and e-government initiatives.

There are more than 50 e-commerce sites with traffic ranging from more than 300,000 visits per month to fewer than 3,000 visits per month, and there are many e-commerce pages created in Senegal on social networks (Mbake 2018). Yet, the Senegalese presence on the internet is small, compared to large sites dominating in Western countries. Amazon France had 27.2 million unique visits per month during the third quarter 2019, and eBay France had 11.2 million unique visits.

The use of these technologies by existing sectors to improve productivity is also growing. In agriculture and fisheries, many applications are emerging, such as mLouma, which provides market price information to farmers, allowing them to optimize purchase and sales decisions, or Aywajieune, a market-matching mechanism for sea products.

In manufacturing and services, private firms make significant use of basic web-based technologies, such as websites for firms and email services to interact with client and suppliers (Figure A.8), at a rate higher than the Sub-Saharan African average. However, wide differences exist. Foreign firms, Dakar-based firms, and large firms with more than 100 employees use websites and email more than other categories of enterprises.

At the sector level, tourism makes an especially important use of technologies, with almost 52 percent of firms in the sector having a website and close to 77 percent of them using email to interact with clients and suppliers.

Besides the widespread use of accounting and office productivity suites, reliance on more advanced solutions, such as manufacturing operations management systems, product life cycle management, enterprise resource planning, and customer relationship management, is mostly restricted to large and foreign companies.

1.3.3. Policy reforms likely to impact the private sector

Since 2012, structural reforms have been implemented in the context of the Plan Sénégal Émergent, or Emerging Senegal Plan. Proper implementation of the plan will contribute to enhance the competitiveness of the economy and create conditions for increased development of markets and opportunities for the private sector. Some important initiatives were taken and include the initial development of small industrial zones, some improvement in the electricity sector, and reforms of the business environment. These were a good start, but more difficult reforms remain to be done, as described later in this report.

Completed structural reforms include

- **Industrial zones**. A first platform is becoming operational. The Integrated Industrial Park of Diamniadio is aimed at light and labor-intensive manufacturing geared toward exports or import-substitution. The Integrated Industrial Park of Diamniadio is small. In early 2019, six companies and several service providers invested $48 million in the initiative. In 2018, 635 jobs were created in the industrial zone (IMF 2019a). At this early stage, the success of the Integrated Industrial Park of Diamniadio remains to be demonstrated.
- **Electricity**. Production capacity has increased, and the energy mix is being diversified in favor of renewables, which will also reduce the cost of electricity. Since 2016, Senegal has put into service about 100 megawatts of grid-connected solar capacity. An additional 65 megawatts were forecast to come into service in 2018, with another 100 megawatts in place in 2019. Together, with the 150 megawatts expected from wind energy in 2020, the country is diversifying its energy mix. The installed production capacity increased to 840 megawatts in 2018, with 10 percent of renewables, including solar, wind, and hydroelectric power (World Bank 2018g).

- **Business regulations**. From 2013 to 2015, various measures reducing processing times and the costs of issuing administrative acts in the areas of business creation, transfer of ownership, building permits, commercial justice, tax payments, access to electricity, access to credit, and cross-border trade were implemented and have also enabled improved quality of selected government services (Government of Senegal 2018b).

In support of the reform agenda, Senegal is also committed to the G20 Compact with Africa, launched under the German presidency of the G20 to promote private investment in Africa by supporting improvements in the macroeconomic, commercial, and financial frameworks. Senegal has been involved in the compact's commercial events and is preparing to make full use of available funding instruments (project preparation and advisory facilities, risk mitigation vehicles, co-investment platforms, and so on).

The government of Senegal's plans are ambitious and involve numerous reforms. The second phase of the Plan Sénégal Émergent, or Emerging Senegal Plan, is expected to focus on several elements: (a) supporting the environment for selected sectors, including extraction, construction, agroindustry, tourism, and transport; (b) strengthening incentives and support to investment, continuing to further expand and support industrial zones; (c) further developing infrastructure; (d) improving information and communications technology and energy access and quality; and (e) in the regulatory area, consolidating earlier achievements and supporting the implementation of new reforms. Reforms would include cross-cutting initiatives including (a) labor regulations and a digital land registry; (b) further regulatory simplification and cost reduction, including digitization of social tax payments and rationalization of port costs, and (c) improving competition regulations and implementing targeted business environment improvements that represent a "start-up package" to develop entrepreneurship, improving the environment for incubators (Government of Senegal 2018a). If properly implemented and prioritized, such reform would improve significantly the business environment for the private sector in Senegal.

2. OBSTACLES TO PRIVATE SECTOR GROWTH

Despite growth, Senegal's economy has yet to create an environment that allows for sectors in which the country has a comparative advantage to grow faster. Cross-sector constraints are a key explanatory factor of the performance of the private sector and largely shape its environment. Available data as well as consultations with the private sector suggest firms continue to operate in a difficult business environment.

This section argues that the most important obstacles to tackle are the lack of a level playing field, access to finance, cost of energy and limited connectivity. This view is based on a synthesized view from a large number of data sources (figure A.6). First, results from the 2015 World Bank Enterprise Survey[21] indicate several key constraints to a firm's operations: informality and competition from the informal sector ranked highest at 57.5 percent of firms; next was access to finance, important for 55.4 percent of firms; electricity, relevant for 49.1 percent of firms; and access to land, noted by 43.5 percent of firms. In addition, the 2017 World Economic Forum Business executive opinion survey[22] provides a more recent snapshot of key issues. Access to finance is the most binding constraint (21.1 percent), followed by tax rates (15.8 percent), tax regulations (8.8 percent), and corruption (8.3 percent). On the legal side, the World Bank's Doing Business survey identifies regulations related to getting credit, protecting minority investors, resolving insolvency, and paying taxes as the farthest from the best practice frontier. Despite very different methodologies, these sources point to a relatively stable set of core structural constraints in Senegal in recent years, and these can be regrouped into broad categories (table 2).

TABLE 2.1 KEY CONSTRAINTS FOR THE PRIVATE SECTOR IN SENEGAL

Ranked by decreasing importance.

2014 WORLD BANK ENTERPRISE SURVEY	2017 WORLD ECONOMIC FORUM EXECUTIVE SURVEY	2019 WORLD BANK DOING BUSINESS SURVEY
Informality/competition from informal sector	Access to finance	Getting credit
Access to finance	Tax rates	Protecting minority investors
Electricity	Tax administration	Resolving insolvency
Access to land	Corruption	Paying taxes

Note: Color-coding is only meant to underline the similarity of constraints. WEF = World Economic Forum.

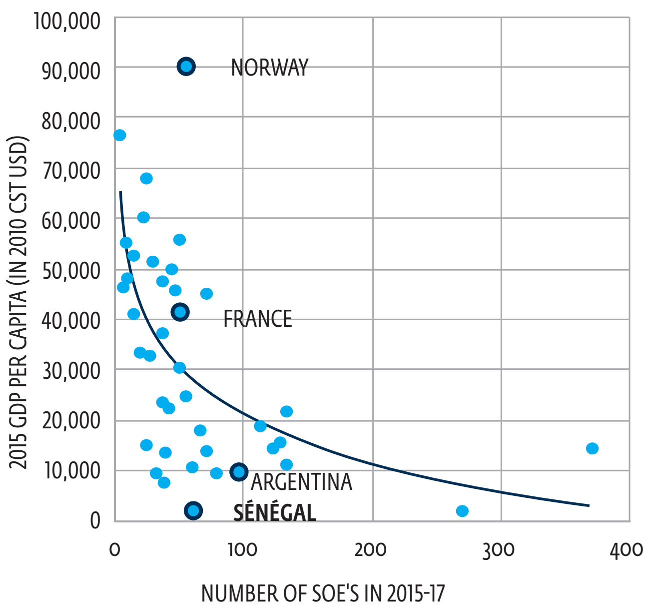
A broad set of issues related to regulations, competition, taxation, and access to land, coupled with widespread informality, thus leads to an uneven playing field in Senegal. An additional key constraint, singled out in all analytical work on the private sector in Senegal, is access to finance. Electricity and energy is a long-standing issue, which is even more important now that the country is to become an oil and gas producer. The country also faces important connectivity weaknesses, related to transport and trade logistics, as well as information and communications technology and digital technologies, that Senegal must fix to reach its development targets and benefit from the global digital economy. These issues are analyzed below in more detail.

2.1. UNEVEN PLAYING FIELD

The root causes of the lack of a level playing field are the important role that continues to be played by the government in economic affairs and in regulation as well as the high degree of informality in the economy. The lack of a neutral regulatory function also largely explains the persistence of corruption. While at a lower level than other Sub-Saharan African countries, corruption is a long-standing issue in Senegal and affects a wide variety of practices. (figure A.7). The overall cost is not negligible. The value of bribes paid over a 12-months period is estimated to be about 1 percent of GDP (OFNAC 2016).

The large number of state-owned enterprises in Senegal is an example of the government's important role in economic affairs (figure 2.1). The state relies heavily on 89 autonomous agencies and entities[23] and 60 state-owned enterprises[24] to execute public policy and implement public investments (Government of Senegal 2018b). Competition is distorted as a result of restrictive regulations and the presence[25] of state-owned enterprises in some markets, such as fertilizer production, groundnut processing, and network sectors (World Bank 2018f).

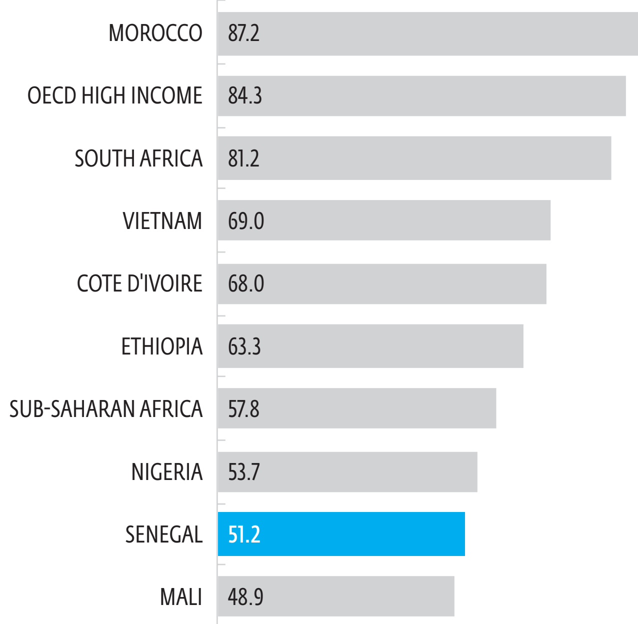
FIGURE 2.1 STATE ENTERPRISES AND PER CAPITA GDP



Source: OECD (2017) and World Development Indicators.
Note: GDP = gross domestic product; SOE = state-owned enterprise.

FIGURE 2.2 DISTANCE TO FRONTIER, 2020

Across countries and regions



Source: World Bank Doing Business 2020.
Note: OECD = Organisation for Economic Co-operation and Development.

Another example remains the persistence of a still-heavy regulatory framework, which despite significant improvements remains relatively uncompetitive. From 2005 to 2015, Senegal was a low performer in the Doing Business Indicators, ranked close to or in the last decile of the distribution. In 2015 and 2016, the implementation of improved business environment regulations and processes helped Senegal improve from 178th in the 2014 Doing Business survey of 190 economies to 123rd.

However, despite these improvements, the country still ranks amid the lower half of the ranking. Senegal's Distance to Frontier[26] ranks better than several Sub-Saharan African comparators and Sub-Saharan Africa itself, but it is still way below aspirational comparators such as Côte d'Ivoire, South Africa, Vietnam, and Morocco (figure 2.2). Regardless of the legislative and regulatory improvements needed in certain fields detailed below, the development of e-government and digital solutions should be a common denominator for the actions to be carried out. In the regulatory field, private sector firms consider that limited competition, high taxation, and difficult access to land are prominent issues.

A second strong constraint that the private sector faces is the competition generated by the informal sector. The informal sector is important in Senegal and is estimated to have generated around 42 percent of Senegal's GDP over 2010–2014 (IMF 2016). The general business census of 2016 identified 407,882 economic units in Senegal, of which 97 percent were informal. The sector is mainly composed of microunits with an average size of 2.9 employees that are active in all sectors of the economy. In the informal sector, services, trade, and construction provide the bulk of employment. Revenues are generally low: 92 percent of employees earn less than 110,000 CFA francs and 71 percent of entrepreneurs have a turnover of less than 100,000 CFA francs per month (OIT 2020).

The informal sector often acts as a shock absorber in the event of an economic downturn, providing immediate economic opportunities to a population that is not fully employed in the formal sector. It also affects the formal sector through the competition it generates—benefiting by nature from cost advantages and undeniable flexibility. In the 2014–15 Enterprise Survey, 76 percent of businesses surveyed indicated that they are subject to strong competition from the informal sector, particularly those located outside of Dakar.[27] Regional variations are significant.

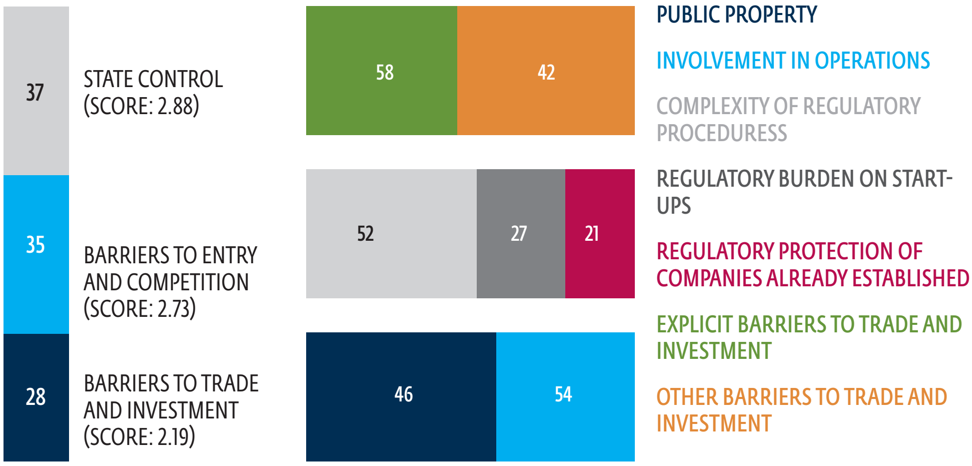
There is a vast literature seeking to explain the determinants of formality or informality. In Africa, the large size of the informal sector can be explained by a combination of factors (Schneider 2005) directly under government control, and by the limited capacity of the formal sector to absorb population growth. Factors under government control may include various regulations (De Soto 1989; Djankov 2002 et al.; Bruhn 2011; Gajigo and Hallward-Driemeier 2012), taxes (including social security), the quality of public sector services, and so on. In particular, for Senegal it seems that the motivations for investing in the informal sector are mainly the relatively low cost of entry, avoiding red tape and tax obligations (Simen 2018). In addition, econometric results on 6 African countries - including Senegal - have shown that electricity supply, access to finance and access to land positively influence the decision to formalize (Ramachandran and Desai, 2007).

2.1.1. Market competition

Open and fair competition is a key building block for sustained growth and is critical to ensure a level playing field for the private sector. Recent data on regulatory restrictiveness from the Product Market Regulation study suggest that several constraints still limit competition in Senegal.[28] On the aggregate Product Market Regulation indicator, Senegal received a score of 2.56, placing it 18th out of 23 non-Organisation of Economic Co-operation and Development (OECD) and selected OECD comparator countries. State control and barriers to trade and investment are the most important drivers of Senegal's ranking (World Bank 2018f).

Significant state control, based on public ownership of key enterprises in the economy, represents the main contributor to the country's Product Market Regulation score (figure 2.3). Barriers to entry and competition are also important contributors to the overall Product Market Regulation score, mainly because of complex regulatory procedures. The restrictiveness associated with barriers to trade and investment drives other barriers to investment, such as differential treatment of foreign suppliers and barriers to trade facilitation. The Bertelsmann Transformation Index[29] and its subindicators related to market organization further refine this mixed picture. The country is just average in terms of competition (score of 5 out of 10, as some key markets are being dominated by either monopolies or a few players) and marginally above average for antimonopoly policies and liberalization of foreign trade (6 out of 10 in each area).

FIGURE 2.3 COMPONENTS OF PRODUCT MARKET REGULATION IN SENEGAL



Source: World Bank 2018f.

Certain sectors face high levels of protection and/or restrictions to market-based competition. The edible oil and sugar sectors, as well as information and communications technology are good examples[30] of the issue:

- **Vegetable oil and sugar are products for which domestic prices are two to three times higher than international prices.** As highlighted by Golub and Mbaye (2014), these sectors are subject to market entry barriers, coupled with high levels of protection that prevent competition from imports despite the fact that they can hardly be characterized as nascent or sensitive sectors for health and safety reasons. For example, the single sugar producer of the country is also granted the status of privileged importer of sugar, under the rationale of its government-granted mission to cover the country's needs in sugar. Because of this—even if there have been improvements since 2010—consumers end up paying a high price for subsidies in disguise to local producers. In turn, groundnut producers were subject to export taxes, leading to a boycott by traders and lowered farmer incomes. Also, the incidence of the tax fell more heavily on shelled nuts than on unprocessed nuts in shell, discouraging local value addition. Lastly, export restrictions also strengthened the market position of so-called OPS (Organismes privés stockeurs), the licensed buyers for domestic oil producers. This provided them with advantages over potentially competing buyers beyond the fact that they already appear to benefit from a well-established infrastructure of collection points as well as other advantages such as cheaper access to finance (World Bank 2018f).[31]
- **The information and communications technology (ICT) sector is another example.** Despite significant progress made over the past two years (entry of new operators and lower prices), digital connectivity and the quality of internet access are still significant challenges. The gap in access to digital infrastructure reflects weak competition, particularly in the wholesale market, as well as limited sharing of infrastructure and relatively high cost of radio frequencies. Despite more effective sector regulation, allowing for the identification of relevant markets and powerful operators, the ICT market does not yet point to a situation of effective market-based competition.

Secondly, the design of the institutional setting for competition policy is imperfect. Competition policy involves two-levels: regional and national. Senegal is a member of WAEMU, which has adopted a centralized approach to competition policy. It has exclusive competence to legislate on anticompetitive practices[32] and the Commission has decision-making power in dealing with these. Competences of member states are thus limited to restrictive practices and unfair competition, with the WAEMU Commission ruling on all matters related to anticompetitive practices and the National Competition Commission,[33] whose mandate is restricted to the investigation phase, assisting it.

Implementation and coordination are weak. Institutions responsible for the implementation of antitrust laws are still relatively ineffective. Despite some earlier reforms, much remains to be done to ensure effective implementation of competition laws and promote a competition culture. First, there is still a lack of efficient cooperation between the National Commission on Competition, sector regulators, and WAEMU. Second, at both the national and regional levels, institutions in charge have limitations. In Senegal, more than 20 years after its creation, the National Commission on Competition is still not fully operational and needs to improve its capacity, and its relationship with the regional commission is yet to be fully clarified. At the regional level, the West African Economic and Monetary Union Commission lacks resources to implement its mandate (World Bank 2018f).

Key improvements in this critical area would require clarifying relations between the West African Economic and Monetary Union and authorities at the national level in terms of competition policy and improving the work of regulatory institutions.

- **To clarify relations between the central and national level, there is a need for WAEMU to do two things:** first, support the development of legislation that delegates powers to national competition authorities to investigate and arbitrate anticompetitive practices that occur on the national territory and do not have cross-border effect; second, press for rules regulating cooperation between the WAEMU Commission and national competition authorities.
- **Institutions overseeing competition policy must be reinforced.** WAEMU must make certain adequate resources are provided to the WAEMU Commission to improve competition enforcement. At the national level, Senegal must ensure that the National Competition Commission is fully operational, appropriately staffed, and adequately supported financially.

2.1.2. Taxation

In tax matters, Senegal performs worse on average than SSA and OECD high-income countries, in terms of the number of payments to be made over a year or the time required to fill out forms. Although the overall tax rate is lower than that of SSA (around 44.8 percent in Senegal compared to 47.3 percent in SSA), the overall tax rate remains much higher than in OECD countries, where it equals 39.9 percent. Labor taxation and social contributions largely drive Senegal's higher tax rate (table 2.2).

TABLE 2.2 TAXATION OF FORMAL FIRMS IN SENEGAL

	SENEGAL	SSA	OECD HIGH INCOME	BEST PERFORMANCE
Payments (number per year)	53	36.6	10.3	3 (2 economies)
Time (hours per year)	416	280.6	158.8	49 (3 economies)
Amount paid (% gross profit)	44.8	47.3	39.9	26.1 (33 economies)
Post filling Index (1–100)	71.8	55.9	86.7	None in 2018-19

Source: World Bank's Doing Business.
Note: SSA = Sub-Saharan Africa; OECD = Organisation for Economic Co-operation and Development.

Formal sector firms suggest a sometimes inconsistent application of taxation, resulting in an uncertainty that becomes a significant business constraint. Indeed, based on enterprise survey data, 30.2 percent of firms rate tax rates as a severe or very severe constraint, and 26.5 percent of firms state that tax administration is a severe or a very severe constraint.

Specific issues include (Loeprick and Bachas 2019):

- **Numerous low-yielding taxes, including registration fees and stamp duties, generate significant reporting and payment obligations and discourage formality** by creating incentives to avoid payment and, often, an excessive burden for smaller formal firms. In this context, it should be noted that the patente, a direct tax levied on an industrial or commercial activity, has been abolished.
- **Weak value added tax (VAT) management, especially for tax credits, which tend to be reimbursed late (if at all), remains a significant problem for firms operating in Senegal.** Speedy VAT credit refunds and the effectiveness of controls are essential to ensure sustainability and neutrality for the private sector. VAT credit issues may impose significant cash constraints onto private operators. Reimbursements are slow and controls sometimes weak.
- **Moreover, specific sectors, activities, and regions have preferential tax treatment which has implications for complexity, efficiency, and equality.** There are, for example, tax credits for large investments, provisions for accelerated depreciation, a special regime for exporters (which exempts them from VAT and offers a reduced corporate tax rate of 15 percent—against 30 percent normally), and incentives for "strategic" sectors, such as a 10-year direct and indirect tax rebate for tourism investment in Casamance. In some instances, it appears tax advantages are determined on a basis that does not foster competition.

Recommendations

It is critical that Senegal improve taxation policy and simplify tax administration to strengthen the private sector, level the playing field, and reinforce the country's attractiveness to investors.

This requires the government to undertake certain actions, including:

1. **Reduce and consolidate the number of low-yielding taxes and reduce requirements** in terms of registration and stamp duties.
2. **Improve speed of VAT reimbursements** (as planned in the medium-term revenue strategy) by ensuring widespread deployment of risk-management procedures, rationalizing the procedures of restitution claims and developing an information technology system capable of ensuring proper management of the workflow of restitution claims.
3. **Finalize the cost-benefit analyses** underway on tax incentives/exemptions and eliminate schemes considered nonbeneficial.

2.1.3. Access to Land

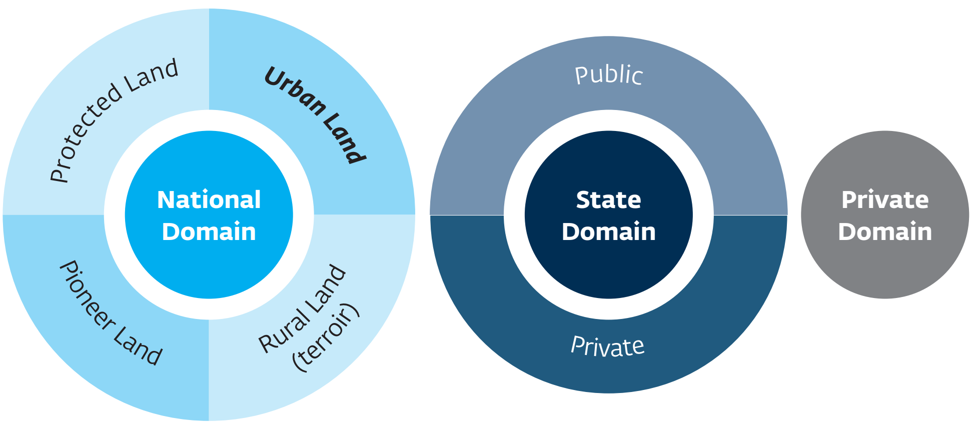
Given population growth and climate change–related degradation, demand pressure for personal and economic use of available land is increasing in rural and urban areas, particularly in Dakar.

The availability issue is exacerbated by land rights uncertainties, created by a 1964 law and weak land registry. The 1964 law introduced three categories of land domain: individual and private, state, and national, which includes rural and urban land (figure 2.4). The largest category, national domain, covers all unregistered land in the country. By law, rural communities and municipalities manage rural land of the national domain and are authorized to issue land occupancy titles that provide a right of use. However, it is not transferable or inheritable and can only be delivered to members of the same rural community. Further, administrative weaknesses have led to lax implementation of the law, resulting in deep-rooted customary tenure systems persisting. In urban areas, the law allowed urban ownership of land, but very few urban property titles have been issued because of complex administrative processes; in 2014, only about 150,000 urban titles were issued.

On average, in urban areas and according to the relevant Doing Business indicator, Senegal's Distance to Frontier remains below some of its best-performing comparators such as Vietnam, Morocco, South Africa, and Côte d'Ivoire (figure 2.5). Specifically, land registration requires five procedures, takes 41 days, and demands fee payments amounting to 7.6 percent of property value, while the quality of the land administration remains limited.[34] Although the country fares decently in the context of Sub-Saharan Africa, it is well below the level of OECD countries (figure 2.6).

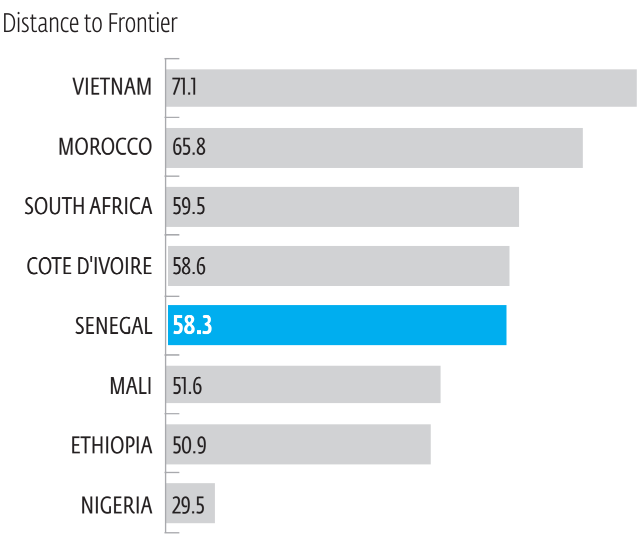
On the administrative side, although the government of Senegal in the last few years has moved to improve urban land registration, significant weaknesses remain countrywide. Information on registers is often incomplete or unreliable, search possibilities are limited within registries, registries are unavailable locally or are nonexistent, often in paper format, and make limited contribution to security and transparency of tenure.

FIGURE 2.4 LAND CATEGORIES IN SENEGAL



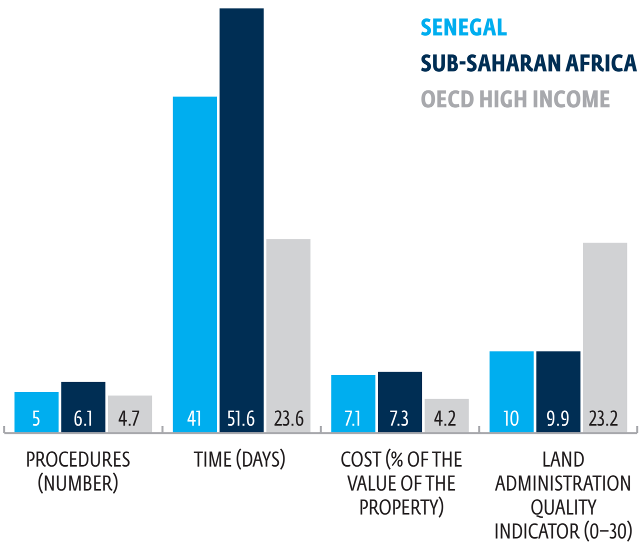
As a result, the current access to land is marked by a growing discrepancy between the legal framework and local land management practices. It creates a climate of tension: conflicts include land claims in the city, land grabbing attempts and identity conflicts around the land in the areas of contact between farmers and herders. Furthermore, this system is prone to corruption. Land issues are the highest category of complaints reported to Senegal's Office National de la Lutte contre la Fraude et la Corruption (the National Office Against Fraud and Corruption), because some officials exploit their power to allocate land use rights to illegally collect rents. Individuals and companies that have acquired land under the current system face significant uncertainty (World Bank 2018a). This creates a particularly uneven playing field for the private sector, with access to land largely unpredictable.

FIGURE 2.5 PROPERTY REGISTRATION



Source: World Bank Doing Business Survey.

FIGURE2.6 PROPERTY REGISTRATION REGULATIONS



Source: World Bank Doing Business Survey.
Note: OECD = Organisation for Economic Co-operation and Development.

Recommendations

The need for land reform is clearly recognized and expressed in the Plan Sénégal Émergent, or Emerging Senegal Plan. It is, however, difficult to realize, given the centrality of land for the local political economy. For the past 20 years, land reform efforts have been unsuccessful (World Bank 2019b). The last attempt, through the creation of a National Commission on Land Reform in 2012, led to yearlong nationwide consultations and yielded a proposed land tenure policy in 2017. The new policy was never officially validated, however, and the National Commission on Land Reform was eliminated at the end of 2017. Given the poor historical record on land reform, it would not be a recommended approach to create a new land commission in the hopes of developing a new land policy document. It may be more effective to pursue a more gradual process, based on practical actions and accompanied by related adjustments to the legal and institutional framework.

A first step of reform would be to ensure the implementation of a proper cadastre in key urban and rural areas. Through a participatory approach with local communities, the private sector, and nongovernmental organizations, it should include:

- **The establishment of land bureaus to register usage rights, record transactions, and transfer information** to the Senegal Revenues and Customs Authority to establish a national database and land regularization campaigns;
- **The modernization of related technical infrastructures**, including the land information system and acquisition of satellite images, and the strengthening of the capacities of the institutions in charge (both in human and financial resources), such as the Senegal Revenues Authority.
- **The development and implementation of a training plan** for land-administration related professions.

The second stage would be to reform the legal framework when results of the cadastre are sufficiently reliable. A new framework law would make it possible to update the legal principles inherited from the 1964 law. It would validate the evolution of usage "customary law" rights toward "real, i.e. codified rights" after they are recorded in a mapped register. This evolution toward a real right would allow the law to recognize land tenure practices already at work and to open new prospects, particularly in terms of the formalization of the land market and access to credit (World Bank 2019b).

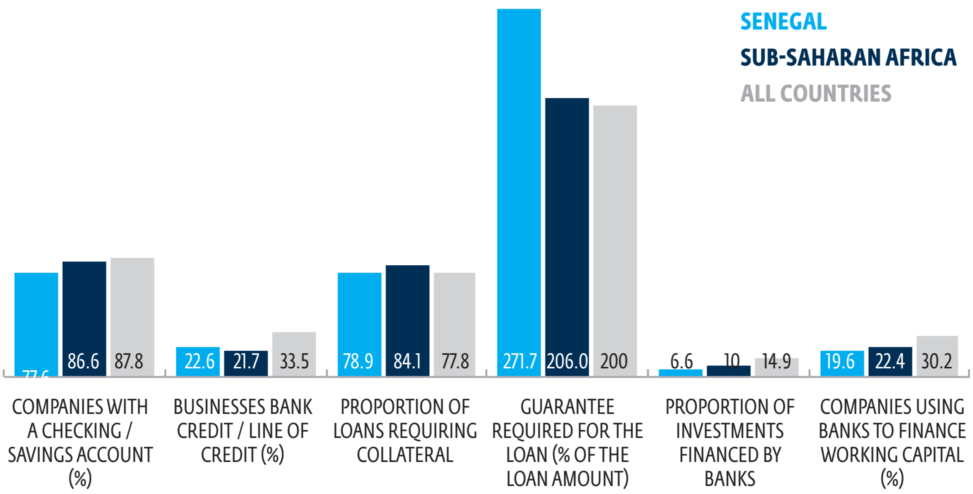
Both stages would offer significant options for private sector involvement, including digital systems for the cadastre and training and consulting, and an even bigger impact would be to secure loans and financing as collateral against land.

2.2 LIMITED ACCESS TO FINANCE

Access to finance is a major constraint for private sector firms, and micro, small, and medium enterprises (MSMEs) in particular.

Senegal fares poorly compared to Sub-Saharan Africa or the world average in key indicators of access to finance for private firms (figure 2.7). Less than one of four companies, or about 22.6 percent, have a bank loan or line of credit. That number is close to the average in the SSA region, even though real interest rates are not high, at 3.4 percent to 4 percent over the period from 2015 to 2017. When they do manage to get a loan or line of credit, firms must still pledge significant assets to secure their loans. For example, three of four firms, or 78.9 percent, were asked for some form of guarantee when applying for a loan (World Bank 2017a). The value of the guarantee required is very high on average, at 271.7 percent of the value of the loan; extreme for small firms, at 428.7 percent, but much smaller for large firms, at 160.7 percent. This wide range of guarantees across firm size, coupled with a collateral-based lending culture, reflects the increased risk perceived by banks to lend to smaller clients. Lending conditions are also difficult because of the type of guarantees required by banks, with land and real estate being the preferred forms of guarantee in about half, or 53.1 percent, of the time. This is an additional hurdle, as securing this type of collateral is extremely difficult for smaller firms and may be nearly impossible for young firms and start-ups (World Bank, 2017a).

FIGURE 2.7 ACCESS TO FINANCE



Source: 2015 World Bank Enterprise Surveys.

MSMEs are among the most credit constrained. They represent about 99.8 percent of the total number of "economic entities" and about 70 percent of the labor force, according to the latest census by the Agence Nationale de Statistique et de la Démographie (National Agency of Statistics and Demography of Senegal). Yet, evidence shows that they only get about 8 percent of the total financing from financial institutions. These restrictions are echoed by survey results that show that MSMEs are more constrained than large firms. An estimated 43 percent of medium firms and 59 percent of small firms claim that access to finance is their biggest issue, generating a large financing gap of about $0.9 billion.[35] Among MSMEs, those led by women or based in rural areas have even lower access.

Constraints to improve access to finance are linked to four factors: limited competition among financial services providers, weak financial infrastructure, weak financial sector policies, and MSMEs' own limited capabilities.

Competition remains limited and market dynamics are unchanged—despite the entry of new banks. The entry of new banks[36] has prompted the launch of various innovative financial services, mainly in electronic banking. There has been a small but steady decline of net interest rate margins from 5.5 percent in 2010 to 3.4 percent in 2016, indicating some improved price competition. However, most MSMEs remain excluded, as this has mainly benefited borrowers that are already banked, representing often the largest firms and those capable of providing large collateral. In addition, there are issues with the quality of services that banks offer. Automatic teller machines (ATMs) are often out of service or out of cash. Banks accept cards, local or foreign, with inconsistency, and the conditions to access credit are often vague. Further, there is a lack of market information on the clarity and comparability of fees, which is detrimental to competition since most banks don't publish their fees and don't provide explanation on the rationale for the costs incurred. Despite efforts to improve these weaknesses through the Observatory of the Quality of Financial Services (set up in 2009 and responsible for promoting the quality of financial services, improving the relationships between banks and their clients, as well as serving as a mediator) regular updates on fees and other financial costs charged by banks are still lacking.

On the other end of the credit value chain, the Senegalese microfinance sector has been very active, with 2.6 million clients and a total asset base of $528.3 million as of year-end 2016 (+9.4 percent year on year). Unlike in most countries, microfinance institutions in Senegal can collect deposits for a total of $456.4 million, which introduces some competition with the banking sector. However, despite past expansion, microfinance remains rather small,[37] and its capacity to tackle the smallest firms is limited.

In the future, the development of mobile network operators may have a significant positive impact on competition. As of today, mobile network operators cannot fully participate in the market, as only banks can provide loans. But this may not last. Mobile network operators have already added transaction accounts to the initial telephony functions, providing their users with the ability to store, withdraw, transfer money, and pay bills electronically, securely and in real time (Mobile Cash SA and Orange Money). While these were primarily intended to eliminate the secondary networks of rechargeable cards, they were also the first dent in the traditional business model of banks based on branches. As of now, none of the mobile operators have started to move up the value chain by offering more typical banking financial services such as remunerated savings and loans (although, major players are thinking about it based on pilots currently tested in Mali and Madagascar).

If they enter this market, mobile network operators will have the possibility to use their agents' network to distribute digital credit. They are not yet licensed to do that directly, but nothing will prevent them from asking for a banking license, buying a bank, or signing an agreement with a licensed financial institution. They will have a competitive edge regarding current regulation on agent banking, because banks do not enjoy the same freedom to hire their agents. The agent model is therefore not well developed in the West African Economic and Monetary Union. In addition, there is no microfinance agent regulation that governs monetary financial institutions.

Senegal's financial infrastructure still faces significant limits in key areas, including credit information, insolvency regime, and uncertainty on secured transactions, preventing a proper functioning of the country's credit markets.

- **Credit information remains limited in coverage but is improving**. Senegal has adopted the 2013 WAEMU Uniform Law on the Regulation of Credit Information Bureaus. Under this law, a private credit bureau was established and began operating in Senegal in 2016. As of February 2020, the Senegalese credit bureau recorded positive and/or negative information on 27,834 businesses and 747,609 people (6.7 percent of the total number of formal and informal businesses and 8.9 percent of the adult population—compared to 3.3 percent and 6.9 percent respectively in August 2018). Financial institutions recognize that the coverage remains rather low but continue contributing to the database as they clearly see potential benefits and possibilities to access the MSME segment. A more inclusive credit information system is often associated with a greater appetite from banks toward the finance of small-sized and medium-sized enterprises.

- **The insolvency regime remains a constraint.** Lengthy debt recovery processes (on average three years, according to the Doing Business database) limited asset recovery (30.1 cents per dollar), and weak firm restructuring arrangements are symptoms of a poor insolvency regime. In such an environment,[38] lenders typically restrict their activities and demand higher collateral as confirmed by the enterprise survey data. Importantly, the 16 nations of the Organization pour l'Harmonisation en Afrique du Droit des Affaires (OHADA or the Organization for the Harmonization of Business Law in Africa) adopted a new Insolvency Act in 2015, incorporating many best practices, including a pre-insolvency conciliation regime, the adoption of the United Nations Commission on International Trade Law Model Law on Cross Border Insolvency, the development of a modern reorganization regime, and an improved regulation of insolvency practitioners. However, Senegal has not effectively implemented the law. Accordingly, creditor recovery remains weak and investors do not have predictability.
- **Uncertainty remains on secured transactions.** The 2010 OHADA Law on Secured Transactions has never been implemented in Senegal, resulting in the continued use of an outdated legal framework and a fragmented system of registration for all types of movable property assets. The prudential regulation set by Banque Centrale des États de l'Afrique de l'Ouest does not provide any incentives toward the usage of guarantees other than land and real estate, which acts as a barrier for smaller firms to obtain credit.
- **The regulatory framework for authorizing the opening of domestic or foreign accounts denominated in hard currency (offshore accounts)—**considered to be essential for the implementation of large infrastructure projects—should be reviewed and improved. Needs for private finance in the infrastructure sector in West Africa are substantial—due to the very high capital intensity of this industry —but local sources of financing available are limited, both in terms of amounts and maturities (usually limited to 5–10 years). As a result, it is often necessary to raise funding denominated in foreign currencies, most of the time through project finance. Standard project finance approaches include a need to mitigate foreign exchange, convertibility, transferability and banking counterparty risks. The use of such offshore accounts is strongly supervised by the Banque Centrale des États de l'Afrique de l'Ouest (BCEAO), often with long processing times. This might hamper private financing for infrastructure in the region.
- **Capital markets remain small and dominated by government issuances with corporate bond markets absent.**[39] As member of WAEMU, Senegal has access to the regional capital markets and to euro bond markets to fund its firms and government's budget. However, aside from the sovereign bond markets that have steadily grown on the back of higher debt-to-GDP ratios across the region, equity markets have only been developing since the creation in 1998 of the regional stock exchanges for the West African Economic and Monetary Union (the Bourse Régionale des Valeurs Mobilières, BRVM). Only a few companies have been able to list (45 by mid-2018).[40] Liquidity has been thin and the index (BRVM10) has been underperforming, losing 17 percent between 2014 and mid-2018. The nonsovereign bond market is even smaller ($440 million by mid-2018) and dominated by two issuers.[41] The slow progress in terms of market capitalization (market capitalization does not exceed 10 to 15 percent) and liquidity is due to multiple factors including, among others, a weak institutional investors base, a limited product diversification, a poor regulatory and supervisory environment, and a lack of awareness.

The Banque Centrale des États de l'Afrique de l'Ouest (BCEAO) and the government of Senegal have established various mechanisms to enhance access to finance, but they have yet to fully reach their objectives.

- **Public Partial Credit Guarantee Scheme**: To improve access to finance for small-sized and medium-sized enterprises, the government of Senegal established the Fonds de Garantie des Investissements Prioritaires, or the Priority Investment Guarantee Fund (FONGIP), in 2014 as a public partial credit guarantee scheme that provides credit guarantees to banks and monetary financial institutions. By 2017, outstanding guarantees reached $8 million, representing a volume of credit of $15.9 million in the balance sheet of the banks. The first defaults[42] have been quickly paid out, which sent a positive signal to the banking industry on the capacity of the public partial credit guarantee scheme to become a credible partner.[43] However, banks still have limited trust in the scheme and demand that the Priority Investment Guarantee Fund deposits in its books a cash collateral in the amount of the guarantees extended, which prevents the public partial credit guarantee scheme from having a multiplier effect on its initial endowment.
- **Public development banks**: In 2014, the government of Senegal launched the Banque Nationale pour le Développement Economique (BNDE). To date, only 50 percent of its lending activities are geared toward small-sized and medium-sized enterprises[44] and it does not have a clear strategy to address the different micro, small, and medium-sized market failures. The second public bank is La Caisse Nationale de Crédit Agricole du Sénégal, the agricultural bank of Senegal, with a mandate to finance the rural areas. While its broad presence in the remote areas allows for significant coverage, the agricultural bank's interventions are associated with several negative externalities (development of a poor repayment culture amongst farmers due to regular write-offs. A crowding out effect as the private sector does not intend to provide credit in rural areas as long as credit from the agricultural bank will be subsidized, and the poor financial soundness of the bank).
- **The Banque Centrale des États de l'Afrique de l'Ouest refinancing window**: To support MSME finance, the BCEAO has recently opened a refinancing window allowing participating banks to on-lend to micro, small, and medium-sized enterprises. The loans funded by this facility should be granted to firms supported by Business Development Services agencies. Since this refinancing scheme does not target specific underserved segments, the risk might be that the credit will mainly flow toward micro, small, and medium-sized enterprises that are already borrowing from a credit institution, while benefiting banks that can access cheaper interest rates through the refinancing window. Therefore, it may have limited impact on the private sector.

The lack of capacity for MSMEs remains a major constraint to access to funding:

- **Existing data (World Bank 2017a) show that MSMEs have more difficulty obtaining financing than larger companies.** Thus, many companies with financing needs avoid applying either because they are unable to provide the guarantees required for a loan (28.2 percent of all companies did not request a loan but were in need of funds), they perceived a heavy and complex screening process (27.6 percent), and they considered interest rates high (15.8 percent) (World Bank 2017a).
- **Furthermore, the capacity limitations of Senegalese MSMEs and lack of financial education of their leaders is a challenge.** The absence of reliable financial statements, procedures for results, and performance monitoring and the inability to provide the required documentation and/or prepare an appropriate business plan are factors that disqualify many MSMEs from traditional finance.

Recommendations

Alleviating the issue of access to finance in Senegal and closing the financing gap will require three kinds of solutions: fostering greater competition, improving financial sector infrastructure; and improving public interventions designed to address market failures and crowd in the private sector.

Improving competition in the Senegalese financial sector:

- **To promote price competition, the market would benefit from increased transparency on fees and interest rates.** Concrete measures would include the regular publication of fees and interest rates charged by banks, microfinance institutions and mobile network operators as well as qualitative indicators (such as claims management, speed of credit application treatment) by the Observatory for Financial Services Quality (Observatoire de la Qualité des Services Financiers, OSQF) on a simple and fast website. To do so would require finalizing revisions to the decree that created OSQF to (a) expand its mandate to financial services offered by mobile network operators, (b) strengthen its sanctioning powers and (c) increase its operational independence and financial resources.
- **To further foster competition, the Banque Centrale des États de l'Afrique de l'Ouest should take two actions:** modernize banking regulations to allow banks to have agents, much like the mobile network industry, and adopt a more risk-based "customer due diligence" and "know your customer" regulation to facilitate enrollment.

Improving the financial infrastructure

- **To improve the quality and quantity of information made available by the Credit Bureau, the Government should foster increased data coverage** by issuing a decree incentivizing the utilities companies (water, electricity) to contribute, as was done in 2017 in Côte d'Ivoire.
- **To strengthen insolvency resolution, reduce delays, and increase recovery, the government of Senegal should design and implement an action plan for the 2015 OHADA Insolvency Act.** It should include five elements: operationalizing conciliation; developing an insolvency regulator; developing and implementing the regulation of insolvency practitioners; conducting judicial trainings; and conducting trainings for insolvency practitioners.

- **To strengthen secured transactions, Senegal must implement the relevant OHADA law and establish an efficient secured lending movable property collateral regime.**
- **The BCEAO should clarify the use of off-shore accounts** by developing a clear and transparent framework for the authorization of these accounts, in particular in the case of infrastructure.
- **To make the regional securities market more functional, several self-reinforcing reforms should be implemented at the regional level** such as: (a) foster market access by insurance and pension funds, (b) support the development of new instruments (REITS, private equity), (c) build market supervision and align regulation with international standards.

Improving public interventions and MSMEs' capabilities

- **While more time is needed to assess its true economic and financial performance, FONGIP should pursue its efforts to ensure credibility toward banks** by ensuring effective and timely payments of eventual defaults to become an effective mechanism to support access to finance.
- **Banque Nationale de Développement Economique (the National Bank for Economic Development) and Caisse Nationale de Crédit Agricole du Sénégal should review and update operating modes to accomplish two goals:** reorient their portfolio toward underserved MSMEs and help crowd in private money by not expanding anymore toward activities that are already served by private banks—taking into account the high-risk profile of MSMEs the informal nature of the economic fabric, and the often low life expectancy of these companies.
- **Strengthening and developing dedicated capacity-building programs for MSMEs** on financial education, management and financing requests.

2.3 ENERGY

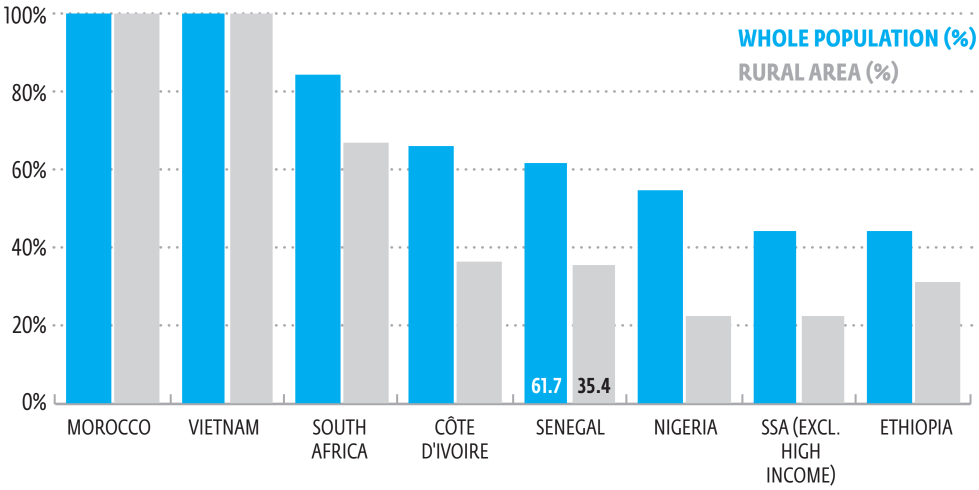
Despite relatively high access, electricity supply in Senegal is unreliable and expensive due to the sector's financial challenges and limited success so far in planning and implementing new generation and distribution projects.

At 92 percent of the urban population in 2017, access to electricity in Senegal is significantly higher than the SSA average of 80 percent, but rural access is low (35.4 percent), although still above the average in SSA (figure 2.8). In addition, the distribution network does not always reach locations where industries are actually operating, making access difficult. Moreover, the distribution network has significant transmission losses close to 20 percent. Basic social services (health centers, schools, and so on) are often not electrified.

In 2015, nearly half of Senegalese firms identified electricity as a major constraint, which was much higher than the Sub-Saharan African average of 41 percent and the average for OECD countries of 30 percent. Frequency of outages was high. In 2015, private firms reported poor reliability, with an average of six outages per month averaging 1.8 hours each. While the number, length, and cost of outages in Senegal was lower than in SSA and other countries on average, the percentage of firms experiencing electrical outages was higher (84 percent in Senegal versus 78 percent in SSA and 57 percent for all countries).

As a result, on average, 64 percent of Senegalese firms owned or shared a generator versus 53 percent of SSA firms and 35 percent of firms in all countries.[45] This reliance on generators increases production costs, and some industries cannot allow for any interruption in supply to their factory without compromising the integrity of their operations.

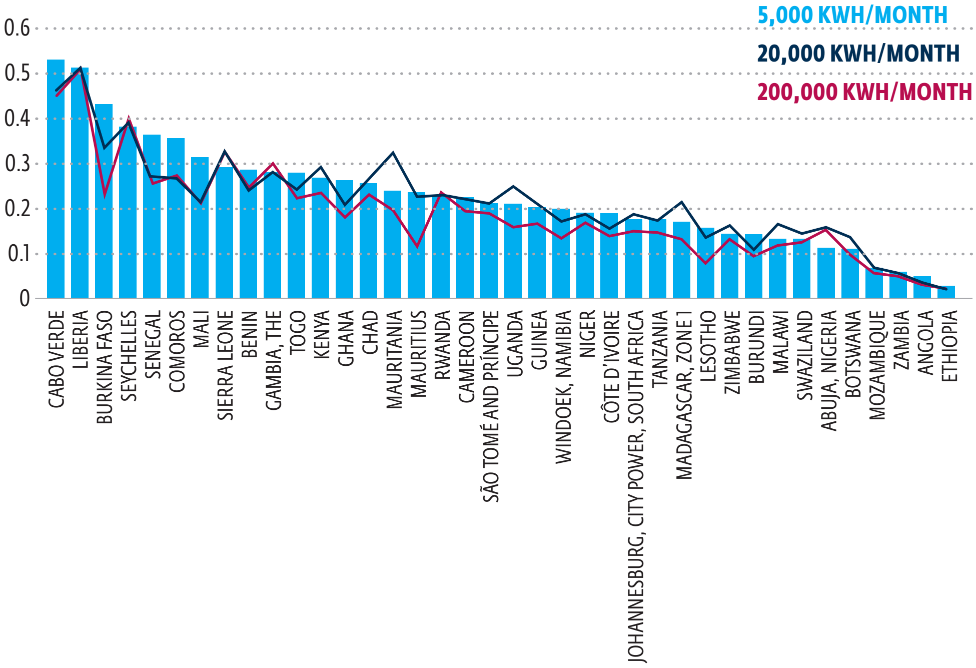
FIGURE 2.8 ACCESS TO ELECTRICITY COMPARISONS, 2017



Source: World Development Indicators dataset.
Note: SSA = Sub-Saharan Africa.

FIGURE 2.9 COMPARING ELECTRICITY COSTS

2014 Data



Source: World Bank 2017e. Data are for July 2014.
Note: KWH = kilowatt-hour.

Senegal's reliance on imported heavy fuel oil for its power plants means the sector's cost base is high, and even high consumer tariffs cannot cover it in full, forcing the government to step in with subsidies. The high tariffs also make it often difficult for households and enterprises to meet their payment obligations, leading to the accumulation of arrears. In 2018, the average cost of electricity was about $0.24 per kilowatt-hour, significantly higher than the global benchmark of $0.10 per kilowatt-hour.

Senegal's total installed capacity increased from 840 megawatts (MW) to 1,185 MW in 2018 with the commissioning by Senelec of new capacities up to 484.9 MW. Likewise, the energy produced increased from 3,038 gigawatt-hour (GWh) in 2013 to 4,038 GWh in 2018. The arrival in the interconnected network of 143 megawatt-peak of solar photovoltaic capacity brought the penetration rate of renewable energies (excluding hydropower) to 12 percent in 2018. These efforts made it possible to meet domestic energy demand from the rapidly growing interconnected network while improving the quality of service (fewer outages). Finally, since 2016, Senelec developed a strategy to reduce technical and non-technical losses. To this end, an improvement in yields should be noted, which went from 79.4 percent in 2013 to 83.02 percent in 2018.

The government plans to increase the share of renewable generation capacity to 20 percent by 2025 and to eventually reduce or eliminate the use of heavy fuel oil when domestic gas comes online (2024 and beyond). By 2030, the energy mix is expected to be composed of 5 percent heavy fuel oil, 20 percent renewable energy capacity (including solar and wind), 15 percent hydropower imports, 52 percent gas, and 8 percent coal, if sufficient gas becomes available.

The difficult electricity situation in Senegal is linked to persistent weaknesses in three key areas.

- **Strategic planning and coordination should be strengthened.** Insufficient coordination between the Energy Ministry, the Ministry of Finance, the regulator, and the utility has resulted in slow, opaque, and fragmented decision-making, affecting most aspects of the sector development. While a 2016 strategic master plan has set priorities of energy diversification and private sector participation in power generation, it still needs to be fully implemented and updated. In addition, the country's rural electrification strategy (fully developed with an implementation plan), which seeks to achieve universal access by 2025, is still hampered by a lack of clarity on specific financing mechanisms, uncertainty about the institutional set-up of the private sector concession model, and weaknesses in the operational effectiveness of the public agency in charge (World Bank 2018a).
- **Financial arrangements and governance in the utility sector are problematic.** The energy sector is dominated by a public company, Senelec (Société Nationale d'Electricité du Senegal) and its subsidiaries (production, transport, and distribution). It covers about half of the country's production capacity, while independent power producers own the rest and produce and sell electricity to Senelec (and some use renewable energy sources). However, Senelec still remains financially vulnerable due to high production costs, technical and commercial losses, as well as an accumulation of payment arrears with the government. While financial sustainability will not be achieved until the energy mix shifts to lower-carbon technologies, recently approved budget support measures are a first step in this direction, ensuring that short-term funding gaps are covered. For production costs, the key principles of the natural

gas and renewable energy development program (including the development of a legal framework and improvements in governance) were supported to enable and support the required transformation, by involving the private sector when necessary. Regarding the sector's financial viability, this budget support has enabled the government to achieve short-term financial equilibrium by modifying the formula for calculating Senelec's revenues, by modifying tariff levels to increase revenue, by paying arrears related to public sector electricity consumption, as well as by putting in place sustainable mechanisms to avoid further accumulation. The 2019 Complementary Finance Law also included additional funds to clear arrears owed to Senelec and ensure the short-term financial viability of the sector. Governance of the electricity company remains to be improved,[46] with a limited role for its Board of Directors and regulatory dependence on the Ministries of Energy and Finance (World Bank, 2018a).

- **The sector regulator, Commission de Regulation du Secteur de l'Electricite, is a relatively well-performing entity but does not have enough capacity and autonomy to address all sector challenges.** Moreover, the regulatory system still does not permit the pass-through of costs to electricity tariffs, instead allowing the government to compensate the utility for less than cost-reflective tariffs (World Bank 2018a).

For the future, the main challenge is to add sufficient and low-cost generation capacity to meet demand and reduce high costs. A switch from heavy fuel oil to gas, along with renewables, would all but eliminate the need for extra fiscal support to the sector and lead to lower tariffs over time. Gas use may gradually reduce generation costs by up to 30 percent and therefore boost the price competitiveness of the Senegalese private sector. The government of Senegal is in discussions with the offshore operators to develop options to deliver gas to Senegal and build associated infrastructure.

Recommendations

Key areas for improvement revolve around three axes: improving the current working of the sector through structural reforms, facilitating equitable access to electricity and fostering the development of gas to power in an effort to reduce significantly production costs.

Improve the current working of the sector through structural reforms

- **Improve governance of the energy sector by enhancing the sector's institutional and financial arrangements for improved performance and financial sustainability, with three objectives**: (a) ensuring that the sector financing arrangements, particularly between the government and Senelec, are well-structured, transparent and sustainable and (b) improving sector regulation. The aim is to enable Senelec to reach the performance level of best-practice utilities in comparable countries over time and setting the stage for longer-term corporate reforms. Having good governance will be important to the transformation being sought in the sector.
- **Supporting institutional and policy reforms in electricity generation**, with the goal of ensuring that the sector policy and institutional instruments support credible sector planning, thereby facilitating the adoption of updated least-cost production choices and private sector participation. This will also entail shifting the energy mix from the current dependency on heavy fuel oil towards a mix of low carbon technologies, consistent with Senegal's commitment at COP 21 and, over-time, significantly reducing both the cost and the carbon intensity of generation.

Facilitate equitable access to electricity, expanding access to electricity services in underserved rural areas by enhancing affordability. A first priority is addressing key barriers to access in the six concessions already awarded to private operators. Studies have shown that a series of key barriers needs to be tackled simultaneously to scale up access in rural areas. Structural reforms should build on measures already taken, including

- **An enhanced and actionable performance contract between the government and Senelec**, including monitoring and corrective mechanisms;
- **Substantial progress in solving Senelec' s complex cross-debt and arrears issues with the government**, creating conditions for sustainably strengthening Senelec' s financial situation;
- **Approval of a technically sound and comprehensive Strategic Master Plan for electricity generation**, focused on enhancing the energy mix and reducing costs, with significant private sector participation.

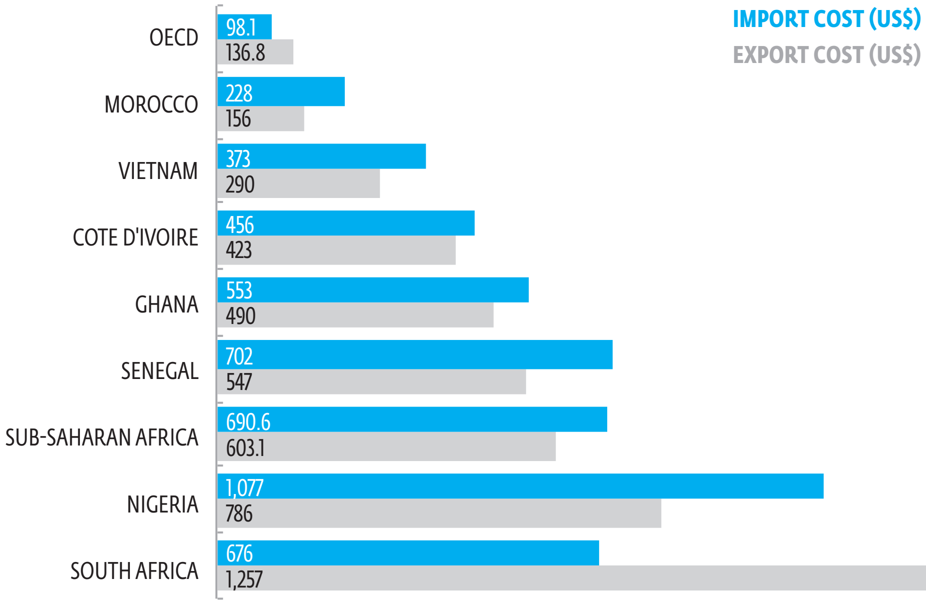
Foster the development of gas-to-power energy. The viability of developing the gas-to-power value chain depends on the adequate development of the midstream, including pipeline transportation or storage of natural gas, and downstream processes that occur after the production phase to the point of sale. This should be done in parallel with development of the upstream, including crude oil and natural gas fields search and subsequent drilling and operating of wells.

- **Such simultaneous advances require an institutional and regulatory framework for midstream and downstream gas.** The adoption of a Gas Code in February 2020 is an important element whose effective and transparent application must now be ensured.
- **In addition, adequate planning and timely construction of the physical infrastructure for pipelines is needed.** In 2019, the creation of the company Réseau gazier du Sénégal and of Senelec's gas subsidiary are a first step in this direction. Further downstream there is a need to ensure the financing and implementation of the conversion of heavy fuel oil plants in a timely manner, so as to be able to use the gas once it is available.

2.4. CONNECTIVITY

Infrastructure is a critical enabler for development, as most studies find a positive relationship between infrastructure and growth, whose magnitude varies across countries. The largest impact typically comes from roads, telecommunications, and electricity networks. Senegal has made significant advances in this domain, with recent investments in transport infrastructure such as the construction of an urban toll road under a public-private partnership scheme and a new international airport as part of a public financing scheme. Nevertheless, exporting and importing goods in Senegal is costly in comparison with other SSA comparators (see figure 2.10) and even more so relative to countries like Morocco, Ethiopia, or the OECD. The 2018 Logistics Performance Index ranks Senegal 141st out of 160 countries, while Senegal ranks 142nd out of 190 countries on the Trading Across Borders indicator from Doing Business. Enterprise survey data from 2014–15 also show that close to 22 percent of private firms considered transport a major constraint, while manufacturers and firms in the tourism/hospitality sector perceived the constraint even more acutely.

FIGURE 2.10 DOING BUSINESS: COST OF BORDER COMPLIANCE IN 2020 (US$)



Source: World Bank, Doing Business 2020.
Note: OECD = Organisation for Economic Co-operation and Development.

2.4.1. Transport

Senegal's economic development is dependent on among other things, improving the quality of its transport infrastructure as well as the functioning of its logistics chain/ transport service provision. The transport sector in Senegal is small compared to is SSA peers. It only accounts for 4.3 percent of GDP in 2017 compared to 9.9 percent in Sub-Saharan Africa. This difference is mostly the result of Senegal's rare hyper-concentration of economic activity in and around Dakar, estimated to represent 80 percent of GDP, that translates into limited transport needs beyond the Dakar region. Inside Dakar, congestion problems combined with weaknesses in the public transport system (which should be resolved in the future with the TER, the BRT and the development of Diamniadio) greatly contribute to transport difficulties.

Transport also matters because Senegal, given its geographical position, is a port of entry for the Western Sahel region. Transit traffic with Mali currently represents 15 percent of Dakar's port turnover and over 30 percent of its container volume. Road transport is the predominant solution to goods/people movement within the country and regionally. Maritime transport is primarily used for external trade, even though some limited river transport exists on the Senegal and Casamance rivers while some cabotage maritime transport is recorded between Dakar and Saint-Louis and Dakar and Ziguinchor. Alternative transport modes such as rail[47] or air transport[48] also exist. Long-haul rail traffic, both passenger and cargo, has ceased since 2016 following the collapse of the Dakar-Bamako rail concession Transrail, which began in 2003. Meanwhile, air transport has recorded anemic growth over the past 10 years, amounting to 2 percent annually in Dakar, versus 6 percent in Accra and 10 percent in Abidjan (table 2.3). This was in part due to lengthy delays in completing the new Dakar International Airport, with construction five years behind schedule; the enactment of an ill-designed, now-repealed tourist visa requirement; and an increase in airport fees to finance the new airport which made Dakar one of the most expensive airports to operate in West Africa (table 2.3). Nevertheless, with 21 international and regional destinations, Dakar's airport remains one of the best-connected airports in Sub-Saharan Africa.

TABLE 2.3 AIRPORT PASSENGER TRAFFIC

Millions	DAKAR	ACCRA	ABIDJAN
2008	1.8	1.4	0.9
2014	1.8	2.3	1.3
2018	2.3	2.5	2.3
CAGR 08/18	2%	6%	10%

Source: Airport Council International.
Note: CAGR = compound annual growth rate.

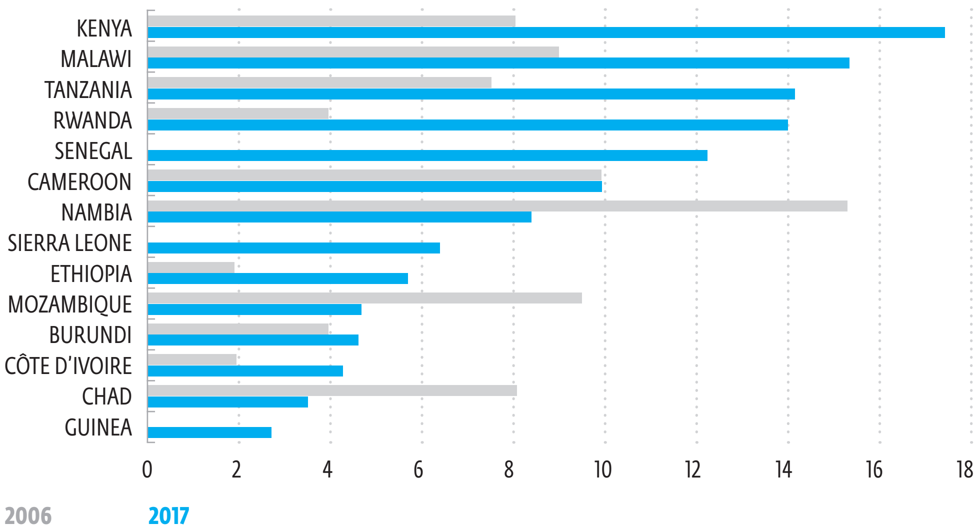
TABLE 2.4 TOTAL AIRPORT CHARGES FOR A BOEING 737 IN 2017

COUNTRIES	NATIONAL	REGIONAL	INTERNATIONAL
Cabo Verde	$693	$1,905	$2,905
Niger	$306	$4,081	$4,081
Gambia , The	$4,191	$4,191	$4,191
Benin	$1,051	$3,462	$4,380
Burkina Faso	$306	$3,673	$5,510
Guinea	$428	$5,700	$6,270
Guinea Bissau	$3,877	$7,142	$7,142
Average	**$1,248**	**$6,629**	**$7,671**
Côte d'Ivoire	$1,020	$4,489	$8,673
Nigeria	$1,411	$6,412	$8,958
Togo	$2,959	$9,090	$9,690
Liberia	$570	$9,690	$9,696
Senegal	$982	$9,725	$9,725
Mali	$686	$9,725	$9,725
Ghana	$129	$7,980	$12,540
Sierra Leone	$114	$13,224	$13,224

Source : IATA Study of Air Transport–Related Fees in West Africa, 2017.

FIGURE2.11 FUEL LEVY RAISED BY AFRICAN ROAD FUNDS

In 2016 cents/liter



Source: World Bank 2019f.

Institutionally, sector oversight lacks coherence. It is shared among several ministries: the Ministère des Infrastructures (Ministry of Infrastructure), the Ministère des Transports Terrestres et du Désenclavement (the Ministry of Land Transport and Disenclavement), the Ministère du Tourisme et des Transports Aérien (Ministry of Tourism and Air Transport) and the Ministère de la Pêche et de l'Economie Maritime (Ministry of Fisheries and Maritime Economy). Various other agencies are involved,[49] including the Road Management Agency (AGEROUTE), involved in the construction and maintenance of roads, and the Autonomous Road Maintenance Fund (FERA), which oversees road maintenance funding. This does not favor the development of multimodal policies, the coordination of individual strategies, and the development of a national strategy. In addition, public funds allocated to these institutions do not always allow them to properly fulfill their missions. For example, from 2017 through 2019, funds raised by the government of Senegal finance about 20 percent of road maintenance needs (World Bank 2019f), although the country's road fund was relatively well funded (figure 2.11).

There are also specific constraints in two key segments of the sector.

Road transport, even though it is the most important means of transportation in Senegal, is expensive and unsafe. About 95 percent of motorized movements in Senegal are made via road transport. While the country is overall well served by its road network,[50] within country disparities in road access are high, particularly between the coastal zone and the rest of the country[51] (World Bank 2019f). As of now, the condition of the network is decent—80 percent of paved roads and 52 percent of unpaved roads were deemed in good/medium condition in 2017.

The impact of weather conditions, the lack of maintenance and overloading of vehicles negatively impact the network. The vehicle fleet is old (85 percent of those in goods transportation are at least 10-year-old and the average age for private vehicles is 25 years) and the sector is dominated by small, informal enterprises (mostly one person-one truck firms) that rarely follow technical or labor regulation and not always have the required authorizations to drive transport vehicles. The lack of professionalization leads to a low quality of service and low profitability equilibrium, which fosters short-term rent-seeking behavior, such as through the overloading of trucks. In 2017, axle overload generated a cost of about 0.4 percent of GDP per year in terms of additional maintenance and road rehabilitation.

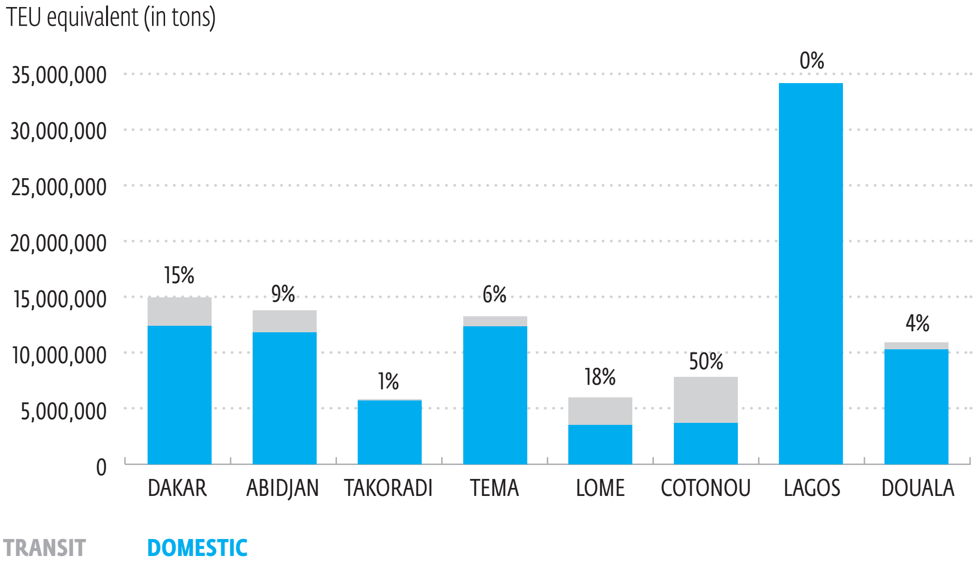
Road safety is a significant issue. The government of Senegal estimates at 600 direct deaths per year on the road, a number relatively constant between 2015 and 2017 but highly unreliable considering the lack of systemic reporting and investigations of road accidents. The issue originates in road infrastructure that is generally not equipped with adequate safety equipment, unsafe vehicles as technical controls are limited, unreliability of emergency road assistance services, inadequate behavior of road users (drivers, pedestrians) and lack of institutions in charge of defining and coordinating policies. Besides the direct human toll, accidents generate further uncertainty, creating unexpected delays due to congestion and waiting time.

The all-important road corridor between the Senegalese capital of Dakar and the city of Bamako in western Mali performs poorly compared to other corridors in the subregion. While traffic has experienced strong growth, reaching 2.8 million tons in 2014, transportation costs on the corridor are high. In 2016, they were estimated at 30 percent of the value of goods, much more than the range of 8 percent to 15 percent for the cost of a competitive transportation system (World Bank 2019f). Moreover, in 2015, it took an average of 23.7 days for truckers to get goods to Bamako from Dakar, the main delay being the average 13 days that goods spent in the port of Dakar. The modest efficiency of the corridor is partly due to a freight market structure largely dominated by Malian trucking companies, as a result of international agreements.[52] Because of oversupply, the trucking companies do not compete on price, leading to a cartel-like mentality. The region's landlocked countries enjoy harmonized road hauling technical standards, but they do not have a harmonious and consistent system to manage the competing road corridors. Thus, Senegalese authorities are unlikely to sanction overloading and vehicle technical requirements, fearing they might lose market share to competing corridors serving Mali, such as Abidjan in Côte d'Ivoire or the route from Conakry in Guinea to Bamako in Senegal.

Instead of expanding the country's road network, public-private partnerships could be used to address road maintenance challenges. Opened in 2013, the Dakar Toll Road project slashed commuter times in the most densely used urban corridor in the country, but still required an upfront subsidy from the government, equal to 58 percent of the project's total cost. Considering the country's financial position, it's not realistic to expect to mobilize significant private investment for longer and far less frequented roads in Senegal. Rather, Senegal should consider a road public-private partnership program that focuses on priority sections of the network already built but requiring catch-up maintenance funding.

Maritime transport is key for external trade. Senegal's main port in Dakar accounts for 95 percent of the country's imports and exports. It is in the upper echelon of West African ports in terms of total traffic (see figure 2.12). Three of its terminals are under concession with DP World managing the container terminal, which accounted for about 8 percent of the port container capacity in West Africa in 2015 (figure 2.13). Bolloré Group is operating a bulk terminal.

FIGURE 2.12 WEST AND CENTRAL PORT THROUGHPUT, 2016



Source: World Bank 2016d.

TABLE2.5 CONTAINER TERMINAL ANNUAL CAPACITY IN WEST AFRICA

PORT/TERMINAL	CAPACITY 2013	CAPACITY 2015	CAPACITY FUTURE
Dakar	600,000	600,000	2,100,000
Conakry	230,000	250,000	600,000
Freetown	75,000	150,000	750,000
Monrovia	100,000	100,000	200,000
San Pedro	500,000	500,000	500,000
Abidjan SETV	850,000	1,100,000	1,200,000
Abidjan TC2			1,500,000
Tema	850,000	1,000,000	3,500,000
Lomé Togo Terminal	580,000	1,200,000	1,200,000
Lome LCT			2,200,000
Cotonou Multipurpose Berths	480,000	480,000	480,000
Benin Terminal (Cotonou)	220,000	600,000	600,000
Badagry			1,800,000
Lagos Apapa	600,000	1,000,000	1,000,000
Lagos Tin Can Island	600,000	880,000	880,000
Lekkl			2,500,000
TOTAL	**5,685,000**	**7,860,000**	**21,010,000**

Source: World Bank 2016d.

A 50 percent increase in volume over the past five years and growth in transit have worsened congestion in and out of the port area with 1,500 trucks moving daily through the port on relatively narrow approach roads. Numerous projects exist to alleviate the situation. One solution is to displace part of the port's activities to new sites, such as the New DP World Container Terminal to be built west of Dakar in the city of Ndayane. Another strategy is to force the immediate transfer of transiting goods to Mali to a dry port outside of Dakar, in an effort financed and managed by the Public Port Authority. It will take time for these projects to see the light of day. Their efficiency risks being limited by the current lack of port master planning at the government level, including limited vision and dedicated financing to ensure these new facilities correctly connect by road and/or rail to their hinterland. This could repeat similar mistakes made during the recent development of the deep-sea port of Kribi in Cameroon, which is still poorly connected to its hinterland.

Although customs procedures have recently been greatly streamlined, enforcement of controls can be further improved both in terms of full implementation of international agreements and working methods (World Bank 2019f). Paperless procedures have gone into effect with the use of the Gainde system. The average physical control rate of 10 percent is consistent with the local context and the likely level of fraud. It remains higher than practices in more advanced countries such as Morocco (3 percent) and in European countries (less than 1 percent). Customs operating hours are an issue, however. Transit traffic can wait up to three days before being scanned at the port ahead of transiting. This contributes to push the average container dwell time in Dakar to 13 days versus 11 and 9 days for Abidjan and Lomé, respectively.

Recommendations

Improving the situation of the sector to better support the private sector and offer economic opportunities will require sustained efforts (World Bank 2019f). This will involve addressing sector-wide issues and problems within the road and maritime transport sectors.

Address sector-wide issues

- **Institutional coordination needs to improve.** Sector oversight should be streamlined to ensure better coordination and coherence. Options include the establishment of a "super" Ministry of Transport with oversight of all sector activities or, alternatively, the creation of a Coordination Unit /Haut Comite.[53] Irrespective of the choice, representatives of sector professionals, civil society, and citizens should be involved in the design of the agency, at least through regulation consultations and participation in policies for monitoring and evaluation.
- **Improve public-private partnership (PPP) preparation and management.** Given the planned extension of the network and the drive for infrastructure of the government of Senegal, increased use of public-private partnerships is an attractive option. Therefore, an independent regulatory authority with a mandate to manage contracts with the private sector (preparation of tender documents, supervision and evaluation of contracts, achievement of specific objectives), provide support to the government of Senegal to define tariff policy and finalize amendments to the PPP Law, would be useful.

Improve road transport to reduce uncertainty

- **The current structure of the domestic trucking industry must be optimized.** Technical regulations, technical controls of vehicles, and safety and labor regulations, as well as axle load rules, must be enforced. West African Economic and Monetary Union regulation number 14 on axle weight must be enforced by professionalizing the industry to minimize short-term rent-seeking behavior, strengthening controls on the main roads and ensuring that load shedding is done at the cost of the carrier. Fleet renewal efforts need not to be financially supported by the government since elimination of informal operators should translate into a much-needed consolidation of the industry with corresponding higher level of profitability and access to financing. Public financial support to assist displaced workers/drivers to find a new career should be envisioned.
- **Improving road safety would first require the establishment and operationalization of an autonomous structure in charge of the issue.** In addition, technical controls of vehicles currently carried out at the Centre de Contrôle Technique des Véhicules Automobiles, or Motor Vehicle Technical Inspection Center, in Dakar should be extended to the entire country and a road safety audit and clearance system should be implemented for all major projects to ensure that road safety equipment is in place. Coordinated work with the insurance industry should seek to develop a standardized accident reporting mechanism to ensure proper accounting and analysis of road safety accidents. Finally, enforcement agencies should be assigned clear objectives in terms of reporting of accidents and technical/driving rules enforcement.
- **The programming, financing and execution of road maintenance should be strengthened through the implementation of road maintenance performance-based contracts either financed publicly or privately.** This goal will require strengthening contractual management and oversight capacities at the Fonds d'Entretien Routier Autonome (FERA) and l'Agence de Gestion des Routes (AGEROUTE). In addition, it will require a reliable knowledge of road conditions and traffic levels in order to ensure a fact-based selection of priority roads for these contracts. Finally, the financial resources of FERA should be increased gradually to meet at minimum the maintenance needs of the paved network. Road users should bear this increase through higher fuel levies and/or road tolling.

Improve maritime transport efficiency and availability

- **Implement a nationwide port master plan to improve traffic within existing and planned ports and nearby through four initiatives:** rehabilitation of road infrastructure; elimination of old unused warehouses to gain space; the construction of dry ports outside Dakar to reduce storage within the port; and the linkage of existing and new ports with proper transport infrastructures, such as road and rail.
- **Improve customs performance by reducing control times and customs clearing circuits within the port and increasing the time customs offices are open for business.**

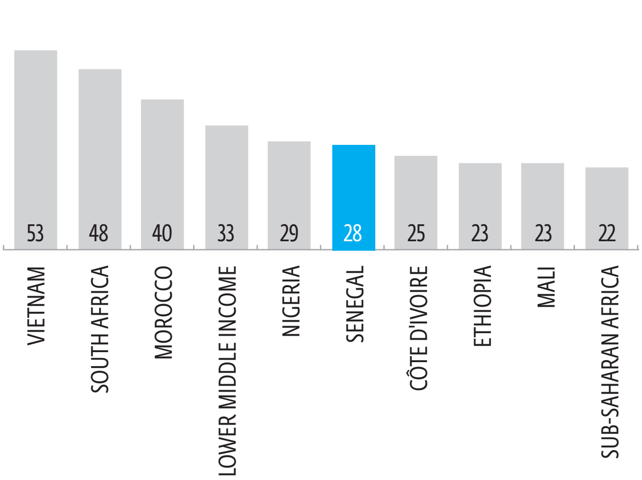
2.4.2. Information and Communications Technology

Digital connectivity—in other words, access to the internet—is increasingly seen as an essential factor of development. It offers significant opportunities in terms of product market integration and increased productivity and competitiveness for businesses, greater market competition and possibilities for innovation and small and medium enterprises (SMEs)—in addition to indirect and induced effects on other sectors. In order to take full advantage of these opportunities, it is essential to increase access to and enhance the quality of digital connectivity for as many people as possible.

Despite significant progress accomplished over the past two years, digital connectivity in Senegal remains limited. Access to digital connectivity, measured by the internet penetration rate, was 111 percent in September 2019 for mobile telephony and 67 percent for the internet, mainly mobile (98 percent of subscriptions are mobile[54]). However, when multiple subscriptions are considered, Senegal lags behind aspirational peers. The number of unique mobile internet users is estimated at 28 percent in 2018 in Senegal, compared to 40 percent in Morocco, 53 percent in Vietnam (GMS Association 2018). This performance remains below the average for middle-income countries, although it is better compared to the average for the SSA region (figure 2.13).

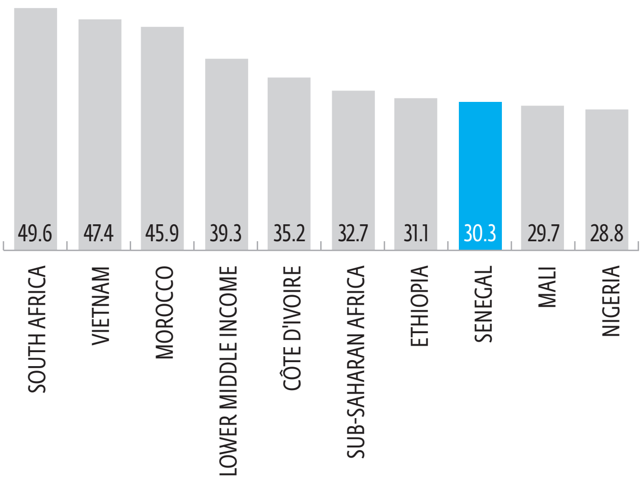
One of the main challenges for Senegal's digital connectivity is the quality of Internet access. Significant progress has been made in recent months regarding the cost of Internet access with the entry of three new Internet service providers in 2017 and the acquisition in 2018 of the second mobile operator (Tigo) by an investor whose business model is based on low-cost services. Preliminary analyzes by the regulator (ARTP) suggest a drop by 80–90 percent in the megabyte retail price.[55] However, the quality of the mobile internet network (measured by a composite indicator including download speed and network connection latency) remains poor, especially compared with similar markets. Hence Senegal ranks behind Côte D'Ivoire and Ethiopia, or even further behind Morocco, Vietnam or South Africa (figure 2.14). Network quality is below the average in Sub-Saharan Africa and other middle-income countries.

FIGURE 2.13 UNIQUE MOBILE INTERNET USERS, 2018 (PERCENTAGE OF POPULATION)



Source: GSMA Intelligence, 2018.

FIGURE 2.14 MOBILE NETWORK PERFORMANCE INDEX, 2018 (SCORE 0–100)



Source: GSMA Intelligence, Mobile Connectivity Index, 2018.

Several factors are behind the poor quality of internet access in Senegal, including access to broadband infrastructure, including frequency bands. Senegal is served by several submarine cables with new deployments expected. However, current capacity remains below the levels seen in other similar or aspirational countries. The bandwidth of international connectivity is 25 kilobits per second (kbps) per user, compared to an average of 47 kbps in middle-income countries, 83 kbps in Vietnam, and 30 kbps in Morocco.[56] The terrestrial network, including the backbone and the access network, remains underdeveloped, even though the government recently announced the construction of 340,000 kilometers of backbone and 75,000 kilometers of access network.[57] Regarding mobile infrastructure, the country has approximately 1 mobile tower for 5,000 users, compared to 3 in Vietnam, 2 in Morocco and 1.2 in middle-income countries.[58] Furthermore, the 4G frequency bands were only obtained recently in 2018, first from the largest operator (Orange) and then from the second largest operator (Tigo) at the end of the year.

This lack of access to digital infrastructure reflects weak competition, particularly in the wholesale markets, limited infrastructure sharing, and a relatively high cost of radio frequencies. The wholesale market for fixed broadband access includes a main leader also active in the retail market, which could potentially hamper access by competitors in the retail markets to wholesale capacity services, in order to offer better services. Despite effective regulation of the sector with the identification of relevant markets and powerful operators,[59] the functioning of the market does not yet indicate a trend toward a situation of effective competition. In addition, despite regulations encouraging the sharing of infrastructure, Senegal does not yet have independent private operators of infrastructure, unlike such neighbors as Ghana, Côte D'Ivoire, and Nigeria. Finally, the cost of allocating radio frequencies remains relatively high compared to other comparable markets. For example, Tigo obtained its 4G radio frequency at $46.8 billion, while similar radio frequencies allocated to Democratic Republic of Congo, Ghana, and Kenya cost between $25 billion and $30 billion.

The situation is more critical for fixed broadband internet access. Even if mobile remains the preferred means of access for individuals, businesses—including some SMEs—need access to fixed broadband internet, ideally from fiber optics, to be more competitive. However, the cost of accessing fixed broadband, while lower than the average in SSA, remains twice higher than the average for middle-income countries.[60] The quality is also low, far below that observed in the SSA subregion and in middle-income countries.[61] Only 5 percent of fixed broadband lines are fiber optic.[62] This situation seems to stem from a de facto monopoly on the retail market, despite the regulation.

Similarly, data infrastructure (data centers) is insufficient to support the growth of internet traffic, with the possible consequence of a deteriorating quality of internet access. Senegal does not yet have independent data center operators, those that exist belong to telecommunications operators or the state. However, the experience of peer countries such as Ghana and Nigeria suggests that the development of data centers by independent-private and specialized operators makes it possible to attract large digital platforms and cloud computing service providers, and to create a positive dynamic to establish the foundations of a digital economy.

Finally, further aspects of connectivity that could help Senegal reap the full benefits of a digital economy include the development of digital financial services, a dynamic digital ecosystem and digital literacy. For example, use of digital payments is relatively low. Less than 10 percent of the population uses a mobile money account to pay a bill, or a debit or credit card to make a purchase. The country ranks 10th out of 137 countries in the 2018 World Entrepreneurship Index and 10th out of 30 for SSA countries for which the World Entrepreneurship Index has been calculated.[63]

Recommendations

In order for Senegal to reap full benefit from the digital dividends, the following reforms ought to be considered:

- **Strengthen regulatory effectiveness**, for instance by consulting alternative operators on constraints to access to digital infrastructure, and by considering asymmetrical regulation when justified in order to rebalance market shares.
- **Encourage infrastructure sharing**, for example by promoting the entry or establishment of independent private infrastructure operators (including on the terrestrial fiber optic network), international connectivity by submarine cables or by satellite, and telecom towers.
- **Review the cost of allocating new radio frequencies**, with a view to facilitating the deployment of new generations of mobile networks by all main network operators.
- **Encourage investment in fiber optics**, especially for businesses, by facilitating the entry of new operators into the wholesale fixed broadband internet market.
- **Ensure market-based competition in the retail mobile market**, by promoting the entry of virtual network operators.
- **Encourage the entry or establishment of independent private data center operators**, building on the projects currently envisaged by the government through Agence de l'information de l'état.
- **Properly implement the country’s digital strategy in four areas:** (a) digital economy (promote infrastructure sharing, improve spectrum management, award 4G licenses, authorize internet of things experiments); (b) digital government (simplify processes, interoperability, shared services, and cyber security); (c) entrepreneurship (operationalize a Digital Development Fund, better support digital entrepreneurs hubs, clarify/implement all provisions of the 2020 Start-up Act of January 1, 2020); and (d) human capital development (integrate digital technology in the education system, promote the dissemination of the digital culture, and ensure the growth of private providers of digital training).

3. UNLOCKING EMERGING SENEGAL IN KEY SECTORS

Provided critical cross-cutting constraints are tackled, Senegal could significantly accelerate its structural transformation and pace in increasing private sector participation in the economy by harnessing opportunities in the increasingly dynamic agriculture/agribusiness and services sectors and building on well-established large existing firms in the financial and energy sectors. This section discusses sectors that could be priority drivers of growth going forward.

The primary sector will remain important in the future as it employs about half the population, and about 70 percent of the rural population depend on agriculture or related activities for their livelihood. Furthermore, the development of new export markets, and the development of the horticulture sector, has helped Senegal strengthen the sector (World Bank 2018e).

Agribusiness and processing have also the potential to boost productivity and create new jobs (World Bank 2018e). Senegal's recent success in achieving some diversification of both the primary product base and processed goods suggests that going forward the product mix could be developed further and engender the type of structural transformation toward higher value addition that Senegal needs. Further agricultural diversification can also help regionalize development, given that much of the unexploited agriculture potential is in areas of the country, such as Saint- Louis, Kaolack, and Ziguinchor.[64] In these regions, there are also considerable ground water reserves that could help boost production. Lastly, there is considerable potential for backward and forward linkages to other industries, in particular for the local food transformation industry.

Deepening the reforms in the groundnut sector, including a stable policy framework for private investments in the value chains and mitigating climate risks and price volatility, will lay the foundation for agricultural transformation in the Groundnut Basin. Reforms undertaken by the government since 2014 to liberalize the groundnut market have started to yield results, with larger exports of nuts and new investments in the value chain (storage, deshelling facilities, with significant potential in term of off-farm employments). However, distortive policies to keep alive the less profitable segment of processing of crude oils have prevented farmers from getting the full value of expanding to global whole nuts markets. Within that context, developing a new value chain centered on producing high quality groundnuts for whole nuts exports and for the confectionery industry is needed. This effort requires establishing a level playing field for the private sector to invest and innovate in the processing and marketing segments. At the farmers' level reforms should address the issue of revenue volatility, including safety net mechanisms when both international prices and domestic production are low.

Senegal's growth performance has also benefited from fishery and forestry—sectors in which the country has in principle a comparative advantage, given its endowment of natural resources. However, fish stocks are being depleted and deforestation limits the potential for wood products. This restricts the ability of these two subsectors to be drivers of growth in the coming years. While the government is making some efforts to replenish fish and forests, including with support from the World Bank, only in the longer term will there be opportunities to harness these subsectors more fully.

The services sector has also sustained important growth in recent years and prospects are favorable for this growth performance to continue. The education sector is a critical enabler for all the sectors of the economy. Senegal's tourism industry is a major source of employment and foreign exchange revenues. There is potential for consolidation of the segment promoting meetings, incentives, conferencing, and exhibitions (MICE) and growth in leisure tourism, given Dakar's role as a subregional economic and political hub, its natural endowments, and unexplored regions with rich historical and cultural heritage. Finally, the real estate sector has grown in recent years, largely sparked by Dakar's growth and the infrastructure drive outlined in the Plan Sénégal Émergent. Given existing population pressures and planned activities under the Plan Sénégal Émergent, this sector is likely to be important for the future.

Against this background, this section of the report discusses specific opportunities and constraints for the private sector in agriculture, agroindustry, and services. Within services, education, tourism, real estate and housing are growing subsectors that support growth, provide jobs, and directly improve well-being of individuals. A complexity and economic fitness analysis (see appendix for details) broadly confirms these choices. **Data from this analysis show that Senegal maintains competitiveness in key sectors, and there are opportunities in several sectors for Senegal to develop, including crops and food (vegetables, soups, and plants), and services (tourism, cultural activities, business travel, and freight transport).** This confirms the role of agriculture and agroindustry as well as the potential of tourism. The methodology is based on historical data, so the oil and gas sector and digital industry do not appear in the results.

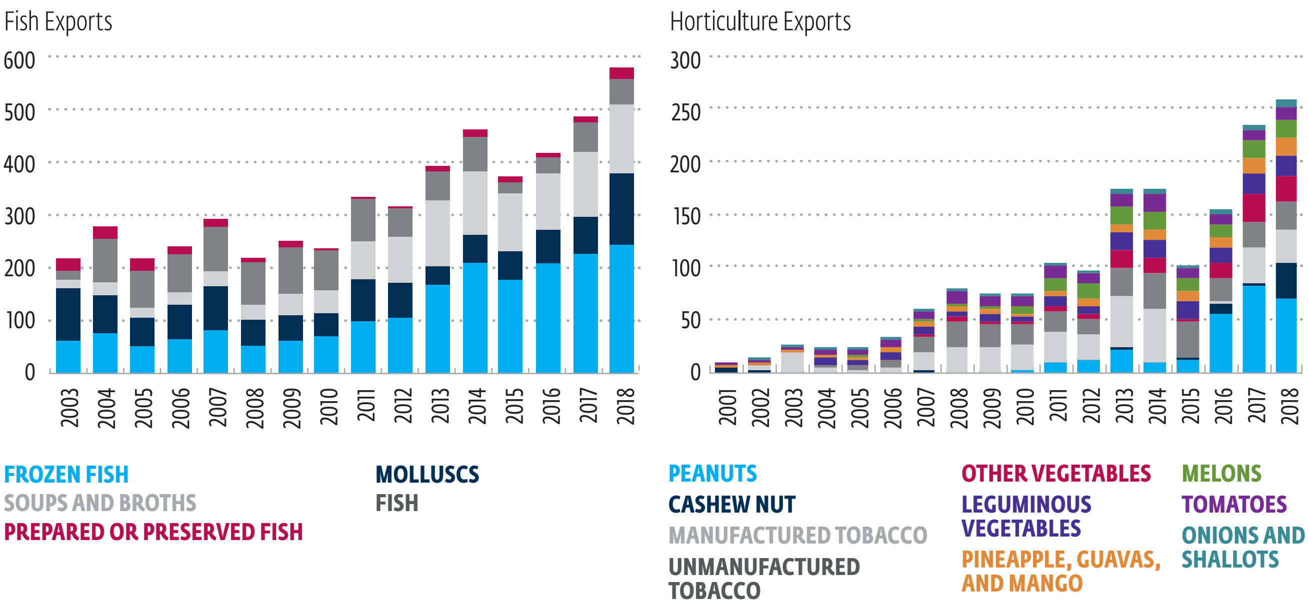
3.1. AGRICULTURE AND AGRIBUSINESS SECTOR

Agriculture is a key sector for the Senegalese economy. It employs about 52 percent of the population and amounts to 15 to 16 percent of GDP. The sector has experienced significant changes since the early 2000s, including rapid growth and diversification of its exports (figure 3.1), which grew 10 percent annually to $1 billion in 2017 from $400 million in 2008. Food exports amounted to 32 percent of Senegal's exports in 2017. Also, rice production grew from 196,000 tons in 2006 to 462,000 tons in 2018. More than 40 percent of Senegalese food shipments consisted of fish products, mainly frozen fish, fresh octopus, and mollusks. The Senegal fishing export industry grew at an annual rate of 7 percent between 2008 and 2017, nearly doubling in value from $212 million to $400 million. Horticultural products ($100 million) and groundnuts[65] ($90 million) are the other key exports.

The size of agribusiness within the economy is still small. The agribusiness sector accounted for about 5 percent of GDP in 2015 and about one-third of industrial value added. Animal processing (fish and meat processing) accounts for about half this value added (World Bank 2018d). A key export of the subsector is food preparations, mainly broth cubes ($135 million in 2017).

Thanks to new efforts by the government of Senegal to attract foreign investment and donor funds, Senegal has witnessed an important diversification of its product base toward higher-value export markets, including mangoes, green beans, cherry tomatoes, melons, watermelon, sweet corn, cherry tomatoes, butternut squash, various species of pepper, and sweet potatoes. It has also benefited from its geographical location and proximity to the European Union (EU) market[66] and its agro-climatic conditions. More recently, retailers such as Auchan have succeeded in boosting the quality of agricultural products by developing local supply chains.[67] In 2001, horticultural products represented 2 percent of all food exports from Senegal, while in 2017 this proportion reached 11 percent, confirming a comparative advantage in this sector. Horticultural exports increased from 24,000 tons in 2007 to 90,000 tons in 2016. Donor support played a crucial role in improving the country's sanitary and phytosanitary control systems and identifying more than 20 nontraditional agricultural products, some of them now growing exports.

FIGURE 3.1 DIVERSIFICATION OF EXPORTS



Source: WITS.

Key constraints to private sector activity

Constraints include access to arable land, access to finance, poor link between smallholder farmers and commercial offtakers (including processing infrastructure), and weak quality of backbone services to exports (World Bank 2018e). While many of these challenges reflect the cross-cutting constraints discussed earlier, this section discusses how they manifest themselves at the sectoral level.

Land and water access

- **Lack of access to arable land and irrigation facilities.** Several studies, including the United Nations Food and Agriculture Organization (2016), UN Environment Programme (2015), and World Bank (2013), show that access to irrigation facilities, as well as access to arable land, remains a key investment constraint in Senegal. In some regions, investors suffer from a lack of access to water as well as land degradation, via salinization. These areas include the Niayes, the traditional horticulture base surrounding Dakar, and the area along the northern coast. In the Senegal River Valley, where the horticultural exports industry has been gradually relocated from the urbanizing Niayes over the last decade, agribusinesses, just like the rest of the private sector, suffers from limited access to secured land, faces political interference with regard to land allocation, and battles constraints due to weak transport infrastructure.

Specific access to finance issues

- **Small-sized and medium-sized enterprises and smallholder farmers are constrained by their limited access to finance**, preventing the scaling up of their activities. Nearly 75 percent of firms in the agriculture sector, the highest proportions across all sectors, cited that they need more financing to invest and develop their activities (ANSD data). At the same time, less than 5 percent of the financial sector portfolio is going to the agribusiness sector, mainly due to the perception of a higher risk.
- **Rain-fed crops, which are particularly vulnerable to climatic changes, dominate the agriculture sector, but insurance mechanisms for protection are still limited.** The adverse impact of climate change is exacerbated by the fact that Senegal is an arid land where there is limited alternative for irrigation. Despite the creation of the Compagnie Nationale d'Assurance Agricole du Senegal (the National Agricultural Insurance Company of Senegal) in 2007, farmers are vulnerable to abrupt changes in the weather because they don't have many assets and they lack access to credit and the insurance market.[68] Issues in the insurance market include:
  - **A lack of capacity and knowledge about the products by regulators**, including the regional Conférence Interafricaine des Marchés d'Assurance and the Direction des Assurances (InterAfrican Conference of Insurance Markets and the Directorate of Insurance) in Senegal, organized by Senegal's Ministry of Economy, Finance, and Planning.
  - **A regulatory framework that needs improvements.** Regulators need to provide space for new technologies, such as mobile phones, for digitizing insurance distribution. Presently, an insurance cover cannot be triggered using technologies such as mobile phones or other digital channels.[69] This would help heading into an InsurTech era, allowing for more efficient distribution channels. That, in turn, would make premiums less costly and more accessible to farmers.
  - **Local insurance companies have capacity issues and need to improve staff skills in key areas,** including risk modeling, designing, evaluating, and pricing agriculture insurance products; acquiring data; developing distribution channels; and marketing.
  - **Low local business retention.** Because agriculture insurance claims are volatile, insurers hesitate to underwrite such activities, which prevents them from getting experience in this segment.

- **Poor link between smallholder farmers and commercial offtakers.** Regions with high agriculture potential, such as Casamance, suffer from a disorganized and atomized production base, which increases production costs. The competitiveness of agribusiness is also affected by a lack of adequate transport and storage infrastructure, poor quality of rural roads for efficient sourcing, and lack of internet connectivity in rural areas to deploy data-driven solutions including mobile payment. It is estimated that only 5 percent of fruits and vegetables grown in the country are processed, while the bulk of dairy products consumed domestically are either imported directly or processed from imported powdered milk. Although processing could help reduce post-harvest losses, significant barriers exist as sourcing local products in sufficient quality and quantity is difficult and expensive. The few successful agro-processing companies—Patisen and Grands Moulins de Dakar—that are successful marketing domestically and exporting regionally rely substantially on imported raw materials.

Regulatory capacity

- **Sanitary and phytosanitary inspections and certification procedures need to be improved** to guarantee access for Senegalese horticultural exporters to higher-value markets such as the European Union. In the mango sector, EU authorities have issued critical warnings due to increased interceptions of mango shipments contaminated with fruit flies, posing a risk for existing investors to lose market access. The Direction de la Protection des Végétaux et des Contrôles Techniques, or the Directorate of Plant Protection and Technical Controls, in the Ministry of Agriculture is mandated to control sanitary and phytosanitary hazards linked to Senegalese agricultural exports. The directorate, however, faces significant challenges ensuring that exported products, such as mangos, are pest-free and disease-free when they are exported to higher-value markets such as the EU. Despite substantial efforts by the directorate to better regulate fresh fruit and vegetable exporters in Senegal, the institution is hampered in its ability to fully realize its mission, because of a lack of human and financial resources and the limited and inefficient use of modern technologies to manage information flow about the delivery of sanitary and phytosanitary certification.

Labor market issues

- **Relatively high labor costs and rigid labor market conditions.** These are important constraints for the increased development of formal agribusiness (World Bank 2017a). The average remuneration in the manufacturing sector in Senegal is significantly higher than in other WAEMU nations, as well as countries that are not in WAEMU.[70] Moreover, Senegal's Labor Code retains quite stringent provisions on employment contracts, rigid wage setting mechanisms that disconnect remuneration from individual productivity, layoffs, and working conditions. As a result, firms often hire contractual labor to avoid keeping staff on long-term contracts. Using a measure of restrictiveness of labor market institutions based on the Doing Business Employing Workers Indicators raw data, Senegal ranks as the third most restrictive country in the world out of 189 countries, in severity of labor market regulations (World Bank 2018a). The selective enforcement of labor regulations also adds to labor costs. Regulators focus labor inspections on the formal sector and sometimes use the inspections more for rent extraction than substantive compliance.

Recommendations

Improve resilience toward droughts and climate change.

- **In addition to addressing the access to land issue, availability of climate-smart, high-yielding, early-maturing, and drought-resistant seed varieties that could help build farmers' resilience to weather shocks should be enhanced.** For instance, with the diffusion of improved varieties of sorghum, farmers are achieving high levels of yield even during years when there was a rainfall deficit (as in 2011 and 2014).

Improve access to finance.

- **Traditional and innovative offerings of agriculture insurance should be further developed.** This would require three actions: boost the capacity of regulators; improve the regulatory framework by allowing for digitization of insurance distribution; and build the capacity of insurance industry staff in key areas, including risk modeling and product pricing.
- **Develope warehouse financing can support increased access to finance.** Digitally connecting commodity depositors, financial institutions, warehouse operators, and a central registry would revolutionize commercial agriculture in Senegal. The Ministry of Commerce should implement the legal and regulatory framework for warehouse financing and identify commercial banks willing to recognize warehouse receipts and engage in risk-sharing facilities, such as the Global Warehouse Financing Program, an initiative supported by the IFC to increase working capital financing available to agricultural producers or traders by leveraging their commodities in storage.

Build capacity.

- **Pursue digitization of some of the operations of the Direction de la Protection des Végétaux and the sanitary and phytosanitary controls** in Senegal, in order to help reduce market access risks and improve the quality and efficiency of its services.

Enhance flexibility of the labor market.

- **Reforms of labor market regulations should be undertaken.** Reforms of labor market rules and institutions could be modeled on the experience of other West African Economic and Monetary Union countries, most of which have more flexible labor markets, and the experience of civil law countries in Europe, most notably Italy and France. Reforms to increase flexibility in the market would need to include hiring and layoff regulations, wage-setting mechanisms, and types of labor contracts. Leveraging technology for the labor inspection process, such as randomized selection of companies for inspection, could also reduce excesses in current labor law enforcement.

3.2 SERVICES SECTOR

3.2.1. Education

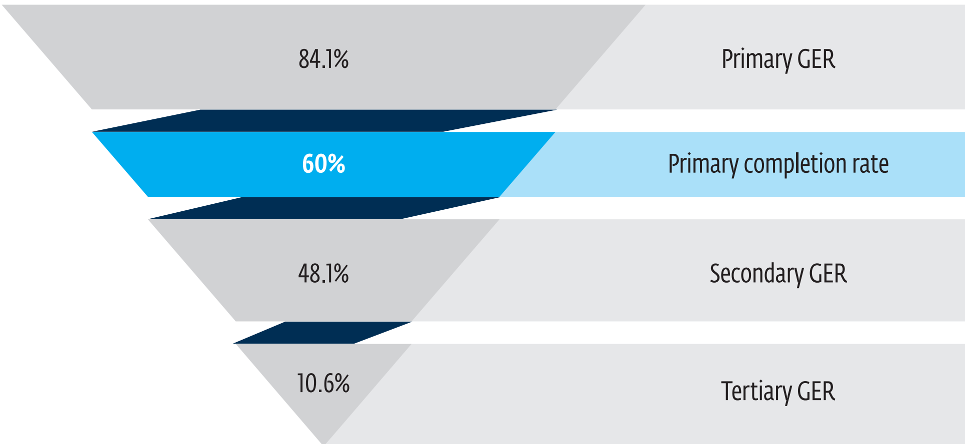
Subpar education outcomes have led to low-quality supply of talent, constraining optimal growth and a greater private sector investment that could complement the state's actions. To ensure sustainability of growth, Senegal must improve its education outcomes, because the sector is a critical enabler.

The education system faces access and quality issues.

Overall enrollment rates remain low. Senegalese four-year-olds can expect to complete only 7.2 years of school by their 18th birthday, compared to 10.6 years in Morocco, 12.3 years in Vietnam, 8.1 years in Sub-Saharan Africa, and 13.7 years in high-income countries (World Bank 2018h). While the primary gross enrollment ratio is 84.1 percent, up from 68 percent in 2000, low transition rates result in a low secondary gross enrollment ratio of 48.1 percent and an even lower 10.6 percent at the tertiary level (figure 3.2).

Education is of low quality. The problem stems from low qualifications of teachers. In 2012, only 29 percent of teachers passed a fourth-grade test in French, and 76 percent passed a fourth-grade test in math. The country suffers from a lack of basic infrastructure, particularly in rural areas, and high levels of teacher absenteeism (World Bank 2013, 2018a). Only one-third of children complete primary school with enough competencies. Only 20 percent of sixth graders meet the desired proficiency in French, and only 10 percent meet the desired proficiency in mathematics (World Bank 2016a). In 2016, only 37 percent of 12th grade students passed their baccalaureate exam.

FIGURE 3.2 KEY EDUCATION INDICATORS, 2017



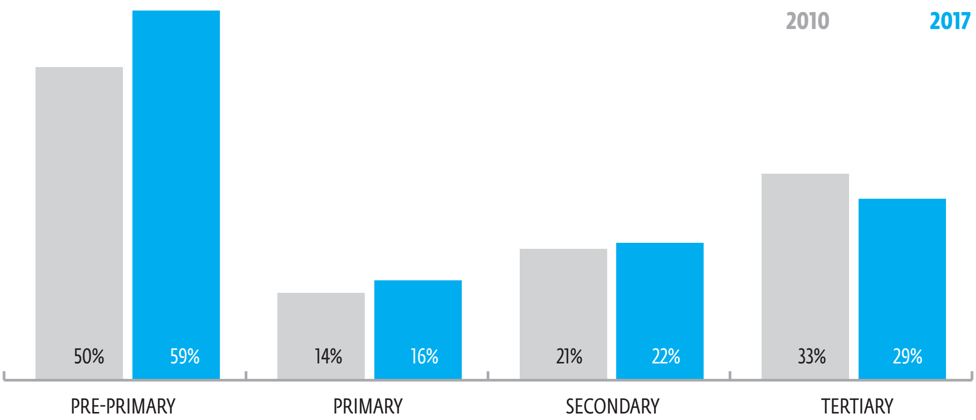
Source: EdStats.

In addition, only a minority of students chooses STEM and technical tracks starting at the secondary level. Nearly 80 percent of bachelor's degree graduates choose the humanities and social sciences (MEN 2016), with the ratio carrying over into tertiary enrollments. In addition, the current technical and vocational education and training system is heavily constrained on the supply side (not enough establishments) and plagued by obsolete courses, lack of equipment and deficient quality assurance mechanisms. Only 7 percent of students completing basic education were enrolled in technical and vocational education training in 2016 (World Bank 2018a), for a total of 54,000 public and private students (Ministère de Formation Professionnelle 2016). Several regional universities and faculties are being created in the country in order to remedy this situation, specializing in technical, agro-industrial and scientific fields.

Private sector education providers have a limited share of the market, averaging about 20 percent across all sectors (figure 3.3). Perceptions of quality are often higher for private education. At the K-12 grade levels, private school students scored better than their public-school counterparts on the Program for the Analysis of Education Systems (World Bank 2016a). At the tertiary level, public universities are known for strikes, overcrowding, low graduation rates, and a disconnect with the job market. At the K-12 grade levels, enrollments in non-public schools, including faith-based Islamic and Franco-Arab schools, have increased steadily over time, nearly tripling between 2000 and 2016 (World Bank 2016a). At the tertiary level, 75 percent of the 160,000 students attending school were enrolled in public institutions in 2017 (Ministère de l'Enseignement Supérieur et de la Recherche 2017). There are about 300 private tertiary education providers, ranging from a few prestigious schools mainly focused on business and administration to many smaller outfits.

In technical and vocational education training, private providers absorb about 60 percent of students (Ministère de Formation Professionnelle 2017). Revenues from a special tax collected from business also help cover tuition for about 7,000 technical and vocational education training students annually (World Bank 2018i). The government has involved private actors in the management of vocational centers in key sectors (ports, agribusiness) through small public-private partnerships and strategy sessions. This has been a positive step toward improving quality and making technical and vocational education training more responsive to market demands. However, the overall impact of technical and vocational education training providers is still marginal.

FIGURE 3.3 PRIVATE ENROLLMENT



Source: EdStats.

As a whole, private establishments are largely inaccessible for poorer students and those in rural areas. Only 8 percent of private secondary school students come from households with expenditure per capita below the national median (World Bank 2016a). For higher education, students pay out-of-pocket with some limited cases of short-term bank financing supported by parental guarantees. Annual tuition fees range from $350 to $1,800, with medical education fees tending to be higher. The government of Senegal subsidizes about 25 percent of students in the private tertiary sector. Starting in 2014, the government of Senegal began guaranteeing higher education placement of all baccalaureate (Bac) exam graduates, which has helped expand access to tertiary institutions. As a result, about 15 percent of students who apply to public universities are now redirected to private institutions, with the government of Senegal paying the fees (Caerus 2017). Providers point to significant delays of up to 18 months in payments by the government, casting doubt on the scheme's long-term sustainability (World Bank 2018i).

Key constraints

Despite increasing demand for private school education and the government of Senegal's stated openness to expanding the private sector, major constraints remain that are linked to a low quality of teachers, financial constraints, and distortions.

- **Rigidity in the provision of teachers and professors and in the different paths from secondary to tertiary education is a disincentive that leads to quality issues.** For grades K-12, the government doesn't allow teachers to be trained through the private sectors and accepts only government teacher training, resulting in a strict cap on supply. Rigidity in academic requirements at the tertiary level, combined with a limited pool of qualified professors, also further constrains growth. In addition, with different oversight ministries for technical and vocational education training and tertiary education, transferring from one system to another is often very difficult. This limits options for students, and it constrains higher education institutions that want to offer integrated solutions that train teachers from the technical and vocational education level to university studies.
- **Financial constraints on the side of the students are a major deterrent to scaling up private sector education.** With limited student and institutional financing facilities (banks have little exposure to education, both for student and institutional finance, World Bank 2018i), private providers have achieved relative success in the premium market, but only at a smaller scale of 3,000 students at the most. These private providers are unlikely to expand into the mid-range market without subsidies or incentives given the population's limited purchasing power and the country's still high poverty level.
- **In the tertiary sector, the government's provision of virtually free education and monthly stipends, called *bourses*, in public universities creates distortions.** Government subsidies, now available to some private providers as well as through the enrollment of Bac graduates, are mostly independent of needs, study tracks, or program performance—whether in terms of access, quality, or work placement. The government's recent efforts to increase STEM enrollments through scholarships are dwarfed by the demand for bourses in the humanities; bourse students are not constrained to particular fields of study but remain restricted by the anti-STEM bias in the supply of Bac graduates.
- **Senegal lacks incentives for investments in STEM or technical training. The country faces an oversupply of management courses, ranging widely in quality**, because students prefer studying nonscientific fields, lack basic knowledge in STEM subjects, and endure limited financing facilities for themselves and educational institutions.

Recommendations

To create a more dynamic market with opportunities for the private sector and improve outcomes, Senegal should consider the following:

Quality issues.

- **Improve the quality of education** by letting private providers train and certify teachers at the K-12 level, recalibrating the role of the state and helping improve a major supply constraint for quality teachers.

Financing issues.

- **Overcome purchasing power issues**, given the country's low-income levels. This could be done by reforming the system of scholarships in higher education as well as in technical training and vocational training to give students more choices and allow them to save on costs. This could encourage the growth of a private sector supply in STEM complementary to public efforts. These reforms could for example relate to the provision of student loans to encourage STEM studies and widen the choice of locations.[71]

Technical and vocational education training promotion.

- **Simplify education structures under a clear technical and vocational education training and tertiary framework to create more opportunities.** Making learning paths simpler and more flexible, such as facilitating transition from technical and vocational education training to tertiary and vice-versa, would give students more choice, especially with respect to private providers. Additionally, shifting the focus of university requirements away from degree requirements toward teaching quality would make the tertiary sector nimbler and better prepared to respond to the needs of the job market. One way to do this would be to reduce the required ratio of teachers with Ph.D. degrees versus professionals in university programs and standardizing two-year study programs.
- **Academically rigorous secondary schools, such as Maison d'Education Mariama Bâ on the island of Gorée or the Prytanée Militaire de Saint-Louis, are successful model schools that could be replicated throughout the country** with strong STEM curriculum that nurtures a new generation of scientists and researchers. Several cities are prime candidates for the development of these schools, including Tambacounda, the largest city in eastern Senegal; Kaolack, a city in Sine-Saloum, a central region of Senegal; Ziguinchor, the main town in the Casamance area of Senegal; and Thiès, a large industrial city in Senegal east of Dakar.

3.2.2. Tourism

After a recent period of sluggish performance, Senegal's tourism sector has started to regain some of its lost luster. From the 1980s until 2000, Senegal was among Sub-Saharan Africa's top 10 tourist destinations, driven by strong promotions. After 2000, a lack of policy support for the sector coupled with external shocks, such as the economic crisis in Europe and the Ebola crisis in West Africa, negatively affected the sector (figure 3.4).

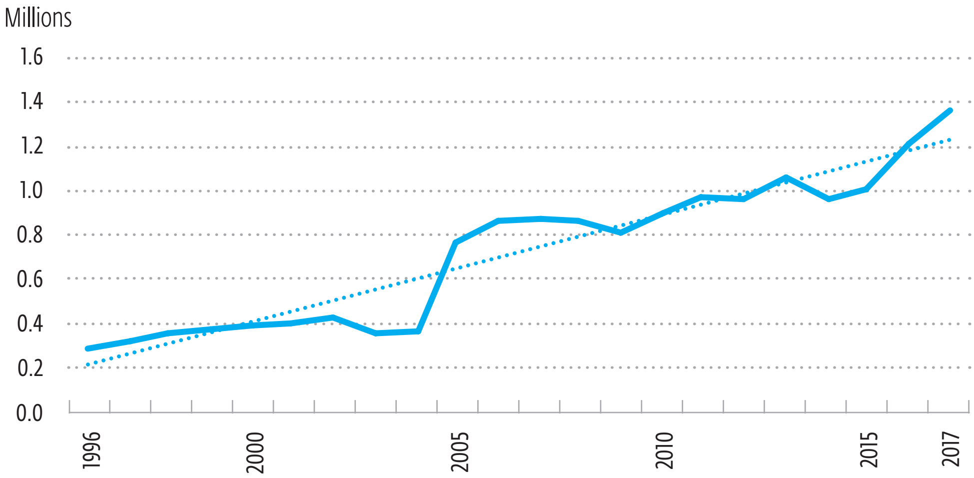
There has been a shift recently. In 2017, Senegal ranked 7th among sub-Saharan African countries in terms of international arrivals at over 1.3 million (UN World Tourism Organization 2019). The total contribution of tourism to GDP in 2018 was a little over 10 percent, and its contribution to employment was nearly 9 percent, often benefiting unskilled workers (World Travel and Tourism Council 2018).[72] Linkage effects on other sectors are significant across the value chain. Tourism stimulates other sectors, such as agriculture (provision of fresh produce), handicrafts, trade, transportation, and construction. Recognizing tourism's potential to support growth and employment, authorities have refocused their attention on the sector by preparing a new tourism strategy and by increasing promotion and destination development.

Senegal has traditionally been positioned as a sand-and-sun destination for the Francophone European market, but meetings, incentives, conferencing, and exhibitions (MICE) and religious and cultural tourism could also be important.

Senegal ranks third in West Africa in the 2017 World Economic Forum Travel and Tourism Competitiveness Index, and it rates 111th overall out of 136 countries, scoring particularly highly on safety and security and natural resource pillars. Senegal's competitive advantage centers on several elements, including short-haul access to Europe; year-round good weather, particularly during the European winter; tradition of hospitality, known as *Teranga*; rich gastronomic culture; and long coastline. Its sand-and-sun product is mainly concentrated in two regions: Thies, near Dakar, specifically along the Petite Cote, and Casamance in the south, which experienced political instability through 2012. The Petite Cote attracts one-third of the country's tourists, and they primarily visit the town of Saly. While Senegal's tourism offerings focus on its sun-and-sand destinations, it has many other rich and varied destinations that are largely untapped on three themes: cultural, with five UNESCO World Heritage sites; religious, with several Muslim and Christian pilgrimage sites, such as Touba and Popenguine; and ecological, with the Bandia and Fathala nature reserves.

Dakar's status as a regional hub for West Africa also allows Senegal to have a significant business segment in promoting meetings, incentives, conferencing, and exhibitions. In 2017, business spending represented 60 percent of tourism's contribution to GDP and 23 percent of arrivals (UN World Tourism Organization 2019). The business sector attracts private companies, government agencies, international organizations, and nongovernmental organizations. Hotels and conference centers in Dakar, as well as in the city of Diamniadio, cater to the conferences and meetings market, as well as flight crew and leisure markets. They include properties operated by international brands, such as Accor and Radisson. There are two distinct segments: upmarket and economy or mid-range hotels. High-end companies, including Terrou-Bi and Radisson Blu, have very good performance, and mid-range hotels associated with international brands, such as Novotel, are doing well. Overall, trade and economic growth in Senegal continues to stimulate increased business travel to Dakar, and this segment has been less affected by external shocks in recent years than the leisure tourism subsector.

FIGURE 3.4 INTERNATIONAL TOURISM: ARRIVALS



Source: World Development Indicators

Key constraints to private sector activity

Key constraints to private sector activity in the tourism sector include access and environment issues, weak human resources, and until recently limited sector support.

Access and environment issues

- **Difficult access, high airport taxes, and overdependence on tour operators hamper sector development.** Despite several new highways (including Dakar-Mbour) and the opening of the new airport outside Dakar, difficult road and air access to remote destinations still inhibits demand and limits product diversification. In addition, although Senegal is well connected with an average of 30 flights scheduled daily with connections to major European and African cities,[73] air travel to Senegal can be expensive due to high airport charges. In the 2017 World Economic Forum Travel and Tourism Competitiveness Index, Senegal ranked 132nd out of 136 countries on ticket taxes and airport charges.
- **Overdependence on tour operators limits Senegal's ability to capture the growing African markets of tourism and business.** Tour operators, which are mostly European, supply 80 percent of the leisure tourism market to Senegal. Moreover, Senegal does not target a growing share of visitors who plan their itineraries through online booking platforms, such as Expedia and Booking.
- **Lack of financial infrastructure is a major constraint.** It is difficult to use credit cards and ATM machines are sparse, which makes it difficult for tourists.
- **Beach erosion in the cities of Saly and Casamance threatens the tourism sector.** The average erosion rate of the coastline is estimated between 1 meter per year to 1.30 meters per year, an erosion rate that will result in coastal sea level rises of 20 centimeters by 2030 and 80 centimeters by 2080. Saly, which has 15 hotels and 23 residential vacation complexes for lease, is entirely dependent on beach vacation business. However, as of 2017, approximately 30 percent of these accommodations had lost access to useable beaches. Climate change is also expected to bring increased storm damage along the coastline due to a rise in sea levels and increased storm

surge. Ongoing work in the Saly area, through a World Bank–financed project, should solve the issue in the medium-term for this specific location, but the issue remains an important one for the rest of the coast.

- **Mismanagement of tourist attractions.** Most sites, including UNESCO-protected sites, are not well maintained and have limited signage. Solid waste management is also a major issue. Open dumps are the most common method of storage and lead to further environmental pollution.

Weak human resources

- **Limited personnel training, weak foreign language capabilities, and lack of soft skills are issues,** often in smaller hotels and restaurants, but also sometimes in large international facilities targeting tourism that involves meetings, incentives, conventions, and exhibitions. This negatively impacts the quality of service and the perception of the destination, notably for business visitors. Tertiary and technical and vocational education training solutions, implemented by the private sector or developed in partnership with existing institutions, have to be developed quickly. Furthermore, partnerships with renowned hospitality training institutions should be encouraged, such as in North Africa (Marrakech, Tunis), the Middle East (Dubai and the Emirates Academy), and Europe (Lausanne). In addition, visitors often report harassment and hustling by informal vendors, cabs, and tour guides, a negative experience that adversely affects repeat visits.
- **Technical support is still needed at the local government level.** This gap is reflected in the lack of fluidity in the flow of information vertically and transversally. In addition, there is a lack of clarification of the roles of each public actor, with each one lacking the financial means to fully carry out their missions. For instance, tourist observation remains weak with data on the sector often delayed or not available.

Limited sector support

- **Weak institutional governance, including lack of public-private dialogue.** The new tourism code in preparation aims to reinstate a public-private dialogue council. The Ministry of Tourism and Air Transport has commissioned a diagnostic study for the tourism sector that will inform its strategy going forward.
- **Limited promotion.** Senegal's branding suffered when the former tourism promotion agency was disbanded in 2013. It was later reinstated as Agence Senegalaise de Promotion Touristique and tasked with tourism promotion and marketing. The ministry recently commissioned a marketing plan to transform Senegal's image and brand overseas. The government of Senegal has made a few efforts to target emerging segments in the tourism market, such as China, India and Southeast Asia, including Singapore and Malaysia, which are quickly becoming the largest sources of tourists to Senegal.

Lack of diversification of tourism offerings

- **Senegal has historically positioned its offer on the coastal resort front, a segment that is highly competitive.** The focus has traditionally been in Dakar and the Petite Cote, while the country can boast a very diversified offer beyond meetings, incentives, conventions, and exhibitions. The political stability of the country has not been leveraged as part of the offer in making Senegal an attractive destination. It's critical to feature nature, culture, ecotourism, and religion destinations in its potential tourist attractions.

Recommendations

Access and environment issues.

- **It is important to reduce the importance of tour operators to help capture new markets besides the traditional EU type of leisure tourism.** To do so, Senegal should diversify its offering of tourism products. There is potential to diversify away from traditional products by developing cultural, ecological, medical and religious tourism and better linking them to the meetings, incentives, conferencing, and exhibitions tourism.
- **To help capture new markets, the country must ensure effective representation in priority markets** and develop the appropriate promotion strategy and communication tools.
- **It is key to mitigate coastal erosion and clean key beaches and tourist attractions.** Considering the still considerable importance of sun-and-sand tourism and links with MICE tourism (extension of stay to visit a country after business), having pristine key destinations is of paramount importance. The government should implement targeted beach restoration and erosion mitigation measures to protect coastlines with vulnerability to climate change along with waste removal and management schemes.

Human resources and institutions.

- **Training of the workforce in the sector must be improved** by fostering more specific programs in technical and vocational education and training institutions (language, hospitality industry specific training, soft skills) and actions should be taken (sensitization, legalization of informal guides, application of the law) to minimize hustling.
- Technical support must be provided (as needed) centrally and locally while a clarification of the roles of each public actor/institution must be undertaken. It is also critical to ensure the effective implementation of strategic documents.

3.2.3. Real estate and housing

Senegal is currently witnessing significant growth in the real estate industry, comprising 5.5 percent average growth from 2014 to 2017, especially in Dakar and other major urban areas. Factors driving growth include government programs (such as construction of highways and secondary roads); establishment of new urban zones; large-scale construction of houses; population growth and investors from the diaspora and investors from neighboring countries (Centre for Affordable Housing Finance in Africa 2018). The market in the greater Dakar area includes office and commercial properties, as well as residential housing, social, housing programs for middle school and high-income segments, and some high-end, luxurious apartments and compounds.

While dynamic, the real estate market is still characterized by a housing deficit and poor-quality housing. A critical issue in the Dakar area is the city's housing backlog, a consequence of rapid urbanization and an insufficient supply due to constraints, including limited availability of serviced land, limited availability of relevant financial products for developers and buyers, and high construction costs. Therefore, informal settlements persist and account for around 25 percent of urban spaces in Senegal and 30 percent of inhabited areas in Dakar. The 2016 housing deficit was estimated to be 322,000 units for the whole of Senegal and 158,000 for Dakar (CAHF 2018).

According to the Listening to Senegal Survey, in 2014 an estimated 20 percent of households in Senegal, or about 320,000 households, rented their dwellings. Renting is more prevalent in urban areas, with just under half of households renting in Dakar. Rentals in Senegal are regulated and, in principle, may not exceed a given value per square meter of surface area. Tenants were given the right to file claims with l'Administration des Domaines (the Domain Administration), and a specialized bureau of rent control oversaw settling disputes. The regulation still exists but is not enforced and the rent control bureau no longer exists.

In the medium-term, developments around Diamniadio will help alleviate the housing deficit in the Dakar area. Housing will be provided for the various market segments. The city is to be equipped with a new conference center, the industrial zone, a university campus, commercial centers, schools, and a hospital. The government of Senegal has allocated serviced plots of land and given other incentives to developers – that complement those already existing.[74]

Key constraints

Key constraints for the development of services and real estate sectors are high informality, discriminatory differential tax regime, limited access to finance and affordability, poor urban infrastructure in secondary cities and lack of creditworthy household demand.

- **High informality in the sector due to heavy regulations and weak enforcement.** Formal companies, especially those with high turnover and profitability, experience systematic challenges in dealing with tax authorities. Administrative procedures remain too complex, and regulations are not always precise, leaving room for discretion and rent seeking, which acts as an incentive for some companies to remain (partially or fully) informal. The perception of arbitrary regulatory enforcement has created a barrier to formalization and unfair competition for existing formal operators.

  The real estate sector in Senegal has a relatively complex legal framework with several central departments of various ministries involved in the processes, which tends to increase costs and makes the permitting process unpredictable. Experience suggests that construction permits often take years to be issued.
- **Special tax regime created for informal firms creates an uneven playing field.** A special tax regime, the Regime Global Unique, has been created for the informal sector, whereby firms pay a tax based on turnover, amounting to a fraction of what formal firms must pay. The differential tax regime allows some fairly big underground companies to effectively take advantage of the system through underreporting or evading custom taxes/duties, thus undermining the level playing field in the private sector by competing on noncompliance.
- **Lack of a mortgage market.** The lack of a mortgage market also creates obstacles to the development of a vibrant housing sector. Without access to mortgage finance to purchase complete homes, housing is built incrementally. Lack of availability of longer-term funding for banks reduces their ability for mortgage lending. Banks are similarly reluctant to finance developers, inhibiting the development of a formal real estate sector. For those employed in the informal sector, lack of formal income makes it hard to get a mortgage. The West African Development Bank set up a mortgage refinancing company, Caisse Régionale de Refinancement Hypothécaire

de l'UEMOA (WAEMU), to refinance approved housing loans at competitive rates. Housing microfinance, which typically supports housing for low-income groups, is also limited.

4. **Housing affordability is a problem.** Rents and property prices depend on location, the architectural plan, and the quality of material used for construction. Housing affordability remains thus limited, given the high price of land, price speculation, and inadequate supply, in spite of government efforts to boost production.[75] There are few developers (mainly concentrated in Dakar and its immediate surroundings) and many speculators who primarily target higher-income earners.
5. **Senegalese cities, and more specifically secondary cities, struggle with a chronic deficit of urban infrastructure and poor service delivery, which limits possibilities for real estate development.** Thirty percent of households in secondary cities are not connected to the water network, relying on water standpipes. Only 36.7 percent of urban households have access to basic sanitation. Besides Dakar, only six urban centers have partial access to a sewage system: Rufisque, Louga, Saint-Louis, Kaolack, Thiès, and the tourist cities of Saly and Mbour. Most Senegalese cities struggle with waste management on both the collection and disposals ends.
6. **Creditworthy household demand is relatively weak.** Many individuals and households cannot cope with rental and/or purchase prices offered for housing units under construction. Most of the demand is made up of relatively few middle, and high-income individuals and households.

Recommendations

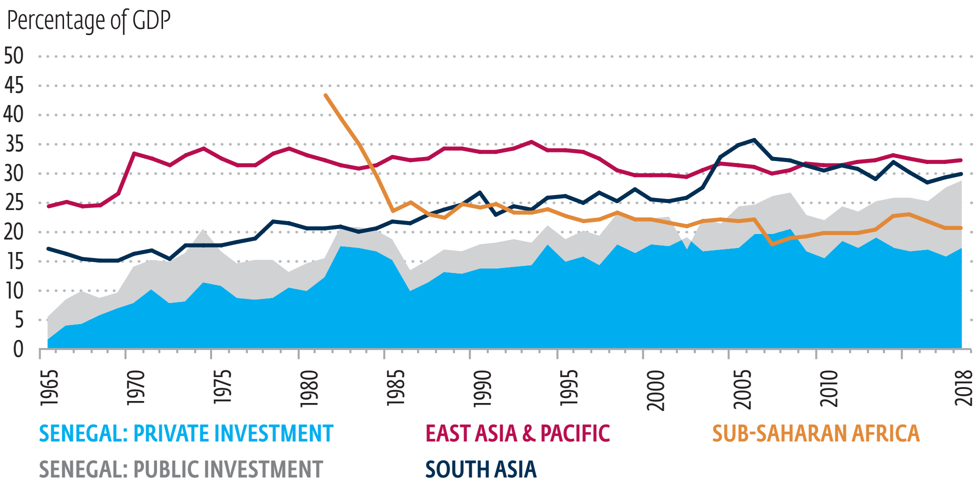
To improve the attractiveness of the housing and real estate sector it is important first to alleviate infrastructure constraints such as access to transport, energy, land, and sewage. Besides these key constraints already addressed in this report, it would be useful to consider reforming the tax code to create a level playing field and improve coordination among ministries.

- **Reform relevant parts of the tax code to create a level playing field.** The differential tax rates and the targeting of formal sector firms for tax audits create an incentive for firms to remain informal. While a turnover-based taxation system may be appropriate for smaller firms, the government should limit its use by large informal sector firms, thereby leveling the playing field for the formal firms in services.
- **Improve procedures.** To reduce discretion and improve certainty, the government of Senegal should streamline permitting and inspection processes to accelerate administrative processes.

APPENDIXES

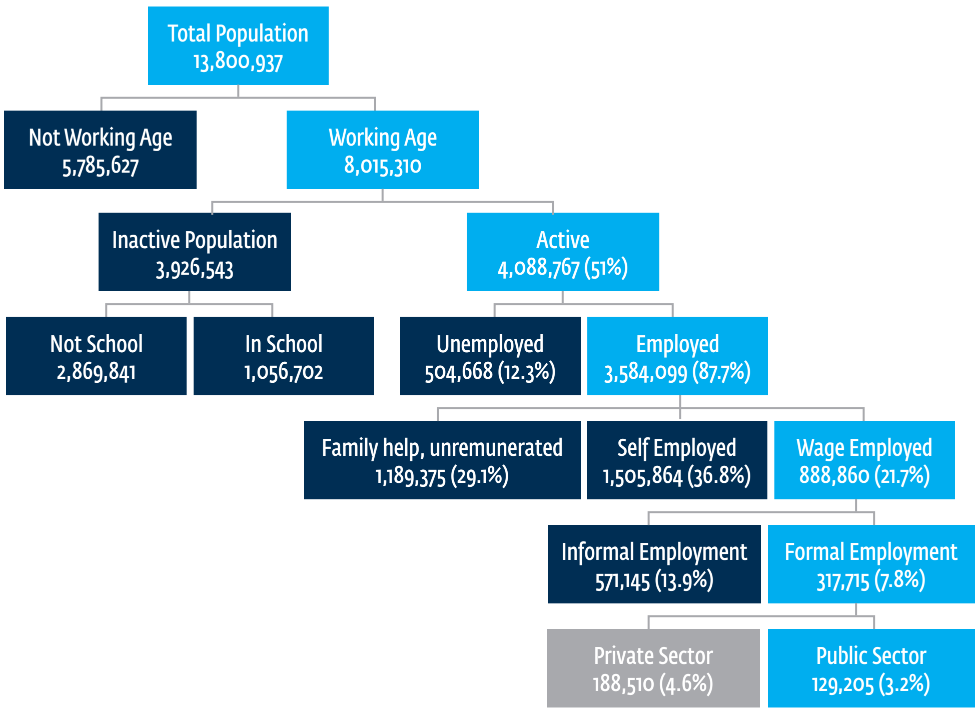
APPENDIX A: ADDITIONAL DATA

FIGURE A.1 GROSS FIXED CAPITAL FORMATION



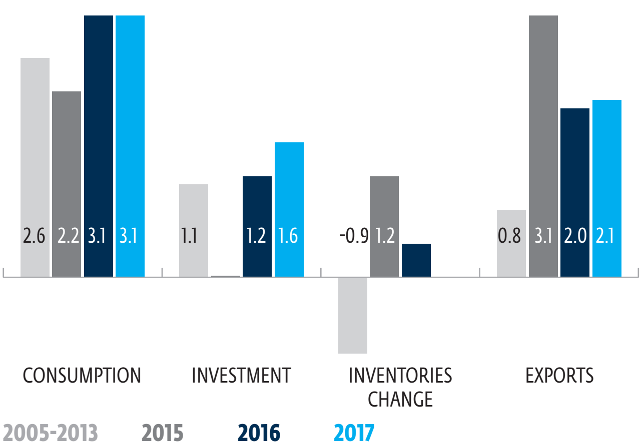
Source: World Development Indicators

FIGURE A.2 THE EMPLOYMENT CASCADE: A VERY LIMITED SHARE OF THE ACTIVE POPULATION IS IN FORMAL PRIVATE EMPLOYMENT (2015)



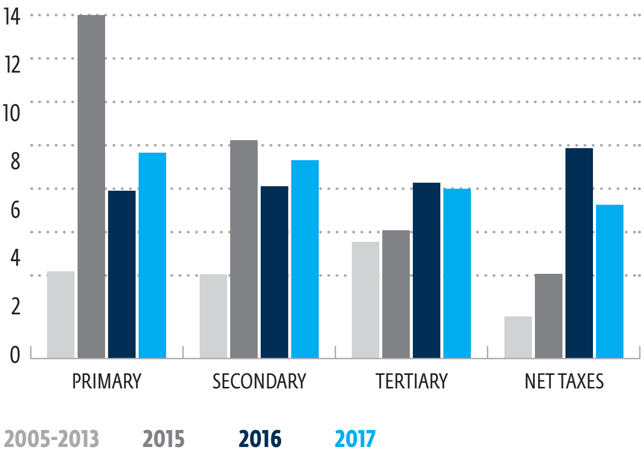
Source: World Bank Staff calculations based on Senegal's National Employment Survey (Agence Nationale de Statistique et de la Démographie).

FIGURE A.3 CONTRIBUTION TO GDP – DEMAND SIDE



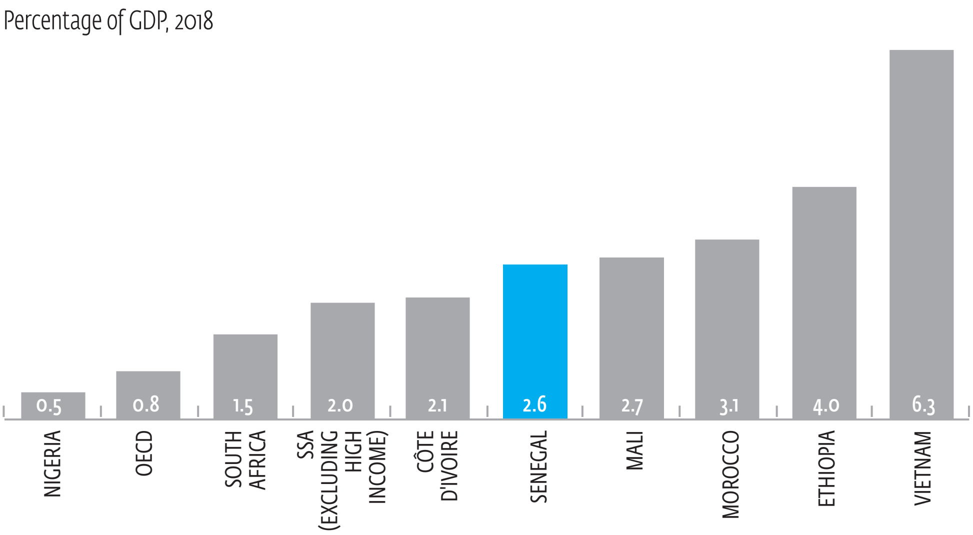
Source: World Bank 2018a.

FIGURE A.4 CONTRIBUTION TO GDP – SUPPLY SIDE



Source: World Bank 2018a.

FIGURE A.5 NET FOREIGN DIRECT INVESTMENT INFLOWS



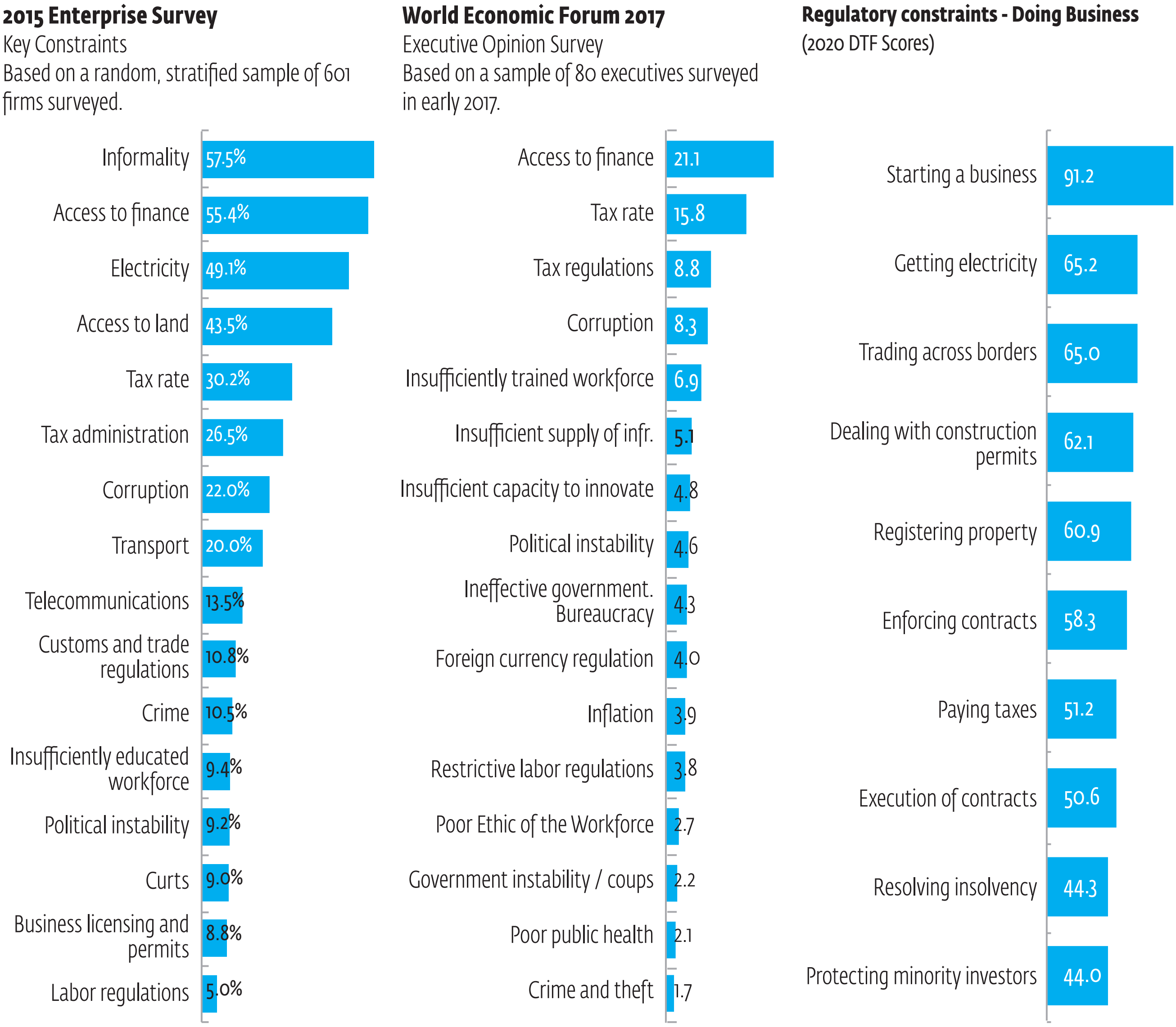
Source: World Development Indicators.
Note: OECD = Organisation for Economic Co-operation and Development; SSA = Sub-Saharan Africa.

TABLE A.1 NEW DIGITAL TECHNOLOGIES ARE SHAPING GLOBAL VALUE CHAINS

CHANNEL	TECHNOLOGY TYPE	TECHNOLOGY	EXAMPLE OF AN APPLICATION
REDUCING TRANSACTION COSTS	**Digital platforms**	E-commerce	U.S. consumers buy shoes from U.K. e-commerce site
	Logistics technologies	Automated document processing	Paperless customs documentation processing in India reduces time for loading and unloading ships
		Internet of Things	Internet sensors track shipments from Brazil to Angola
		Next-gen transportation	New material enables shipping through Artic route
		Autonomous vehicles	Autonomous vehicles move cargo in ports, airports, and warehouses
	Data processing technologies	Blockchain	Blockchain enables automated cross-border insurance claims, also making logistics more efficient
		Cloud	An Australian company utilizes Google Cloud
ALTERING ECONOMICS OF PRODUCTION	**Additive manufacturing**	3-D printing	Ordinary people use 3-D printing to make toys at home
			A manufacturer in Vietnam uses 3-D printing to make hearing aids for global distribution
	Automation	Advanced robotics	A company equips a new factory in the United Kingdom with robots to make appliance manufacturing viable
			Bangladesh automates textiles production, boosting productivity to gain global market share
	Artificial intelligence	Virtual assistants	A British retailer deploys virtual assistants for customer service calls, substituting for offshore labor in a call center
		Robotic process automation	A company in the Philippines employs robotic process automation for back office processing, reducing costs and increasing volume
TRANSFORMING EXISTING PRODUCTS AND CREATING NEW PRODUCTS	**Digital goods**	Streaming movies and music	A new album by Drake is streamed a billion times globally in one week
	New goods	Renewable energy	China increases electricity generation from renewables, reducing imports of coal and liquified natural gas
		Electric vehicles	European consumers buy more electric vehicles, requiring fewer imported parts and lower oil imports
		Telemedicine	A German doctor relies on 5G to perform remote robotic surgery on a patient in Turkey

Source: Adapted from McKinsey Global Institute 2019,.

FIGURE A.6 KEY ISSUES FOR THE PRIVATE SECTOR

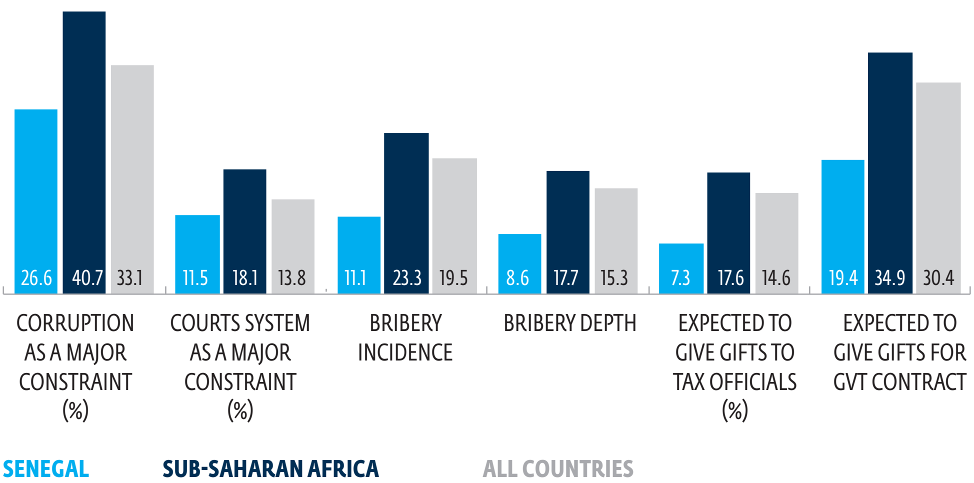


Source: World Bank 2017a.

Source: World Economic Forum, Global Competitiveness Report 2017.

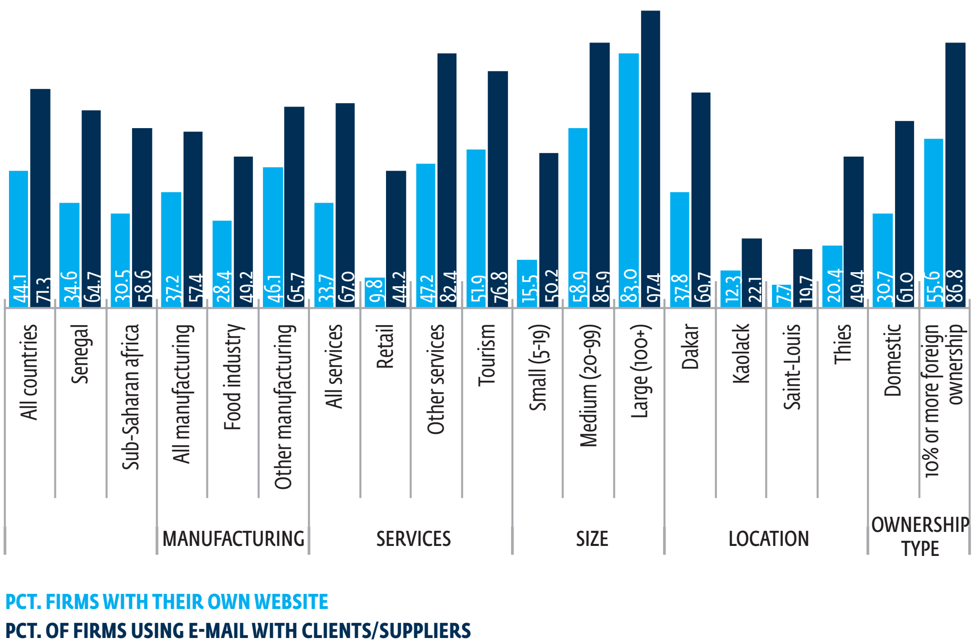
Source: Doing Business 2020.

FIGURE A.7 CORRUPTION



Source: World Bank Enterprise Survey 2015.

FIGURE A.8 WEB TECHNOLOGY USE BY THE PRIVATE SECTOR IN SENEGAL, 2014-2015



Source: World Bank Enterprise Surveys.

ANNEX B: ECONOMIC FITNESS PRODUCT LEVEL ANALYSIS

The economic fitness analysis synthetized in this report provides granularity at the level of goods traded by Senegal. Economic fitness[76] is a measure of country capabilities and is computed as the complexity-weighted diversification of a country's exports relative to 180 countries from 2007 until 2016.

Not surprisingly, data show that Senegal is one of the countries in Sub-Saharan Africa that most increased its economic fitness, or competitiveness. Although other countries seem to have become competitive and diversified at a faster rate than Senegal (table B.1 and figure B.1), this is positive for Senegal, because fitness is a good predictor of long-term growth (Cristelli et. al. 2017, Tachella et. al. 2018).

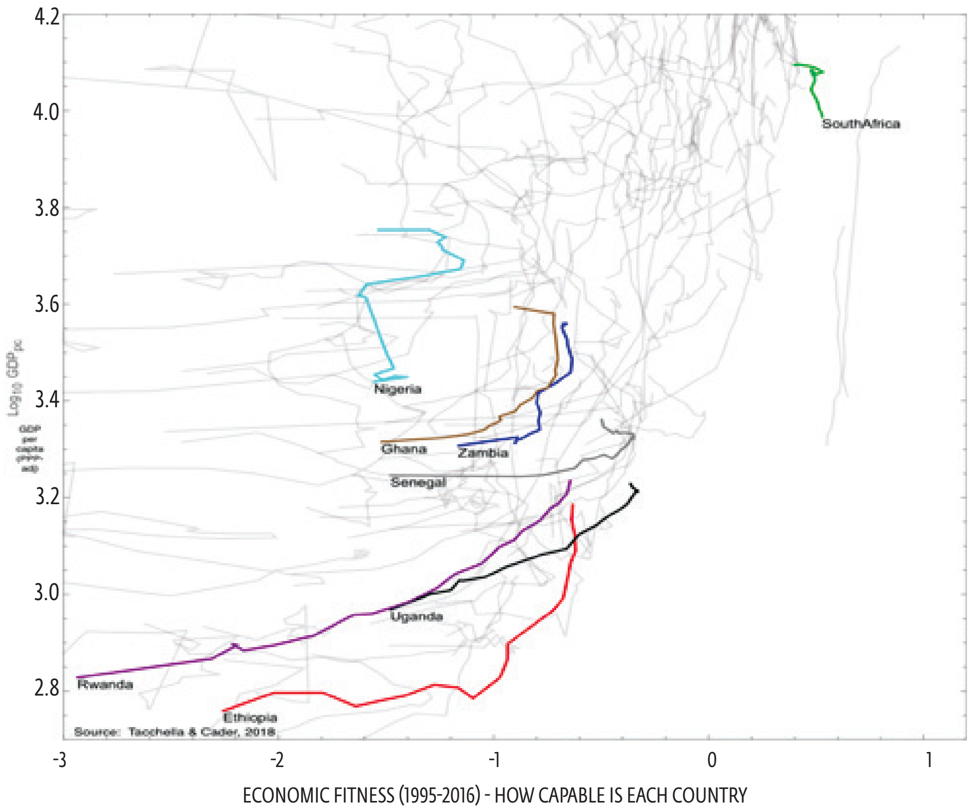
TABLE B.1 COUNTRY FITNESS RANK

Computed over 180 countries.

	2007	2016	CHANGE IN RANK
UGANDA	138	95	43
BENIN	144	113	31
ETHIOPIA	128	99	29
SENEGAL	121	98	23
NIGERIA	159	143	16
CÔTE D'IVOIRE	143	139	4
SOUTH AFRICA	30	42	-12

Source: Tacchella and Cader (2018), World Development Indicators dataset and IFC Global Macro and Market Research.

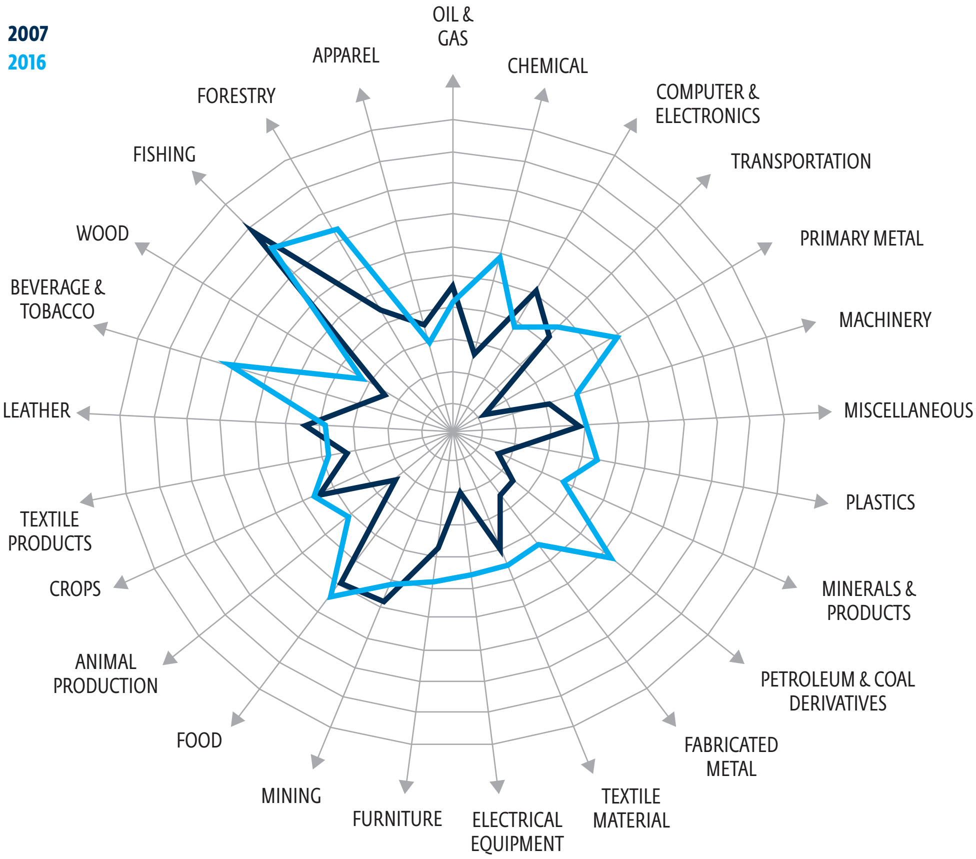
FIGURE B.1 SENEGAL AND COMPARATORS: EVOLUTION OF FITNESS, 2007-2016



Senegal maintains competitiveness in **key crops and food sectors.** There is progress in domestically consumed crops, such as rice, and some progress in export-oriented crops, including tomatoes. Beverages, forestry, petroleum derivatives, and food show improvement to above 50-percentile of global competitiveness from 2007 to 2016. Fourteen of the 25 sectors analyzed improved in competitiveness, and only three sectors decreased substantially in competitiveness, a possible consequence of lifting some constraints through the Plan Sénégal Émergent, or Emerging Senegal Plan.

FIGURE B.2 EVOLUTION OF SENEGAL SECTOR FITNESS, 2007-2016

Sector fitness measures the level of within-sector diversification and the balance of more sophisticated product competitiveness relative to all other countries. The top decile (0.9-1) denotes world-class and diversified levels. Two snapshots are provided: 2016 (in blue) and 2007 (in black). The sectors are organized from the least complex oil and gas extraction at 12 p.m., counter clockwise in increasing complexity, to chemical, the most complex at 1 p.m.



Source: Tacchella and Cader 2018, World Development Indicators dataset, and IFC Global Macro and Market Research.

In Senegal, simple production dominates. The highest-volume growth products are on the low end of the complexity spectrum. Low complexity or simple production can be problematic as it means that many other low-income countries are competitive in the same industries and the endowments needed to compete successfully are available in most countries.[77]

In recent years, fitness improved based on increased diversification, but not an effective upgrading to higher complexity products and services. To overcome this, industries can leverage strategic gains to target value-addition. Processing of fresh agricultural produce into higher value-added products can benefit from continued alleviation of constraints. For example, in the tomato industry this would include better irrigation and less rain-fed dependence; better access to varieties and selection to reduce water content and processing costs; reduced import restrictions of processing machinery and more timely import procedures to reduce business risk of acquiring industrial machinery.

Data show there are opportunities in several sectors to develop over the next five years (table B). They include animal products; crops and food, such as vegetables, soups, and plants; wood products, including furniture; services tourism, including cultural activities and business travel; freight transport; chemicals, including fertilizers; extractives, including ores and cement. This confirms the role of agriculture and agro-industry, as well as the potential of tourism. Because the methodology is based on historical data, the oil and gas sector and the digital industry do not appear in the results.

TABLE B.2 OPPORTUNITIES OVERVIEW

		FUTURE PROGRESSION POTENTIAL	RELATIVELY LARGE BASE	OTHER FAST-GROWING
ANIMAL PRODUCTS		Cuttle fish, Tuna (prepared), Fish livers & Roes (fresh)	Frozen fish, whole (including tuna, sole, flatfish, dogfish, hake), Shrimp, (fresh & frozen), Frozen fish fillets Frozen invertebrates, Sheep/lamb leather	Prepared shellfish, Frozen fish fillets, Mollusks
CROPS AND FOOD		Fresh or frozen vegetables, Preserved tomatoes, Mustard, Beans	Soups and broths, Ground nuts, Cashews, Melons, Beans	Sweet potatoes, Salad celeriac & edible roots
WOOD PRODUCTS		Furniture		Plating Material
SERVICES		Cultural activities	Business travel, Telecom	
OTHER INDUSTRIES	**Chemicals**		Fertilizers	
	Extractives & processed minerals/ metals	Portland cement	Zirconium ores, Scrap (copper, cast iron, aluminum), Chemicals for fertilizers, Kaolin (clays)	Titanium ores, Cement clinkers, Scrap (batteries), Cold-rolled iron/steel coil, Iron/steel tubes, Copper wire
	Other		Synthetic beard, wigs, etc. Cotton, Plastic sheet/film	Rubber mats, Other footwear

Source : IFC

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NOTES

1 ANSD (2017)

2 World Bank Enterprise Survey data, 2014–15

3 According to the 2015 Enterprise Survey, between 2007 and 2014, the number of companies indicating that taxation is a major obstacle increased. According to the latest "Doing Business" report (2020), the time required to prepare, file and pay (or withhold) corporate income tax corporate, value added, sales and labor taxes, including charges and social contributions was 416 hours against 281 hours on average in sub-Saharan Africa. In terms of number in payments, Senegal is 53 against 36.6 for the regional average.

4 For an analysis of the economic history of Senegal, the evolution of adjustment programs, privatizations and other economic policy measures see Azam, Dia, and N'Guessan 2002 and Azam, Biais, and Dia 2004, as well as World Bank (1994, 2005).

5 World Bank (2019). Prévisions macroéconomiques sur la pauvreté.

6 In the case of Senegal, simulations based on a general equilibrium model indicate that by putting in places an antidiscrimination policy capable of reducing the average wage gap by 5 percentage points and to increase women's participation in the labor market by 8.6 percentage points, Senegal could increase its GDP by 5 percent and the level of tax revenue by 0.8 percent of GDP (IMF 2019b).

7 The weight of structural factors in explaining the recent economic performance, as well as the high growth of 1995–2005, is also borne out by a cross-country growth regression model. It indicates that structural factors—such as trade, infrastructure, financial intermediation, education, government size, and institutions — were key in explaining per capita growth (World Bank 2018a).

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9 This last point is analyzed in detail in the recent Systematic Country Diagnostic and is not repeated here.

10 Africa and Europe dominate as export destinations. In terms of destination countries, 44 percent of exports in 2017 went to Africa, with Mali as the main partner receiving 22 percent of exports. An estimated 27 percent went to Europe, including 8.2 percent to Switzerland, 3.3 percent to Italy, 4.3 percent to Spain, and 3 percent to France. An estimated 25 percent went to Asia, with India making up 12 percent of exports and China, 4.4 percent. Exports to the West African Economic and Monetary Union account for 26 percent to 30 percent. Those to the eurozone equaled about 12 percent to 13 percent, depending on the year.

11 The number of products exported at the three-digit Standardized Industrial Trade Classification, Rev. 3 level. Source: United Nations Conference on Trade and Development.

12 See the Observatory of Economic Complexity website, https://oec.world/en/profile/country/sen/.

13 On average 1.8 percent against 2.6 percent, 4.2 percent, and 2.6 percent, respectively, of GDP.

14 Most major French investor groups are present in Senegal and have large market shares in many sectors. They include Eramet, a mining and metallurgy company, which holds 50 percent of the Zircon mine and is involved in a joint venture to exploit titaniferous sands; the Compagnie Fruitière, which is involved in the production, transport, and distribution of fruit and vegetables; the Castel Group, which is involved in the drinks and table oil industry; Air Liquide, which supplies industrial gases and services to industries; Eiffage, which is engaged in the civil engineering and construction sectors; Total, which has 140 petrol stations and about 40 percent of the market; Casino and Auchan, which operates supermarkets; Decathlon, which has retail sport apparel businesses; Air France, which is involved in air transport; Accor, which provides hospitality services; Club Méditerranée, which is engaged in the tourism sector; Delmas, which is involved in the shipping sector; and call center companies, local banks, and insurance companies that are subsidiaries of Société Générale, BNP Paribas, AXA, and Gras Savoye.

15 The second-largest group of investors includes Switzerland, with Sika in chemicals, SGS in security, and Nestlé in agri-food, followed by the United Arab Emirates, with DP World in port operations and Workz Group in telecommunications. Other important foreign investors include: Luxembourg, with Millicom International Cellular SA in the telecommunications sector; Germany, with Bitzer in refrigeration, Sota Domus in construction, and Deutsche Post in DHL; the United States, with Mobil in petroleum, Colgate-Palmolive in consumer products, Parke-Davis in pharmaceuticals, and Citibank in banking; and Morocco, with Arksen in printing, Heliconia Group in helicopter services, Intelcia in professional services, Riad Motors Holding in vehicle assembly, and Attijari Wafa Bank in banking.

16 "Formal firms" are firms that maintain accounting based on a standardized system, such as SYSCOHADA, an accounting system of the Organisation pour l'Harmonisation en Afrique du Droit des Affaires (Organization for the Harmonization of Business Law in Africa).

17 Estimated resources were 330 million barrels of oil.

18 Estimated recoverable resources were 560 million barrels of oil and 2.4 trillion cubic feet of associated and non-associated gas, the equivalent of 400 million barrels of oil.

19 The domestic gas price from Greater Tortue Ahmeyim, an offshore liquefied natural gas project on the border of Mauritania and Senegal, will be the actual liquefied natural gas price minus the liquefaction cost. For example, the price will be about $5 per million British Thermal Units at the project's hub, eight kilometers offshore. The Sangomar Field Development (formerly SNE) domestic gas price would be about $6 per million British Thermal Units at the onshore gas treatment plant, to allow a 10 percent rate of return for the contractor. These prices would be competitive with HFO, but are relatively high compared to other producing countries, due to limited volumes and offshore conditions.

20 The Santiago Principles consist of 24 generally accepted and voluntary principles and practices approved by the members of the IFSWF (International Forum of Sovereign Wealth Funds). These principles promote transparency, good governance, responsibility, and prudent investment practices while encouraging a more open dialogue and a better understanding of the activities of sovereign wealth funds. The objectives of the Santiago Principles are: to (a) help maintain a global financial system with stable and free movement of capital and investments; (b) comply with all requirements, regulations, and disclosure applicable in the countries in which SWFs invest; (c) ensure that sovereign wealth funds invest on the basis of economic and financial risks and performance considerations; and (d) ensure that SWFs have put in place a transparent and solid governance that provides operational controls, risk management, and adequate accountability.

21 The 2014 enterprise survey covered 601 manufacturing and services firms in Dakar and three other locations (Kaolack, Thies, and Saint-Louis).

22 Respondents were asked to select the five most problematic factors to doing business and rank them from 1 to 5 the latter being more problematic. The score corresponds to the responses weighted by their ranking.

23 By 2017, the 89 autonomous public entities (57 agencies, 21 public health establishments, and 11 higher education institutions) had a total annual budget of close to 13.3 percent of GDP (Government of Senegal 2018b).

24 State-owned enterprises or public enterprises include public establishments of an industrial and commercial nature, national companies, and companies with majority public participation (Law No. 90-07 of June 26, 1990).

25 The principal state-owned enterprises include Senelec, the national electricity company; Dakar Dem Dikk, Dakar's public bus service; the Port of Dakar; and SONES, the national water utility. Senelec retains control over power transmission and distribution, although it relies increasingly on independent producers to generate power. The government has also retained control of the national oil company, Petrosen, which is involved in hydrocarbon exploration in partnership with foreign oil companies and operates a small refinery dependent on government subsidies (U.S. Department of State 2017).

26 The distance to frontier score captures the gap between an economy's performance and a measure of best practice across the entire sample of indicators for all the topics in the World Bank's Doing Business survey. An economy's distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier.

27 At a more disaggregated level, in Kaolack, all manufacturing companies complained about informality. Retail sector businesses in this region also tend to consider competition from informal enterprises to be a major or severe obstacle to their operations. In Thiès, more than 78 percent of businesses in the retail sector complained about informal practices. In Saint-Louis, more than 60 percent of companies in the manufacturing and services sector (excluding retail) said informality is a major barrier to their operations.

28 The methodology reviews policies and regulations on product markets in relation to state control, barriers to entry and rivalry, and barriers to trade and investment.

29 The Bertelsmann Stiftung Transformation Index analyzes and evaluates the progress of 129 developing countries and countries in transition toward democracy and market economies. Country experts assess how well these countries have met 17 criteria, on a range of 1 (minimal) to 10 (maximum).

30 Other sectors that seem to present competition issues or present a high risk of uncompetitive practices include groundnuts, cotton, fertilizers, edible oil, pharmaceuticals, cement, and telecommunications.

31 World Bank (2018f). De meilleurs marchés grâce à la politique de la concurrence ». Washington, D.C.

32 The community competition regime includes regulations on anticompetitive business practices and public state aid liable to distort competition within the West African Economic and Monetary Union. The anticompetitive practices prohibited within the West African Economic and Monetary Union are any intercompany agreement, association decision, or concerted practice with the purpose or effect of restricting or distorting free competition within the Union and abuse of a dominant position. Regulation No. 2/2002/CM/WAEMU, related to anticompetitive practices within the West African Economic and Monetary Union, and Regulation No. 3/2002/CM/WAEMU laid down relevant procedures. The latter prohibition also covers collusion between enterprises such as, for example, the merger of two or more previously independent enterprises that creates or strengthens a dominant position. The West African Economic and Monetary Union Competition Commission may declare these provisions inapplicable provided the anticompetitive practice helps improve the production and distribution of products and promotes technical and economic progress. These provisions also apply to public enterprises and those to which the West African Economic and Monetary Union grants special and exclusive rights. To enforce these, the West African Economic and Monetary Union can initiate proceedings ex officio or at the request of an interested party.

33 Aside from the National Competition Commission, there are a few sectoral regulators, including the Telecommunications and Postal Regulation Authority, the Public Procurement Regulation Authority, and the Electricity Sector Regulation Commission, whose oversight is restricted to specific sectors.

34 These numbers are for obtaining of a plot of land already registered. Evidence suggests that first registrations take longer, up to years in rural areas.

35 According to the SME Finance Forum, which can be viewed at https://www.smefinanceforum.org/data-sites/msme-finance-gap, the potential demand of credit of formal small-sized and medium-sized enterprises amounts to approximately $1.4 billion, for a current supply of $0.5 billion.

36 The number of banks increased from 21 in 2014 to 27 in 2017. The market is still concentrated, with the assets of the five largest banks amounting to 62.3 percent of total commercial banking assets in 2016 (Bankscope data) and the H index being 0.3 in 2014 (that is, the elasticity of banks revenues relative to input prices. Under perfect competition the H-statistic equals 1; under a monopoly it is less than or equal to 0).

37 Although comparisons are difficult, the ratio of microfinance loans to GDP in Senegal is estimated to be between 1 and 2 percent, while it stands at 4.4 percent in Vietnam and 3.6 percent in Kenya (IMF 2013 data).

38 Senegal ranks 91st at resolving insolvency in the World Bank's Doing Business survey, slightly better than the average 104th place of the countries of the West African Economic and Monetary Union. The country underperforms in most subindicators, including recovery rate, cost of the recovery process, recovery time, and reorganization proceedings.

39 WAEMU securities markets are regulated and controlled at the regional level by CREPMF (Regional Council for Public Savings and Financial Markets). It is at this level that the rules are set for Senegal's equity and debt issuers to participate in the securities markets. This note gives an overview of the main issues related to the region's capital markets and highlights those that the World Bank Group's Joint Capital Markets Program (J-CAP) will strive to resolve in order to promote increased private sector investment.

WAEMU has merged the local securities markets of the eight members of the zone, including Senegal, into a regional market regulated and supervised by a common regional authority. In addition to CREPMF, a regional stock exchange (BRVM), placed under the supervision of CREPMF, was created in 1998. Further, a unified auction system for the issuance of Treasury bills by the Regional Central Bank (Bank Central of West African States, BCEAO) was introduced in 2001.

Despite these laudable initiatives, capital market activities have grown in a limited way. Aside from the sovereign bond markets that steadily increased on the backdrop of higher debt-to-GDP ratios across the region, equity and private bonds compartment remained incipient.

Launched in June 2017, the World Bank's and IFC's Joint Capital Markets Program (J-CAP) affirms the commitment by the World Bank Group to expanding domestic capital markets to finance development in target countries and regions, one region being WAEMU. J-CAP completed a capital markets development diagnostic in WAEMU in 2017, and a list of action items for follow-up was identified. The diagnostic was endorsed by CREPMF and BCEAO.

The focus for J-CAP's work is to make WAEMU's nascent to basic regional securities markets attractive for local and international investors. This means working on several self-reinforcing reforms including (a) building insurance and pension funds' market access, (b) developing new instruments (REITS, private equity), (c) building the market supervision, and (d) aligning regulation of instruments with international standards. It also involves IFC seizing opportunities to launch sizable transactions: IFC investments in the first social bond and the first 15-year corporate bond in WAEMU were expected in FY19.

40 Three-quarters of the listed companies are from Côte d'Ivoire and accounted for about 80 percent of total market capitalization in 2017.

41 The West African Economic and Monetary Union mortgage refinancing company (Caisse Régionale de Refinancement Hypothécaire) and the West African Economic and Monetary Union's development bank (Banque Ouest Africaine de Développement). This reflects the relatively high sovereign interest rates and the absence of reliable yield curves, an issue that tends to be aggravated by the existence of a second regional sovereign bonds issuance system, hosted by the Bourse Régionale des Valeurs Mobilières.

42 The ratio of nonperforming loans is still very low, at 3 percent, but may increase as the portfolio matures.

43 In addition, FONGIP is currently seeking a license as a guarantee institution and is considering a future board composed of a majority of independent directors.

44 The rest is composed of credit to microfinance institutions, large companies, and individuals, including consumer and housing loans.

45 For more information about the World Bank Enterprise survey dataset, see the World Bank website at http://www.enterprisesurveys.org.

46 Although it should be noted that two independent directors have been appointed to the Board of Directors of Senelec in 2018.

47 Senegal's railway infrastructure network extends over 906 kilometers, including 151 kilometers of secondary lines. There is a long-haul metric gauge line connecting the cities of Dakar in Senegal and Bamako in Mali. Due to performance challenges, both governments have initiated dialogue to again privatize the rail corridor with public financing, eventually through International Development Association funds. The current impact of the rail on transport is marginal. Petit Train de Banlieue is a suburban rail passenger service operated by a publicly owned company, providing regular passenger service to about 25,000 travelers daily between the Senegalese cities of Dakar, Thiaroye, Thies, and Rufisque.

48 In 2015, Senegal's airport traffic reached 1.974 million passengers, up 3.5 percent from 2014, compared to global growth of 6.8 percent. Freight traffic hit about 36,000 metric tons, a 15 percent rise from the previous year. In 2017, Senegalese government officials celebrated the opening of a new airport, Blaise Diagne International, located about 45 kilometers from Dakar. The overall vision is to make the airport a regional hub. To foster this vision, the government has again decided to establish a public airline company—Air Senegal SA—the third national Senegalese airline since 2001. However, air travel in Africa, and in Senegal, remains expensive compared to other regions of the world.

49 Ministère des Infrastructures, des Transports terrestres et du Désenclavement, Ministère du Transport aérien, Ministre de la Pêche et de l'Economie maritime. Agencies and funds include L'Agence de gestion des routes, Fonds d'Entretien Routier Autonome, Le Conseil Exécutif des Transports Urbains de Dakar, Dakar Dem Dikk, Petit train de banlieue, and Agence Nationale des cheins de fer.

50 There are 16,495 kilometers of roads in Senegal, of which 5,956 kilometers are paved, lower than the average in low-income countries.

51 Only one-third of the population lives within 2 kilometers of a road usable regardless of the weather, and this percentage decreases away from the primary network.

52 The Memorandum of Understanding with Mali means that the vast majority of road transport on the corridor is provided by Malian trucks, which made up a 70 percent share of trucks at the Diamniadio weighing station in December 2016. The memorandum of understanding formalized the application of cargo allocation quotas in transit through the port of Dakar (two-thirds for Malian carriers, one-third for Senegalese carriers, hydrocarbons for Malians), and the application of the regional freight allocation quota (50/50 for Malian and Senegalese carriers), as well as the recent modernization of the Malian fleet.

53 With possible risks, however, related to the cost and legitimacy of such units.

54 Autorité de Régulation des Télécommunications et des Postes (ARTP) Statistics, 2019.

For mobile, see https://www.artpsenegal.net/sites/default/files/docs_observatoire/tb_mobile_30_sept_19.pdf.

For internet see https://www.artpsenegal.net/sites/default/files/docs_observatoire/tb_internet_30_sept_19.pdf.

55 Regulator estimates, see Jeune Afrique, https://www.jeuneafrique.com/874928/economie/ senegal-les-prix-de-la-telephonie-mobile-ontsignificativement- baisse-depuis-larrivee-de-free/.

56 Telegeography for bandwidth capacity and ITU for the number of internet users.

57 Telegeography.

https://www.commsupdate.com/articles/2019/08/27/senegal-announces-xof50bn-investment-in-fibre-network/ et https://www.adie.sn/projets/projet-national-large-bande

58 TowerXchange

59 See decision 2019-007 from ARTP at

https://www.artpsenegal.net/sites/default/files/docs_basics/ decision-ndeg2019-007_operateurs-puissants-2019.pdf.

60 According to ITU 2017 statistics, broadband internet access in Senegal costs 32.3 percent of monthly income per capita, compared to 16.5 percent in middle income countries.

61 Mobile Connectivity Index, GSMA, 2019. In terms of download speed on the high speed internet, Senegal scores 12.81 compared to 17.79 in SSA and 22.43 in middle-income countries.

62 Telegeography.

63 Global Entrepreneurship Monitor.

64 Kaolack should also diversify its local activities away from peanuts.

65 Groundnuts account for 50 percent of the total cropped area in Senegal, employ two-thirds of the rural population, and contribute to food security in rural areas as more than a third of the total production is self-consumed. Groundnuts also provide an important part of animal food with an important agronomic role through nitrogen fixing in the poor groundnut basin soils. Since the 1980s, the Senegalese groundnut sector has been plagued by challenges to shift its business model from groundnut oil and meal products to whole nuts. Distortive policies to keep alive the processing sector through massive public subsidies are progressively being removed through reforms, translating into stronger exports of nuts and investments in the value chain (World Bank 2018e).

66 Senegal's diversification in this segment can be explained in part by substantial investments in new export crops driven by EU investors looking to diversify their product sourcing (both tropical and counter-seasonal products) for the European market. For example, in 2011, a major melon producer in Spain, Ramafrut, began production operations in the Niayes region to supply the demand for melons and watermelons in the Spanish and EU markets between January and April.

67 In 2014, Auchan Senegal, a subsidiary of Auchan, a French multinational retail group headquartered in Croix, France, launched its business in Senegal, targeting middle-income and higher-income consumers in the country. Auchan now has more than 1,500 employees, a network of 25 shops in Dakar, Thies, and Mbour, and plans to double its presence by 2022. Auchan's strategy is to increasingly rely on local suppliers, especially for fresh fruits and vegetables, which it aims to locally source 100 percent. In 2018, Auchan worked with more than 300 local suppliers to build its capacity and meet the retailer's quality and quantity requirements.

68 Given the high risk of weather fluctuations in Senegal, there is a strong potential market for crop insurance and weather parametric/index insurance in the country. In 2007, the government of Senegal established Compagnie Nationale d'Assurance Agricole du Senegal, a specialized national crop insurance company, to provide farmers with an effective risk mitigation tool. Two years later, in 2009, the first agricultural risk assessment model and derived insurance products in Senegal were established. In 2012, IFC set up a Global Index Insurance Facility to support Compagnie Nationale d'Assurance Agricole du Senegal. As a result, Compagnie Nationale d'Assurance Agricole du Senegal has managed to grow its crop/index insurance book over time. In 2018, 206,936 farmers and herders had insurance coverage, including 115,279 farmers and herders who had index-based insurance contracts. With crop insurance gaining momentum as a genuine risk mitigation tool, it is expected that private insurance companies will gradually see a possibility to invest in this area.

69 By law, everything needs to be formalized using "hard" paperwork.

70 In 2014–15, labor costs were higher in Senegal than in many comparator countries in Africa. Yearly labor costs per worker were about $1,709 in Senegal, compared to $603 in Mali, $660 in Côte D'Ivoire, and $933 in Ethiopia (World Bank 2017a). However, such labor costs are still far lower in Senegal than in middle-income comparator countries ($4,567 in China, $4,927 in Morocco, and $8,572 in Brazil).

71 The government currently assigns students to schools when they apply through the public university platform. Top students go to public universities, while remaining students are placed in private institutions.

72 Data for 2018 is a forecast.

73 About 25 tour operators promote Senegal as a destination for travel, and about 15 airlines serve the country, including Air France, Royal Air Maroc, and Ethiopian Airlines, among others.

74 It is important to note that as early as 2015, the government of Senegal provided support. An Interministerial arrete instituted a derogatory tax and customs regime for promoters engaged in a housing construction program. This allows for a suspension then an exemption, of VAT and a reduction in other taxes and charges within certain limits set by the decree (Interdepartmental Decree implementing law number 2015-20).

75 Given prevalent poverty, most of the population cannot afford even the least-expensive houses. The least-expensive newly built home is a three-bedroom house built on 150 square meters in the Diamniadio suburb of Dakar. This sells for $22,600, requiring monthly payments of $154 for 15 years (CAHF 2018).

76 Economic fitness is based on the concept of hidden capabilities (A. Tacchella et. al. 2012). Productive structures are ever-changing interactions of economic, political, social, technological, and other less definable indicators. Some indicators are measurable: human capital, resource endowments, and governance. Others are more difficult to define even conceptually. Instead of trying to estimate each factor that influences competitiveness and productivity, economic fitness uses economic output as a proxy for a country's capability set. If a country can compete globally with other suppliers, then the country has the skills and inputs to make a given product. By understanding the combination of goods and services a country can produce competitively, it is possible to learn how developed its capability stock is without having to measure or define explicitly all of the abilities present within an economy. The analysis is based on trade data from 2007 to 2016.

77 Tomatoes provide a good example of practical constraints in Senegal. Tomato production should be more feasible than it is currently, but it suffers from several binding constraints. Post-harvest tomato losses reach about 20 percent of production, a significant cost. One-third of tomato production is double concentrated and 2,000 tons to 3,000 tons are dried. There are more than 1,500 processing companies, with only 600 of those companies meeting the threshold as formal enterprises. Growth constraints include infrastructure, including logistics; market failures, such as huge informality; and micro risks, such as lack of packaging. Investing in a new tomato-producing region of the country would be economical for Senegal, expanding the manufacturing of tomato-based processed goods and access to nearby markets.

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