

SYSTEMATIC COUNTRY DIAGNOSTIC OF SENEGAL

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This Systematic Country Diagnostic (SCD) has been produced by a World Bank Group (WBG) team co-led by Paolo Zacchia (EFI Program Leader), Federica Marzo (Senior Poverty Economist), and Aneliya Muller (Private Sector Development Consultant).

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ABBREVIATIONS AND ACRONYMS

| | |
|--------|---|
| ANPEJ | Youth Employment Promotion Agency (<i>Agence Nationale Pour la Promotion de l'Emploi des Jeunes</i>) |
| ASER | Senegalese Agency for Rural Electrification (<i>Agence Sénégalaise d'Electrification Rurale</i>) |
| BCEAO | Central Bank of West African States (<i>Banque Centrale des Etats de l'Afrique de l'Ouest</i>) |
| CCT | Conditional Cash Transfer |
| CDSMT | Medium Term Sector Expenditure Framework (<i>Cadre de Dépenses Sectoriel a Moyen Terme</i>) |
| CENAF | National Center for Women Assistance and Training (<i>Centre National d'Assistance et de Formation pour la Femme</i>) |
| CEQ | Commitment for Equity |
| CMU | Universal Health Insurance (<i>Couverture Maladie Universelle</i>) |
| CNCAS | National Fund for Agricultural Credit (<i>Caisse Nationale de Crédit Agricole du Sénégal</i>) |
| CoDB | Cost of Doing Business |
| CPIA | Country Policy and Institutional Assessment |
| DD | Demographic Dividend |
| DGID | General Directorate of Taxes and Government Property (<i>Direction Générale des Impôts et des Domaines</i>) |
| DSA | Debt Sustainability Analysis |
| DTP | Diphtheria, Pertussis, Tetanus |
| ECD | Early Childhood Development |
| ECOWAS | Economic Community of West African States |
| ESPS | Senegal National Survey of Poverty (<i>Enquête de suivi de la pauvreté au Sénégal</i>) |
| FCFA | Franc of the African Financial Community (<i>Franc de la Communauté Financière</i>) |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Products |
| GER | Gross Enrollment Rate |
| GTA | Grand Tortue Ahmeyin |
| HAZ | Height-For-Age Z-Scores |
| HIPC | Heavily Indebted Poor Countries |
| ICA | International Competitiveness Assessment |
| ICT | Information and Communication Technologies |
| IMF | International Monetary Fund |
| ISRA | Senegalese Institute for Agricultural Research (<i>Institut Sénégalais de Recherches Agricoles</i>) |
| IQ | Intelligence Quotient |
| LFPR | Labor Force Participation Rate |
| LG | Local Government |
| LMIC | Lower-Middle Income Country |

| | |
|---------|---|
| LOLF | Organic Law on Public Finance (<i>Loi Organique Relative aux Lois de Finances</i>) |
| MDG | Millennium Development Goals |
| NAPA | National Action Plan for Adaptation to Climate Change |
| NER | Net Enrollment Rate |
| NGO | Non-governmental Organization |
| OECD | Organization of Economic Cooperation and Development |
| OFNAC | Anti-corruption Commission (<i>Office National de Lutte Contre la Fraude et Corruption</i>) |
| PAQUET | Program for Quality, Equity, and Transparency Improvements in Education (<i>Programme d'Amélioration de la Qualité de l'Équité e de la Transparence Dans L'Éducation</i>) |
| PASEC | Program for the Analysis of the CONFEMEN Education Systems (<i>Programme d'Analyse des Systèmes Educatifs de la CONFEMEN</i>) |
| PDEF | Ten-Year Plan for Education and Training (<i>Plan Décennal de l'Éducation et Formation</i>) |
| PFM | Public Financial Management |
| PNBSF | National Program of Family Security Assistance (<i>Programme National de Bourses de Sécurité Familiale</i>) |
| PPP | Purchasing Power Parity |
| PSE | Plan for Emerging Senegal (<i>Plan Sénégal Émergent</i>) |
| R&D | Research and Development |
| SCD | Systematic Country Diagnostic |
| SENELEC | National Electricity Company of Senegal (<i>Société Nationale d'Electricité du Sénégal</i>) |
| SOE | State-owned Enterprises |
| SSA | Sub-Saharan Africa |
| TFP | Total Factor Productivity |
| ToT | Terms of Trade |
| TVET | Technical and Vocational Education and Training |
| US\$ | US Dollar |
| VAT | Value-added Tax |
| WAEMU | West African Economic and Monetary Union |
| WAZ | Weight-For-Age Z-Scores |
| WBG | World Bank Group |
| WDI | World Development Indicators |
| WGI | Worldwide Governance Indicators |

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EXECUTIVE SUMMARY

1. *This SCD argues that, against a historical backdrop of lackluster economic growth and poverty reduction, Senegal has progressively achieved since 2010 a structural turnaround in its economic performance, based on enhanced international competitiveness and, incipient demographic transition, with tangible impacts on poverty.*

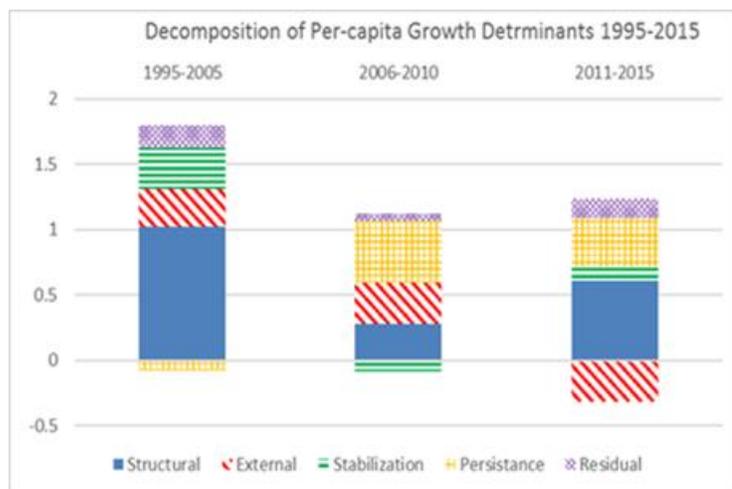
2. **On the back of improved international competitiveness and supported by a favorable external environment, after decades of sub-par growth, Senegal has been one of the fastest-growing economies in Sub-Saharan Africa (SSA).** Driven by progressively resurgent exports, the Senegalese economy has been expanding at more than 6 percent annually since 2015, when external conditions also became more



supportive, as global oil, commodities and food prices declined. Growth decomposition highlights the critical role of more competitive and diversified exports not only in the past three years, but starting from 2010, when the country reversed a historic trend of declining international competitiveness, although this positive effect was initially offset by large negative external shocks. The recent progress contrasts starkly with decades of paradoxically modest economic development, when Senegal's per capita GDP, almost uniquely in SSA, remained below its level at Independence, as the economy was persistently stifled by high vulnerability to shocks, weak productivity

and omnipresent informality.

3. **Higher growth is estimated to have reduced poverty.** Since 2011, when it stood at 47 percent (or 38 percent based on the international poverty line), poverty is estimated to have decreased by 4-7 percentage points (p.p.). Agriculture appears to have been one of the main drivers of this reduction, as it has registered low, but positive expansion with two exceptionally good years over 2015-17. At the same time, rural areas have witnessed some job reallocation out of the primary sector, as households diversified their livelihoods, tapping into a growing rural non-farm economy. Moreover, moderate improvements in general value added per agricultural worker reversed a negative trend of more than a decade, pointing to signs of nascent structural transformation. In urban areas, labor income among the poor has been boosted by growth in labor-intensive sectors, such as commerce and construction.



Note: The persistence effect roughly captures the growth inertia or 'echo' of structural improvements in preceding periods, reflecting the impact of positive, albeit modest, growth per capita in the earlier years.

Source: World Bank calculations based on National Accounts.

4. **The structural strengthening of the Senegalese economic competitiveness has been cumulatively driven by different waves of public investment and reforms, including recent punctual progress in economic management and governance.** As evidenced by a growth decomposition model, gradual structural reforms started in the early and mid-1990s helped lay a foundation for subsequent economic development by contributing to restore macroeconomic stability, opening the economy to private investment, and adjusting exchange rate imbalances. Following deteriorating economic management marking the period between 2005 and 2012, a new administration has pursued sounder macroeconomic policies, implemented critical infrastructural investment and initiated several reforms aimed at enhancing overall economic governance, the business environment and performance of specific sectors (such as liberalizing the groundnut market, opening up the energy sector to independent power producers and the cement sector to new private sector players, restructuring the Chemical Industries of Senegal, and liquidating a loss-making semi-public airline). As a result, between 2012 and 2015, Senegal experienced a significant improvement in several international governance indicators and appeared in 2015 in the list of the top ten Doing Business reformers.

5. *Despite the trend of structural improvements, the SCD shows that progress is still considerably fragile: Strong economic growth and the shift towards a diversified competitive economy will not be sustained unless the country addresses its policy implementation gap and increases the pace and depth of the still timid reform efforts to address long-standing structural constraints.*

6. **Against the background of enhanced economic competitiveness, Senegal's positive medium-term economic prospects hinge both on the Government's ability to remove entrenched structural bottlenecks and on the continuation of the current benign external environment for Senegal** Although robust, the recent economic performance already falls short of the ambitious GDP growth targets set by the Plan for Emerging Senegal (*Plan Senegal Emergent - PSE*) in the range of 7.6 and 8.0 percent for 2016 and 2017, respectively. Achieving these objectives, or even sustaining the current high growth rates, will require all growth drivers to point simultaneously in the same direction. As structural factors explain most of the differential between past high and low growth periods, to consolidate the new trend, it will be critical to move beyond the first wave of punctual reforms and address particularly challenging remaining policy bottlenecks. The constraints analysis laid out in this SCD proposes a list of the most critical of these obstacles to inclusive growth. Moreover, since late 2014, Senegal has benefited from low international oil, commodity and food prices, recovery in European and global markets, low global interest and inflation rates, and weakening of the FCFA against the US\$. A reversal of some of these supportive external conditions would put an extra premium on macroeconomic and structural policies aimed at boosting economic growth.

7. **The prospects for the Senegalese economy are also shaped by recent discoveries of offshore oil and gas deposits, although their potential positive impact will critically depend on the level of international prices for these resources and on the ability of the country's institutions to avoid the resource curse.** The SNE deep offshore oil field is expected to start producing around 2021-2022, with an estimated life of around 25 years. The maximum daily production is estimated at around 100,000 bpd, which is in the same league as Ghana, but much lower than major African producers, such as Nigeria and Angola, which hover around 2 million bpd daily production. This level of output is expected to generate government revenues between 0 and 3.8 percent of GDP annually, depending on global oil prices and the cost of extraction, with a baseline scenario (\$60 per barrel) of 1.6 percent of GDP annually, equivalent to around USD 270 million. The recently discovered Grand Tortue Ahmeyin (GTA) ultra-deep offshore gas field, shared with Mauritania, is expected to have a productive life of round 30 years. In the best-case scenario, it could start producing around 2022, although international track record points to longer development time for the cross-border projects of this type, and generate average annual revenues for government coffers of between 0.8 and 4.8 percent of GDP. Experiences from resource-rich countries suggest that opportunities for economic development and diversification provided by large-scale production of oil and gas are challenging to exploit. If well managed, they can help accelerate economic diversification and growth, accumulate human and physical capital and alleviate poverty. However, more often than not, they result in a *resource curse* or

resource paradox, wherein weak sector management and existing cracks in the governance framework, coupled with international price volatility and deceleration of other productive sectors, can potentially lead to poor economic performance, high inequality and rising social tensions.

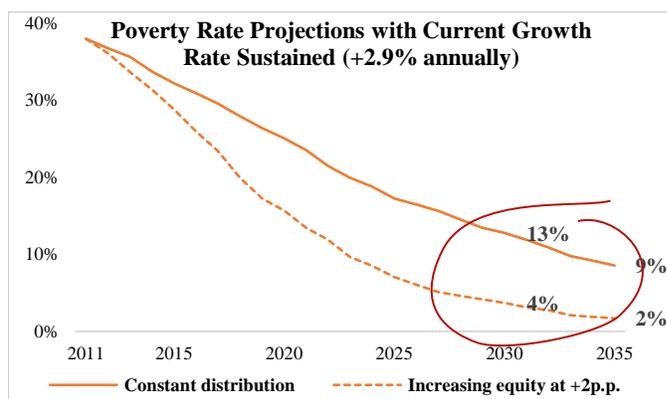
8. *The analysis in this SCD indicates that notwithstanding the reduction in poverty by 4-7 percentage points since 2011, economic growth has not translated into the reduction of inequalities, even in the most recent years, suggesting its insufficiently pro-poor orientation. With the current distributional pattern of welfare, sustained high growth rates would not enable the eradication of extreme poverty by 2030, highlighting the importance of policies that improve the inclusiveness of growth, and the equity of the resources distribution.*

9. The past decade has witnessed limited progress in reducing monetary inequality, indicating that economic growth has been insufficiently pro-poor. The consumption share of the bottom 40 percent of the population stagnated between 2001 and 2005, marginally declining afterwards, between 2005 and 2011. Over the same period, the Gini coefficient, measuring inequality, has been equally resistant to change, stabilizing at around 0.40, close to the SSA average, while inequality of assets has actually become more pronounced between 2011 and 2016, especially in rural areas.

10. The evolution of key non-monetary poverty indicators has been similarly patchy, with stellar performances in some areas amid disappointing outcomes in others, marked by pronounced spatial and socio-economic inequalities. Senegal's electricity access rate of 64.5 percent is over 20 percent higher than the SSA average of 42.8 percent (WDI, 2016). No less impressive is the country's nearly universal safe water access rate, standing at 92 percent nationally and at 98 percent in urban areas, positioning Senegal above all its neighbors. This progress has been matched by comparably solid outcomes in selected health areas, especially life expectancy (67 years in 2016 ahead of SSA average of 60) and infant mortality (34 per 1,000 live births in 2016 against 53 in SSA). Other indicators, however, continue to lag behind with notable examples of maternal health, nutrition and education, access and quality of which continue to pose serious challenges to the country that aspires to the emerging status and innovation driven economy. Low enrolment, completion, and high repetition rates in the formal education system result in Senegal's adult and youth literacy rates being the lowest across comparator countries, which poses a serious problem for the country's services-led growth strategy and questions the policy design and implementation in this critical sector. At the same time, employment indicators point to challenging labor markets, marked by high inactivity and underemployment rates, especially among the poor, and weak job creation in the formal sector. Persistent regional disparities are equally evident, with rural areas lagging behind their urban counterparts on a wide range of non-monetary indicators, such as access rates to energy and sanitation. More specifically and worryingly, the access to basic services and infrastructure in the poorest regions has failed to increase at higher rates than in more prosperous areas, underscoring the pronounced pattern of uneven spatial development and persistently high vulnerability to shocks in those areas. For instance, in the region of Kolda, in Casamance, stricken by a high poverty incidence, the growth rates of access to electricity and sanitation were much lower than in more prosperous regions (in fact, the rates were negative between 2011 and 2016), while access to piped water only increased by 2 percent against a national average of 7 percent.

11. Despite the encouraging evolution of demographic trends, including a decreasing dependency ratio and an increasing labor force, Senegal is only partially taking advantage of its incipient demographic dividend, which has accounted for mere 0.5 p.p. of the per capita GDP growth since 2000. Besides still high, albeit decreasing, fertility rate at 4.8 in 2016, slow job creation among the youth is another key constraint for Senegal to leverage its demographic transition. As many as 300,000 young people enter the labor market every year, but their productive contribution to the economy is stifled, as they face very limited economic opportunities, showing the highest unemployment rate at 9 percent (against a national average of 6.1 percent), as well as high inactivity and underemployment rates, respectively at almost 60 and 22 percent. The demographic dividend is equally constrained by lagging, although

improving, results in terms of maternal and reproductive health, as well as important and persistent gender inequalities in accessing basic services and productive inputs, hampering women's capacity to accumulate human capital and pursue economic opportunities.



Source: World Bank staff calculations.

12. With the current level and pattern of inequality, the continuation of recent high growth rates could bring down extreme poverty incidence to around 13 percent by 2030, far from the goal of below 3 percent. Even assuming the higher annual GDP growth rates of 8 percent originally targeted by the PSE, neither by 2030 (WBG twin goals timeframe), nor by 2035 (the PSE timeframe) would Senegal be in a position to eradicate extreme poverty, if the current distribution of welfare is maintained. Hence, to identify binding constraints this SCD

takes a closer look at the issue of inclusiveness by scrutinizing the link between growth, livelihoods and job opportunities for the poor, and by analyzing bottlenecks to the equitable distribution of public resources and private rents.

13. The SCD identifies FOUR main constraint areas to inclusive growth and equity, THREE major constraints to the sustainability of this inclusive growth and TWO underlying institutional constraints.



14. Senegal's FOUR main constraints to become an emerging, diversified, competitive and equitable economy, as envisaged in the Plan Senegal Emergent are as follows.

15. First, the lack of a level playing field in the private sector, resulting from distorting policies and uneven public regulatory and enforcement capacity remains a key stumbling block for the emergence of a vibrant business environment, competitive markets, and the emergence of the new digital economy. Distortive state interventions and limited competition are especially damaging in *agriculture* and *food*

production, both critical for the livelihoods of the poor, and in the *information and communication technologies* (ICT) sector, instrumental for the thriving development of labor-intensive small and medium enterprises, as well as for leveraging the new drivers of the digital economy. In ICT, despite a high digital potential, access to Internet broadband services remains limited, unequal and costly, stifled by weak competition and innovation, restrictive regulations, and a limited capacity for digital service delivery by the Government. In agriculture, the development of which is underscored by weak productivity, a wide range of issues, such as administrative price policies, inefficient public subsidies, restrictive land regulations and weak agricultural credit markets, contribute to key policy distortions. Another important factor, limiting the scope for productive private investment and job creation is an uneven and inconsistent application of *tax regulations*, particularly to big pseudo-formal enterprises of the de facto *hidden or informal* economy leveraging their size and social capital to bypass fiscal obligations.

16. Structural reform areas to address these constraints could include the following: (i) revising state interventions in agriculture and livestock coupled with enhancing the composition and transparency of public expenditure in those sectors, including subsidies; (ii) strengthening capacity, autonomy and governance of relevant regulatory authorities (particularly in the ICT sector); (iii) addressing paralyzed national competition enforcement framework; (iv) reviewing protectionist measures given to critical staple food industries; (v) ensuring fair and uniform enforcement of tax regulations, including through greater dematerialization of tax transactions.

Prioritization Approach

The identification of priority constraints to the achievement of the twin goals was based on a three-step process, supported by extensive consultations with various stakeholders and deep engagement with the World Bank country experts:

- 1. An analytical prioritization framework - organized under the three pillars of inclusive growth, equitable resources distribution and sustainability - was used to evaluate the criticality of constraints based on their respective poverty impacts. This exercise was grounded in available quantitative and qualitative metrics and informed by extensive consultations, resulting in a shortlist of binding constraints.*
- 2. Each of the selected constraints was then analyzed through the prism of underpinning policy and institutional issues.*
- 3. At the concluding stage, all selected constraints were further consolidated into critical priority areas to account for common underlying factors.*

17. Second, critical challenges remain in ensuring accessibility and affordability of key inputs, such as energy and land.

Despite significant improvements of the past few years in terms of utility performance, expensive and unreliable electricity as well as its limited coverage in rural areas is still widely seen as a key constraint to improving the competitiveness of the Senegalese economy, while restrictive and archaic land regulations continue stifling agricultural productivity, private sector investment and access to credit (as land is widely used as a form of collateral). According to the five-year averages of the World Bank Doing Business Report, both constraints have systematically emerged in the top three of the most problematic factors of the business environment in Senegal (after paying taxes).

18. Structural reforms to address the energy constraints could build on the following measures: (i) improving the corporate governance of the National Electricity Company of Senegal (*Société Nationale d'Electricité du Sénégal* – SENELEC) by enhancing the representativeness and independence of its Board, strengthening the capacity and autonomy of the sector regulator and subjecting SENELEC to stronger market discipline; (ii) enhancing sector policy coordination between the Energy and Oil Ministry, the Finance Ministry, the regulator and the utility, particularly on strategic sector planning issues, such as gas-to-power options, and sector financial arrangements related to the timely payment of financial obligations to SENELEC by state entities; (iii) reviewing the institutional set-up of the rural concession model, clarifying the financing plan for universal electricity access, while addressing the weaknesses in the operational effectiveness of the Senegalese Agency for Rural Electrification. Structural reforms to address the land constraints could encompass the following: (i) gradually transforming the current occupancy rights

of rural dwellers into real rights, allowing some level of controlled market transferability, while protecting pastoral, fishing and forest areas; *(ii)* investing in land management instruments by land offices, and finding the appropriate balance between local communities management and central state oversight of land transactions; *(iii)* continuing streamlining urban land registration.

19. Third, insufficient efficiency and equity in social policies and expenditures constrain the development of productive human capital and skills for the labor market, and reduce the poverty reduction impacts of public social spending. Insufficiently effective programs to equip the increasing numbers of unskilled youth for productive employment are a major constraint to the inclusiveness of growth. At the same time, weak or unfinished implementation of key reforms with respect to basic and technical education, and lagging outcomes in child, maternal and reproductive health undermine Senegal's ability to build a strong and inclusive human capital base for its long-term development. Finally, the permanence of regressive programs and untargeted subsidies, such as energy and agricultural subsidies, and limited funding of existing, better-targeted, pro-poor social assistance interventions erode the overall equity of public expenditures, as well as their poverty reducing effects.

20. Potential reform areas to address these constraints from the supply side include: *(i)* implementing a long overdue reform of the technical and vocational education and training (TVET), and developing a comprehensive approach to youth employment, addressing both the skills and non-skills constraints identified in the diagnostics to facilitate their transition to the labor market; *(ii)* rationalizing and clarifying the institutional framework of various actors operating in the domain of life-long skills acquisition to overcome the existing institutional fragmentation, which generates coordination failures and harms both effectiveness and efficiency of public expenditure; *(iii)* further embracing the duality created by the formal and informal dimensions of education and skills acquisition to consolidate the creation of a hybrid, locally rooted system, able to meet to needs of both families and labor markets; *(iv)* capitalizing on the newly adopted results-based budgeting approach to introduce equity targets as part of performance targets associated with each expenditure program.

21. Fourth, the rigidity and high cost in the labor market are hampering the development of a formal labor-intensive tradable sector that can support job-creating growth. The comparatively high formal wages, cost of production and rigid labor market regulations are particularly detrimental for Senegal's international competitiveness under the current monetary arrangements, possibly limiting the country's attractiveness for foreign direct investments (FDI) as well as its capacity to create formal jobs.

22. Reforming labor markets is always politically and socially sensitive, and requires striking the right balance between the interests of firms and employees. Senegal can, however, benefit from the models of other countries in the West African Economic and Monetary Union (WAEMU), most of which have more flexible labor markets, and of those of other civil law countries, which, over the past few years, have been reforming less employment-creation-friendly aspects of their labor market frameworks.

23. THREE important sustainability risks are identified, compounding the above challenges, and threatening Senegal's development path.

24 First, in a context of sound macroeconomic fundamentals¹ and low level of risk of debt distress, the management of the newly discovered oil and gas resources emerges as an opportunity, but also as the main macroeconomic risk. These resources can subject the country to serious upstream and downstream risks, associated with the fiscal impact of international prices fluctuations, skewed public

¹ Fiscal vulnerabilities emerged in 2017, linked to frozen domestic energy prices in a context of rising international oil prices, which reduced fiscal revenues and increased energy subsidies. These vulnerabilities would remain in 2018, but the Government still expects the fiscal deficit to attain 3.0 percent of GDP in 2019 – in line with WAEMU guidelines – due to measures to increase fiscal revenues and reduce expenditures.

expenditures, a wide range of social and environmental costs, and deteriorating governance, widely known as a ‘resource curse’ that a majority of resource-rich countries have historically failed to avoid.

25. Addressing these risks requires an ambitious menu of complementary measures, including, but not limited to: (i) adopting cautious revenues management rules to calibrate and smooth the flow of extractives revenues to be spent, while committing to a strong fiscal anchor and limiting the possibility of advance borrowing of the resources flow; (ii) strengthening public financial management (PFM) and public investment management systems and processes to ensure effective and efficient use of upcoming resource wealth; (iii) prioritizing the use of these resources for well-managed investments in human and physical capital, and sequencing spending based on the country’s absorptive capacity; (iv) enhancing the independence, mandate and transparency of national oversight institutions, prior to the exploitation of resources, and committing to external oversight mechanisms; (v) pursuing open and candid communication with the population and engagement with civil society organizations about potential impacts of the sector and its management.

26. Second, Senegal, as a Sahelian and coastal country, remains exceedingly vulnerable to the effects of climate change and environmental shocks that disproportionately impact the poor mainly through decreased agricultural productivity, food price shocks, coastal erosion and flooding of cities, rural and touristic areas, and associated health hazards.

27. Potential solution areas to address these risks include the following: (i) specific disaster risk mitigation and climate change adaptation policies in all affected sectors, such as those already planned in the domain of the adaptive social protection, agriculture, coastal risk management; (ii) a comprehensive national strategy for disaster risk management that builds on what is already existing on flood risk, coupled with strengthening of the institutional, operational, and financial frameworks for adaptation and risk reduction; (iii) the production of data and estimates of potential climate change and disaster impacts, as a contribution to improved development planning and ex-ante financial allocations.

28. Third, in the context of inadequate skills, amplified by labor market imperfections, marked inequities in access to basic services and stifling social norms, the youth bulge risks fueling grievances over its economic and social exclusion. Growing regional instability and mounting transnational stressors, such as extremism and religious radicalization, serve as an explosive background, compounding this risk.

29. Effective solutions could be provided by some integrated approaches, such as: (i) second chance education programs for the marginalized youth with a focus on crosscutting life skills, aimed at improving soft skills and citizenships values, self-esteem and the capacity to build and follow a life plan; (ii) policies aimed at improving the employability of the youth at-risk coupled with socialization programs; (iii) community based mechanisms to define, identify and address social exclusion.

30. Addressing these complex structural issues and emerging systemic risks in Senegal is further complicated by TWO underlying formal and informal institutional constraints, limiting both reform implementation at the national level and the empowerment of communities and individuals at the grassroots level.

31. First, as evidenced both by the SCD consultations and by the political economy literature on Senegal, the design and effective implementation of progressive structural reforms and equitable service delivery have systematically come up against an interlocking web of vested interests. The patrimonial arrangements largely defining the post-Independence political settlement have expanded over time beyond traditional religious leaders to include other locally influential intermediaries and foreign actors. These underpinnings have proved resilient to the political transformations witnessed thereafter, and continue to be firmly anchored in clientelistic networks, which have significantly impacted electoral competition and participation in Senegal. As a result, the political landscape is now dominated by coalitions focused principally on consolidating voter support. Given often-limited divergence on substance or ideology, these coalitions are subject to frequent mergers, divisions and reorganizations. These dynamics

have arguably worked to undermine the design and implementation of structural reforms and equitable service delivery, also leading to the fragmentation of the public policy space into a myriad of partially overlapping institutions, many of which are just squabbling for some level of rent extraction. This renders cohesive policy formulation and effective reform implementation problematic, underlying the centrality of the issues of consistency and credibility of policy-making in Senegal.

32. Based on the existing policy research by the World Bank, the SCD suggests that, for an improved policy design and consistent implementation, Senegal needs to courageously embark in specific governance reforms to enhance both transparency and effective citizens' political engagement. There is significant scope in Senegal to enhance transparency and information sharing, both in the public sphere through better legal and practical access to information, and in the administration through enhanced civil service autonomy. Citizens in Senegal do not face many constraints to political participation, but the centralization of power in the executive branch at the expense of the legislative and judiciary branches and of local governments, makes genuine political participation less meaningful. Therefore, re-balancing power between the branches and levels of government could open space for stronger citizens' political participation.

33 Second, some deeply rooted inhibitory social norms and practices, although evolving, continue to directly affect behaviors and choices of some groups of population, notably women and the youth, or indirectly shape social expectations about them, creating a restrictive environment for their full inclusion in the growth process. Social norms often respond to specific needs, such as those emerging from the lack of formal social protection or of safety. Notwithstanding their benefits, some of them end up penalizing vulnerable groups. In particular, restrictive gendered social norms still limit women's agency, especially among poorer segments of society, affecting their marriage age and reproductive choices, decisions to seek medical assistance or capacity to fully participate in the economy, as reflected in very low rates of female labor force participation. The youth also suffers from social norms that impact their ability to make life choices, with families taking decisions as part of their overall strategies. While economic development and rising opportunities have proven to be very effective in making social norms evolve in the long term, in the short and medium-term community-targeted actions can be implemented to accompany and facilitate cultural shifts, including through local elites. In particular, the systematic involvement of local leaders is key when restrictive norms persist because of the existence of unbalanced power relationships, where certain individuals benefit from norms at the disadvantage of others and are therefore reticent to promote or accept changes in the status quo.

34 Summing up, the constraints and solution areas identified by the SCD delineate three main pathways to poverty reduction and increased shared prosperity in Senegal.

- *Boosting Senegal's Competitiveness* to ensure a dynamic private-sector led growth and capitalize on the growing young urban population by focusing on reforms of the fiscal and monetary frameworks and improvements of the business environment as well as measures aimed at an increased and equitable availability of productive inputs, such as skills and land, and improved critical infrastructure, including energy and ICT;
- *Enhancing Equity and Resilience* by unlocking the economic potential of non-extractive natural resources, including agriculture and livestock, from which most of the poor still derive their livelihoods, while enhancing the ability of the population in rural areas to engage in the growth process and cope with shocks through appropriate government support allowing for the accumulation and protection of their asset base;
- *Managing Risks Associated with Natural Resources* by addressing the perils inherent in the nascent oil and gas sector, particularly the 'resource curse' and potential erosion of the competitiveness of labor-intensive exports, as well as diverse impacts of the climate change, threatening to erase years of progress in poverty reduction.

INTRODUCTION

1. **Senegal is a beacon of stability, political liberty and cultural influence in West Africa and beyond.** The westernmost country in Africa, since independence Senegal has benefitted from civilian rule and political stability. It is the only country in continental West Africa that has never experienced a coup-d'état and has enjoyed expanding democratic freedoms since the reintroduction of the multi-party democracy in 1976. It has been led by enlightened statesmen, whose cultural and diplomatic influence has extended much beyond the country's borders and has ensured broader political and financial support from the international community. Domestically, the traditional form of Sufi Islam has provided for a substantial social stability, strong cultural identity and laid the foundations for inter-confessional and inter-ethnic harmony.
2. **Beyond its glowing reputation, Senegal is a complex society marked by overlapping dualities, which underpin its acclaimed stability and influence its economic and social outcomes.** Independent Senegal emerged as a centralized republic, where leaders had to seek political endorsement from powerful religious orders with deeply embedded and widely recognized legitimacy. The emerging independent state bureaucracy and the education system used French as their sole official language, while Wolof became more dominant among the population, and was accompanied by the diffusion of the Arabic script, gaining prominence with Koranic alphabetization. The private sector has developed its own duality with a small formal sector dominated by foreign companies and a large informal sector closely linked to local and religious networks. Central and local political elites mostly operate in separate spheres of influence, but are connected through a clientelistic electoral relationship to survive in a relatively open electoral process. Civil servants and formal sector workers formed tenacious unions, while most informal workers and farmers found protection in traditional systems of solidarity and authority. Infused by an overarching culture of tolerance, these overlapping dualities created a complex web of interlocking power groups which have brought a high level of social and political stability, but have also evolved into a layered rent seeking apparatus, able to negotiate its influence in the electoral politics, effectively stifle inimical reforms initiatives, and impede incentives to innovate².
3. **Apart from sociopolitical stability, the country has several other important assets to leverage for its economic and social development.** Senegal benefits from a strategic coastal location which places it close to the European and North American markets and makes it a gateway for some of the landlocked countries in West Africa, such as Mali. This position is further strengthened by close regional ties, forged through Senegal's membership in the West African Economic and Monetary Union (WAEMU) and in the sub-regional Free Trade area in West Africa (ECOWAS). The agro-ecological conditions are relatively favorable - the country enjoys a mild ocean climate along its south and central coasts, several types of soil suitable for cereal and horticultural crops, an important and under exploited hydraulic potential, and an ability to produce during European winter. Moreover, Senegal is also well positioned to capitalize on its high urbanization rates. With almost half of its population living in cities, the country is ahead of the average urbanization rate in SSA of around 40 percent (WDI, 2016). Coupled with a sizeable diaspora providing skills, networks in Europe and North America, and remittances³, all these assets should be conducive to solid socio-economic development.

² Jean Bossuyt and Ismaila Madior Fall (2013). *Analyse d'économie politique au Sénégal: Dans quelle mesure le cadre global de la gouvernance au Sénégal est-il réformable?* The European Union. Available at: <http://ecdpm.org/wp-content/uploads/Analyse-Economie-Politique-Senegal.pdf>.

³ More than half a million Senegalese live outside their homeland, sending back more than US\$1.64 billion a year in remittances to their families, according to International Organization for Migration figures.

4. **Paradoxically, notwithstanding these significant assets, Senegal has historically experienced lower economic growth than most other SSA countries.** Senegal GDP growth in the past has been consistently below the average of SSA and emerging and developing countries⁴, with substantial annual variations associated chiefly with the country's significant vulnerability to climatic and exogenous shocks. In fact, Senegal is one of the few countries on the continent, whose real GDP per capita was, until recently, lower than its level at independence in 1960. Senegal's economy has felt, throughout the years, the brunt of successive economic shocks, from poor rainfall and high prices volatility for commodity, food and capital, to the global financial crisis. On the other hand, membership in WAEMU and the presence of the common currency, CFA franc, although depriving authorities of control over their monetary policy and tying them to economies with a different profile, have allowed a higher degree of fiscal and price stability compared to other SSA countries.

5. **As a result of its weak long-term growth performance, Senegal remains one of the countries with the highest monetary poverty rate in the world (27th rank from the bottom based on Purchasing Power Parity - PPP US\$ 1.90 a day⁵), with stagnating inequality and persistently uneven progress in non-monetary poverty.** Due to a relatively poor growth, long-term performance and high population growth (at about 2.5 percent annually in 1988-2013, as per inter-census data), monetary poverty in Senegal affects almost half of its population, standing at 46.7 percent in 2011, according to the latest official survey. Interestingly, inequality has not evolved, stabilizing at a moderately high level. With respect to other dimensions of deprivation, Senegal has made significant progress in some areas, including being a top performer in the access to water and electricity as well as in certain health sub-sectors, but still lags behind in other sectors. Particularly worrisome is a weak and inequitable education system. In this respect, the country still displays poor results and very low levels of learning, even when compared to the rest of SSA. Its gross primary enrolment increased slightly to 83.1 in 2016 (compared to 97.3 and 106.4 percent respectively in SSA and lower-middle income countries - LMIC)⁶, while a net primary enrolment rate has been stagnating at slightly above 70 percent since 2011 (with adjusted net primary enrollment rate of 72.3 percent in 2016). Coupled with poor labor market dynamics, particularly disadvantaging women, this prevents the country from leveraging the potential for a demographic dividend. These trends also stand behind Senegal's large emigration flows, which have soared since the early 2000s, with estimations ranging from 500,000 to 700,000 Senegalese living abroad.

6. **To address Senegal's economic and social challenges, President Macky Sall launched the PSE, which comprehensively identifies key constraints to the country's development.** Macky Sall was elected in 2012, on the back of a large civil society movement against the regime of former president Abdoulaye Wade. He inherited a sluggish economy with a debt-to-GDP ratio of 45 percent and a fiscal deficit of 6.7 percent of GDP and immediately committed to restore sound macroeconomic management. The reform process accelerated in 2014 with the launch of the PSE, which is now the accepted blueprint for the country's development, setting the objective of reaching a growth rate of 8 percent by 2018 and achieving an emerging market status by 2035.

7. **Since 2015, the country has achieved much higher economic growth, which is estimated to have led to accelerated poverty reduction.** For the first time since 2003, the Senegalese economy has been expanding faster than 6 percent annually from 2015 to 2017. Similarly, the economy expanded 6.1 percent in the first semester of 2018, according to the General Activity Index (IGA). The growth has been largely driven by solid performance in industry and agriculture as well as by strong exports and a virtuous fiscal policy, but has also benefited from low oil prices and favorable climate and external conditions. As a result, recent simulations suggest poverty incidence may have decreased by 4 to 7 p.p. between 2011 and

⁴ Real GDP per capita has only increased by 17 percent in Senegal since 1990, against 45 percent on average in SSA and 134 percent in emerging and developing countries

⁵ World Bank, World Development Indicators (WDI), 2018.

⁶ WDI 2015.

2016. Looking forward, in a few years Senegal will be in a position to benefit from the recent discoveries of large reserves of oil and gas. However, this could be a double-edged development, providing the Government with pathways to either accelerate its growth or, on the contrary, to fall into a ‘resource curse trap’.

8. **The SCD argues that the recent acceleration of growth is a result of a structural turnaround in the country’s competitiveness that started around 2010 and emerged more visibly since 2015 on the back of a favorable international economic environment.** Since around 2010, Senegal reversed its secular loss of international competitiveness, and a more diversified exports base started to rebalance its growth drivers, leading to accelerated growth rates of the past few years in the context of a conducive external environment. The structural strengthening of the Senegalese economic competitiveness appears to be cumulatively driven by reforms dating back to the early 1990s and reinforced after the 1994 currency devaluation, as well as more recent reforms in economic management and governance since 2012 and critical infrastructural investments.

9. **Alongside the turnaround in growth, Senegal is also slowly evolving towards a more integrated society, with a broader and more active middle class, technology-oriented youth, and hybrid forms of integration of various overlapping dualities, however these trends are also creating new forms of exclusion and social pressure points.** Although the inherently heterogeneous dualities observed historically in different areas and in different forms appeared static for a long time, for the past two decades they have been evolving in a more hybrid system. The private sector has witnessed an emergence of a distinctive category of pseudo-formal enterprises adopting a formal interface for their still largely informal operations. In education, the convergence between Koranic and secular schools is starting to happen to meet the multifaceted expectations of families - a growing number of Koranic schools are expressing interest in including numeracy and French literacy modules into their teaching, while many secular schools now include Arabic literacy modules. Young, cosmopolitan women from the educated urban elite have progressively positioned themselves on a more equal ground, challenging deeply rooted social norms that are still binding women in more traditional and poor settings. While local religious networks have expanded in urban areas more than previously, part of the urban youth, seems to be slowly drifting away from them, developing new affiliations, especially in light of migratory movements, accessible technologies and widely spreading middle class aspirations. However, in some cases this departure from the “roots”, coupled with inadequate skills and poor employment opportunities, have created fertile preconditions for alienation, and perceived social and economic exclusion.

10. **The sustainability and inclusiveness of Senegal’s newly found economic dynamism and incipient structural transformation, given its modest development outcomes of the past, serves as a background for the SCD analysis of binding constraints to shared prosperity and poverty reduction in the country.** The constraints analysis of this SCD is focused on understanding the sustainability and inclusiveness of recent economic and social gains by identifying enduring structural weaknesses that need to be critically addressed to meet the World Bank Group (WBG) twin goals of shared prosperity and poverty reduction. This is particularly timely, as the robust growth rates of 2016 and 2017 already fell short of the PSE ambitions by more than one percentage point per year. Moreover, inequality is estimated to have stagnated over the last years, making the issue of inclusiveness more prominent for future economic and social emergence.

11. **This SCD will serve as an independent analytical foundation for the next WBG Country Partnership Strategy, but will hopefully also inform the broader public debate on inclusive growth in Senegal.** The report aims to provide an input to the next five-year priority action plan of the PSE implementation by bringing some specificity to the critical policy and institutional underpinnings of the identified constraints. In particular, in view of disappointing long-term trends, the SCD aims to go beyond ‘technocratic’ solutions, and to identify underlying causes of the Senegalese ‘development paradox’. In this context, the SCD strives to examine the complexities and synergies of various underlying issues,

highlighting the multi-dimensionality of different concurring factors leading to the country's current performance.

12. To achieve the stated objectives, this SCD adopts a structured approach to the identification and prioritization of constraints and solution areas.

- In its first part, the SCD provides an overview of main trends in the country's growth, poverty, governance and climate change dynamics. This serves as a stocktaking basis for identifying and structuring a long list of preliminary hypotheses around main development constraints.
- In the second part, an analytical prioritization framework based on a range of quantitative and qualitative metrics is used to identify a shortlist of binding / priority constraints according to their impact on the poverty reduction.
- Subsequently, each of the identified binding constraints is analyzed in further detail through a 'Deep Dive', which focuses on the underlying policy and institutional issues and allows dissecting key crosscutting institutional challenges.
- Finally, based on this multi-layered analysis, the SCD further consolidates the binding constraints to better account for common underlying factors.

PART I. STOCKTAKING

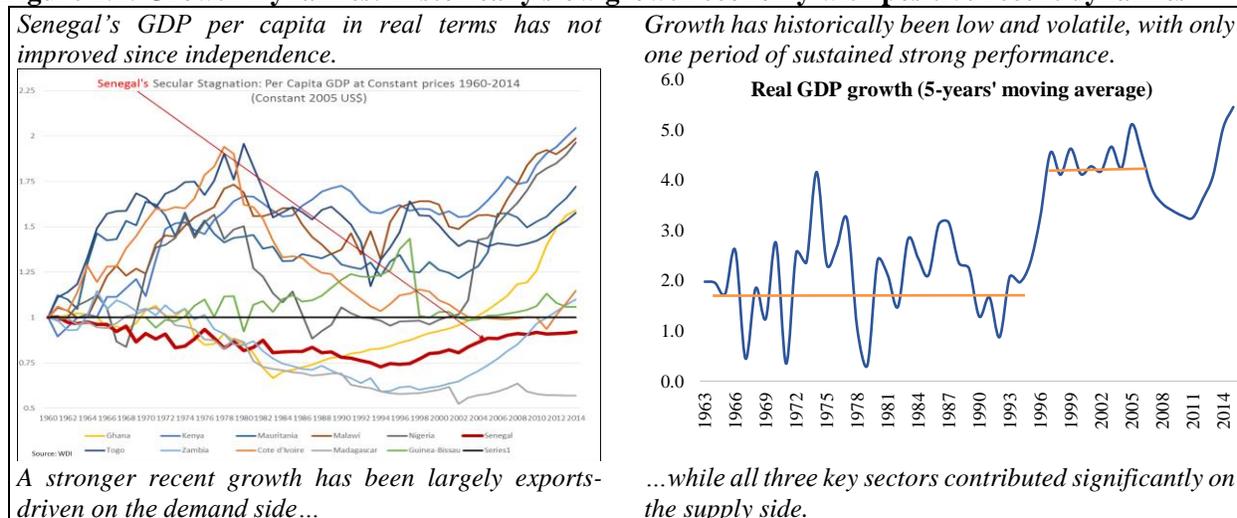
A. ECONOMIC GROWTH

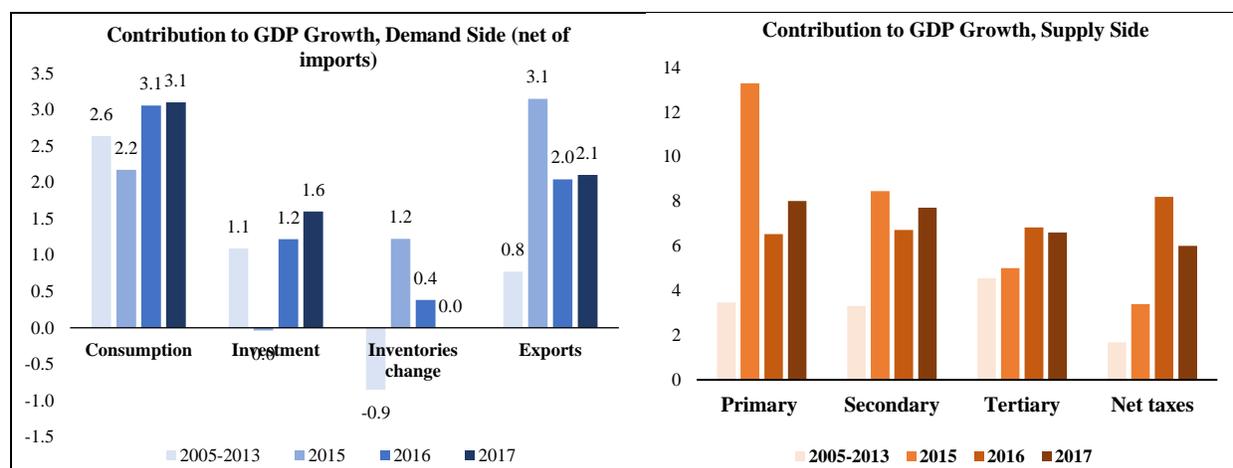
Historically sluggish and volatile economic performance in Senegal was associated with high vulnerability to exogenous factors, low productivity growth, limited structural transformation, and high underemployment. The economy has recently (post 2014) demonstrated a turnaround, driven by strong exports performance, anchored in prudent macro fiscal policies – despite emerging fiscal vulnerabilities that require additional measures for the fiscal deficit to converge to 3.0 percent in 2019 – and supported by favorable international environment. Rooted in the structural strengthening of the Senegalese economic competitiveness, this accelerated growth started in 2010 and became more pronounced since 2015, putting the country on the path of incipient structural transformation. However, to achieve a desired emerging status, key reforms are still ahead and not behind, and the country needs to deepen its structural reforms, while addressing inherent risks and managing sagaciously new opportunities, such as oil and gas.

Aggregate Growth Trends

13. **Until recently, historically low and volatile economic growth has positioned Senegal among the slowest growing economies in SSA.** Senegal is one of the few SSA countries that until recently have not seen any per-capita income growth since independence in the 1960s (see Figure 1.1). Senegal's long-term growth performance can be divided into three phases. Until 1996, growth was volatile around an average trend of 2 percent per year, which is lower than the growth of the population rate of 2.7 percent. In the 10 years between 1997 and 2007, following the CFA franc devaluation in 1994, Senegal more than doubled its average annual growth rate to above 4 percent. From 2003 to 2007, the country experienced the only five-year period, when its economy grew by more than an annual average of 5 percent. From 2007 to 2013, growth subsided again to around 3 percent, affected by several negative exogenous shocks in the context of mounting domestic economic constraints and the exhaustion of the competitive advantage of the 1994 devaluation.

Figure 1.1: Growth Dynamics: Historically slow growth economy with positive recent dynamics





Source: World Bank staff calculations based on National Accounts.

14. **More recently, growth has accelerated, surpassing six percent for three consecutive years, turning Senegal from one of the slowest to one of the fastest growing economies in SSA.** Almost three quarters of the higher growth over 2015-2017 compared to the low growth of 2005-2013 can be accounted for by a larger contribution of exports with their volumes increasing by over 12 percent in average over 2015-17, underpinned by a more diversified base in agriculture, fishing and mining. Stronger consumption explained another 10 percent of the accelerated GDP growth in 2015-17, reflecting the positive effects on the national income of a good harvests and improving terms of trade (ToT) (lower prices of imported energy, commodities and food)⁷. At a sectoral level, the higher growth was mainly attributed to larger contributions from agriculture and industry in 2015, and industry and services in 2016. Thereby, this recent growth turnaround reflects, on the one hand, Senegal's strengthening international competitiveness and incipient structural changes, and, to a lesser extent, favorable exogenous factors, such as positive ToT and climate conditions.

15. **Other macroeconomic indicators have also been showing positive trends, although the fiscal stance degraded in 2017 and public debt has been rising steadily.** The headline fiscal deficit has been on a declining trend since 2013, attaining 4.8 percent of GDP in 2015, 4.2 percent in 2016 and 3.7 in 2017. However, fiscal vulnerabilities emerged in 2017, linked to frozen domestic energy prices in a context of rising international oil prices, which reduced fiscal revenues and increased energy subsidies. This generated the accumulation of arrears to public and private suppliers of around 2% of GDP, which would have increased the fiscal deficit to nearly 6 percent of GDP. However, the authorities still aim to achieve a 3 percent budget deficit in 2019 to comply with the WAEMU convergence criteria as additional measures to increase fiscal revenues and reduce expenditures are implemented, in the context of the fiscal program. After Senegal reached the completion point under the HIPC Initiative in 2006, public debt and publicly guaranteed debt to GDP reached 22 percent. However, since then it has increased rapidly, reaching 60.8 percent of GDP at the end of 2017. The current account deficit declined to 7.8 percent of GDP in 2017, down from 10.5 percent in 2013, on the back of improved exports performance and lower import oil prices – despite the rise of commodity prices at end 2017. The trade balance in the first semester of 2018 degraded again as the value of exports stagnated while imports continued increasing. The deficit is financed by official capital inflows, low, but slightly increasing FDI (at an estimated 2.5 percent of GDP in 2017), mainly in the extractives sector, and consistently high private capital flows (remittances) from the diaspora. In 2017, the deficit has been mostly financed by a \$1.1 billion Eurobond emission, at good financial conditions. The March 2018 issuance of \$2.2 billion Eurobonds will greatly help to cover the current account deficit this year. Finally, inflation remains under control hovering around 2 percent per year in

⁷ Despite the increase of commodity prices, particularly oil prices, at the end of 2017.

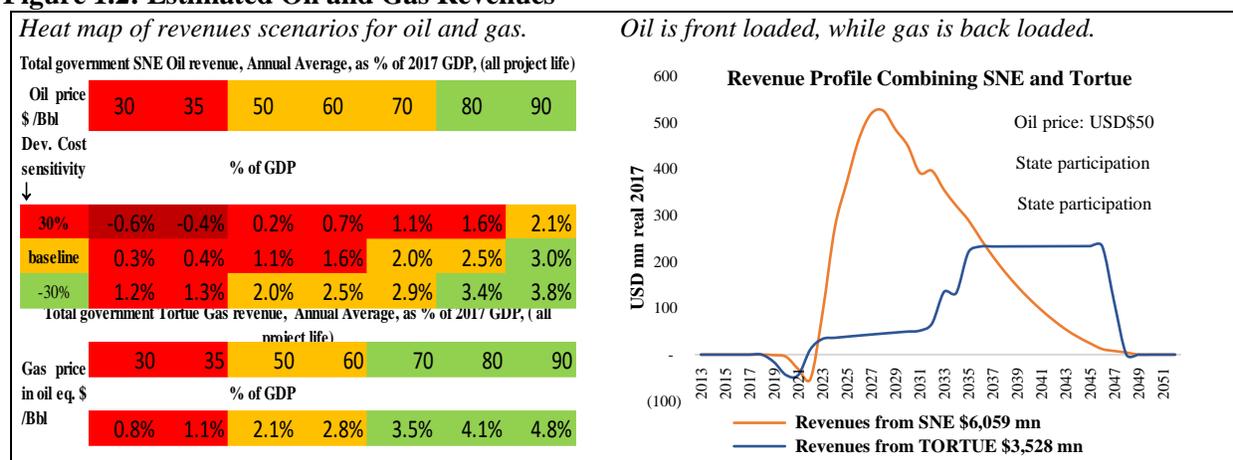
2016 and 2017, due to continuously low food and import prices, fixed exchange rate, and a conservative monetary policy managed at the regional level by the Central Bank of West African States (BCEAO).

16. **The current macroeconomic framework remains robust, but recent fiscal vulnerabilities will require additional measures.** While the headline fiscal deficit has been on a narrowing trend since 2013, fiscal vulnerabilities and delayed payments that emerged in 2017 would require additional measures to increase revenues and reduce expenditures. These would include the revision of domestic energy prices, which are not expected to take place until after the early 2019 elections. Meanwhile, the fiscal situation would remain tense in 2018 as part of the 2017 delayed payments are expected to be paid this year, and international oil prices are expected to remain high. The government still expects to attain 3.0 percent of GDP in 2019 and beyond, once additional measures to increase revenues and control expenditures take place. Public debt has continued on an upward trend, reaching 60.8 percent of GDP in 2017, up from 46.9 percent in 2013. Much of this divergent dynamic between the deficit and the debt, especially in later years was driven by off-budget treasury operations, often linked to the financial deficits of state-owned enterprises (SOEs), which forced the Government to issue more public debt than was warranted by the fiscal deficit. The International Monetary Fund (IMF) estimated these operations at around 2.5 percent of GDP in 2016 and 2.0 percent in 2017. The public debt, as a ratio to GDP, is expected to decrease starting from 2019 due to fiscal consolidation – if adequate measures are implemented to contain the fiscal vulnerabilities described above – and high economic growth. Accordingly, Senegal is ranked as a country with a low risk of debt distress according to the latest Debt Sustainability Analysis of the IMF and the World Bank, but risks linked to delayed payments and off-budget operations, which may continue to generate pressures on debt levels, as well as emerging spending pressures linked to the political cycle and weak revenue mobilization could affect the country's projected debt reduction trajectory. Moreover, rising international interest rates levels and volatility may entail that borrowing costs for emerging countries go up faster than expected. On the other hand, the forthcoming rebasing of Senegal's GDP, which will lift its level by about one third, will improve several debt sustainability indicators, mitigating the upside fiscal risks.

17. **Another important recent development is the discovery of significant off shore oil and gas reserves, whose economic impact is still highly uncertain.** The SNE deep water oil field⁸, discovered in November 2014, has an estimated life of around 25 years and is expected to start producing in 2021-2022. The maximum daily production is estimated at around 100,000 bpd, which is in the same league as Ghana, but much lower than major African producers, such as Nigeria and Angola, which hover around a 2 million bpd daily production. This field is expected to generate Government revenues between 0 and 3.8 percent of GDP annually, depending on global oil prices and the cost of extraction, with a baseline scenario (i.e. with a price of \$60 per barrel) of 1.6 percent of GDP annually, equivalent to around US\$ 270 million. The Grand Tortue Ahmeyin (GTA) ultra-deep gas field, discovered in 2016 and shared with Mauritania, is expected to have a productive life of round 30 years, and in the best-case scenario could start producing around 2022, although international track record points to longer development time for the cross-border projects of this type. In the first 10 years of production net revenues for the Government will be limited by the need to recover capital development costs. The total government revenues from both reserves could vary between 1 and 8 percent of GDP annually depending on the oil and gas prices, with a baseline of 4.4 percent of 2017 GDP. Beyond GTA and SNE, additional gas discoveries have been recently identified in deep offshore at Teranga and Yaakar that, if confirmed and developed, may turn Senegal into an important gas producer in SSA over the next decades⁹.

⁸ The SNE Deepwater Oil Field is located in the Rufisque, Sangomar and Sangomar Deep Blocks, which cover a combined area of 7,490km² within the Senegalese portion of the Mauritania-Senegal-Guinea Bissau Basin. For more details please refer: <http://www.offshore-technology.com/projects/sne-deepwater-oil-field/>

⁹ Recent drill attempts in the fields of Lamantin, Hippocamp and Requin Tigre, though, have proved unsuccessful.

Figure 1.2: Estimated Oil and Gas Revenues

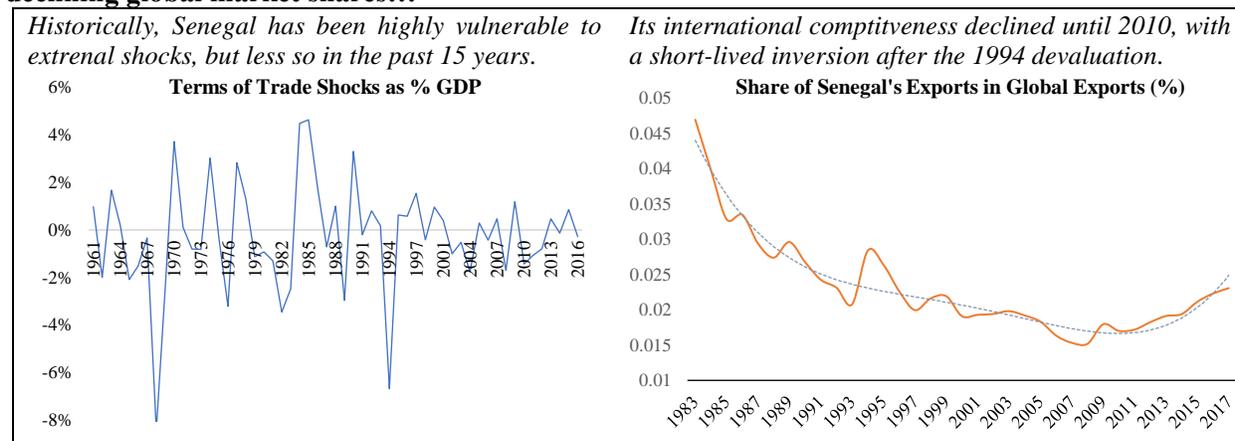
Source: World Bank staff calculations.

Key Features of Senegal's Long-term Growth Performance

18. **Historically, the Senegalese economy has been dominated by services, while primary and secondary sectors have shown lower and stable or declining shares.** Since 2000, the contribution of services to GDP growth has been consistently between 2 and 2.5 p.p., with the sector employing around 40 percent of the workforce. Some high value sub-sectors, such as finance and telecom, have shown high growth rates, but still have limited weight in GDP and employment creation, while domestic trade, largely informal and unproductive, remains the largest sub-sector, accounting for nearly half of all the jobs created in 2008-2013. Tourism experienced a long period of relative decline, but is still one of the top foreign exchange earners, as it generated an estimated 11.2 percent of export earnings in 2014, and accounted for about 4.5 and 10.8 percent in direct and total contributions to employment, respectively. The secondary sector contributed around 1 p.p. to GDP growth, driven largely by mining. Despite contribution to GDP below 20 percent, the National Accounts for 2015 indicate that the primary sector continues to be the main employer in the country, absorbing approximately 46.3 percent of total employment, of which around 26.2 percent is in agriculture, while the rest is mainly in livestock, forestry, and fisheries. Long-term growth in agriculture has been slow and volatile, subject to climatic shocks linked to changing rain patterns. More recently, Senegal's agriculture has witnessed signs of structural transformation due to incipient diversification and a growing role of irrigated products. In effect, sales of fresh horticulture produce for exports multiplied almost 10 times in 10 years, while irrigated rice production has also sustainably increased.

19. **The economy has long been characterized by high vulnerability to external shocks and declining international competitiveness that have reversed only over the past decade.** On the demand side, economic growth has been mainly driven by consumption, which accounts for around three quarters of GDP, with a high dependence on food and fuel imports, and characterized by a weak dynamism of exports. Senegal's share of global exports has been on a continuous decline, until it started picking up around 2010. As a result, Senegal experienced chronic trade and current account deficits, which have been improving modestly over the past three years, reaching 5.6 percent of GDP in 2016. However, it worsened again in 2017 to 7.8 percent of GDP due to rapidly growing imports, particularly oil and capital and intermediary products. Large amounts of diaspora remittances and foreign aid, which in 2015 still financed 57 and 33 percent of the 2017 trade deficit, respectively. This has made Senegal highly sensitive to ToT shocks, exogenously driven variations in its real exchange rate, and inflows of remittances and foreign aid. In the early 2000s, the economy started to show signs of strengthening, becoming more resilient to ToT shocks, and since 2010, it has been steadily regaining global market shares. The West African Economic and Monetary Union (WAEMU) has contributed to macro stability, but also constrained growth through its impact on public investment and price competitiveness.

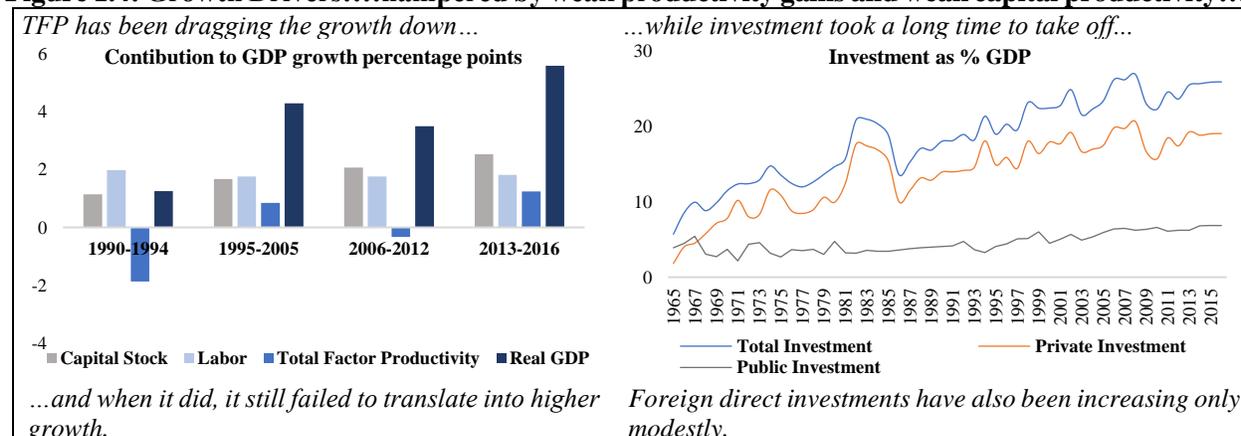
Figure 1.3: Growth Dynamics: Growth historically marked by high exposure to ToT shocks and declining global market shares...

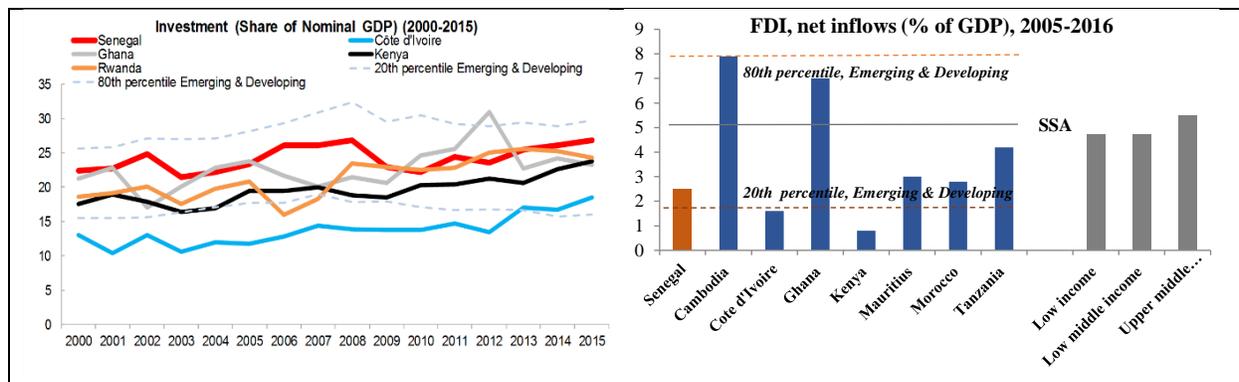


Source: World Bank staff calculations.

20. **The past low growth has been associated with the lack of overall productivity and weak productivity of investment (both public and private).** Growth accounting points to low total factor productivity (TFP) increases as an important feature of the economic long-term performance in Senegal. TFP growth was negative in the two periods of weak economic performance, and positive, but still not particularly high, during the higher growth period. Another characteristic of the country's economic growth is low productivity of investment. Since independence, private investment has been slow to take off, but by the early 2000s it averaged 25 percent of GDP well above the 20 percent on average in WAEMU countries. Yet, the GDP response to higher investment was low, as periods of faster annual increase in capital stock (2005-2012) corresponded to episodes of lower growth. Even the more recent high GDP growth in the past three years has been mainly driven by exports rather than investment. Indeed, the contribution of capital to growth has remained more or less constant thorough the past three decades and lower than the contribution of labor. FDI remained low and concentrated in high-rent extractives all along, while the capital market suffers from multiple structural issues, from an illiquid and badly coordinated government bond market in the UEMOA zone, to a very heavy regulatory process that makes it cumbersome, slow and expensive for new issuers to issue first-time bonds, both resulting into limited equity markets and lack of long-term debt availability.

Figure 1.4: Growth Drivers:...hampered by weak productivity gains and weak capital productivity...

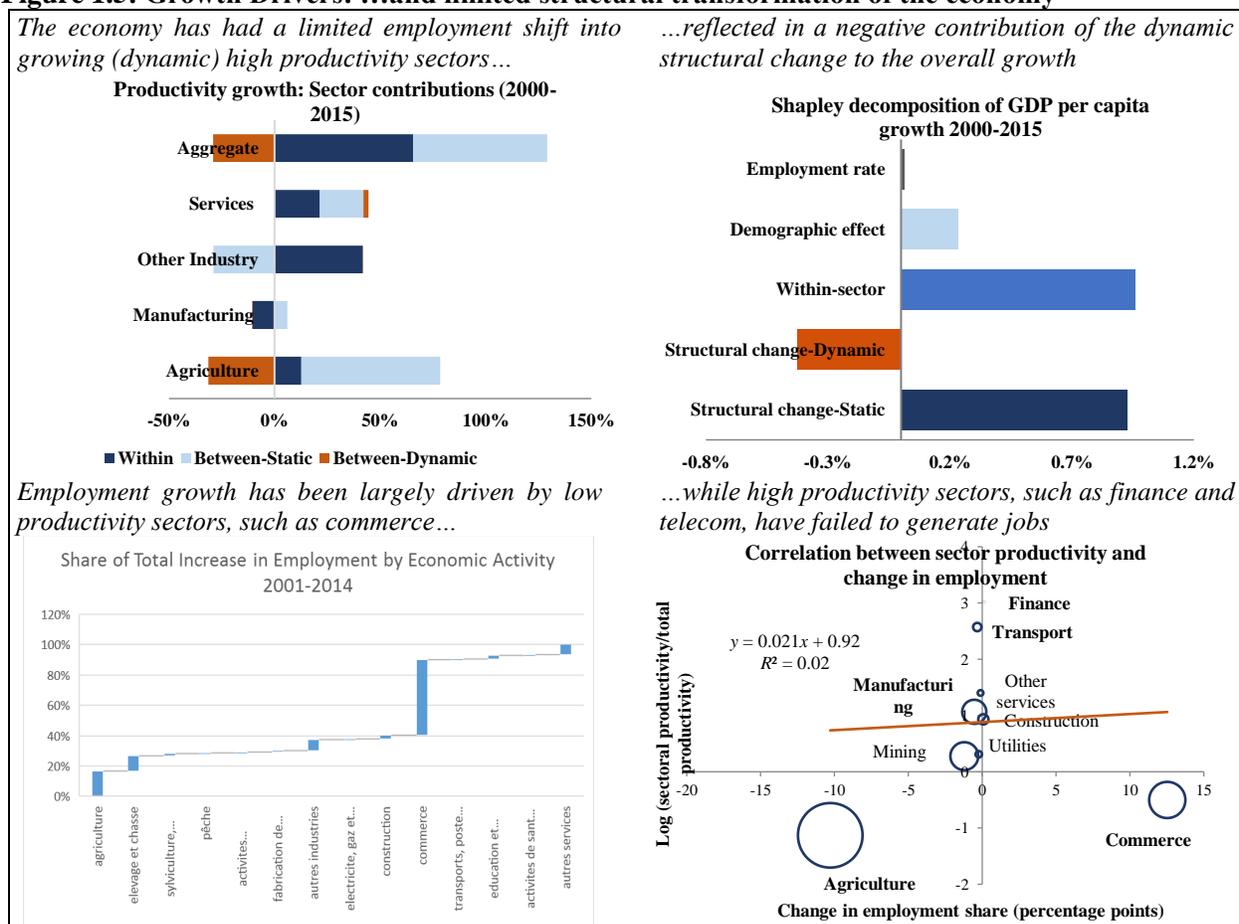




Sources: WDI; World Bank, Senegal Economic Update, April 2016.

21. **The weak long-term productivity dynamics has been associated to the limited structural transformation of the economy.** Economic research demonstrates that most of the variation in economic performance between economies is normally due to shifts from lower to higher productivity sectors, particularly to sectors with growing productivity. Senegal has experienced some level of productivity increase within sectors, and a shift from agriculture into informal trade (commerce) partly due to the urbanization process, but very limited shifts to sectors with high and growing productivity, such as high value-added services, manufacturing or technology-led industries.

Figure 1.5: Growth Drivers: ...and limited structural transformation of the economy



Source: World Bank staff calculations based on National Accounts.

22. **The level and pattern of growth have resulted in high underemployment and a high share of low productivity employment.** The unemployment rate in Senegal is rather low at 6.1 percent in 2015¹⁰ at the national level, but is accompanied by a high rate of time-related under-employment, which affects a fifth of the employed population. Under-employment is more prevalent in rural areas, where 40 percent of the population works in highly seasonal rain-fed agriculture, which weighs heavily on labor productivity. These dynamics imply that having a job in Senegal does not provide a way out of poverty.

23. **The labor market is segmented into an extensive informal sector and a very small formal labor market featuring comparatively high wages and high rigidity.** As much as 92 percent of the workforce is employed in the informal labor market, which in itself is highly heterogeneous, although sharing several characteristics, such as tax evasion and absent social protection for its workers.¹¹ The formal economy is small and burdened by a relatively high cost of labor in the formal sector. The data from the International Competitiveness Assessment (ICA) 2014 data shows that in the manufacturing sector average remuneration was significantly higher than in other WAEMU and non WAEMU African countries. Moreover, despite several partial liberalizations, Senegal's Labor Code retains quite stringent provisions on employment contracts, layoffs, and working conditions. Using a measure of restrictiveness of labor market institutions based on the Employing Workers Indicators raw data, Senegal ranks as the 3rd most restrictive country in the world (out of 189 countries analyzed) in the severity of labor market regulations.¹²

Drivers of Growth and Its Sustainability

24. **Growth decomposition shows the critical role of exports not only since 2015, but starting from 2010, although the effect was initially offset by large negative external shocks.** Exports growth averaged around 9 percent between 2011 and 2014. Extending the decomposition of growth drivers on the demand side over a longer period, it becomes apparent that net foreign demand (exports minus their import content) grew stronger and much steadier after 2010, while net domestic demand (domestic consumption and investment net of their import content), which had been driving growth in the earlier period, became more muted. Growth therefore rebalanced towards foreign demand and exports after 2010. However, their overall effect on the economy between 2011 and 2014 was dampened by a series of external factors, such as negative ToT shocks (mainly high oil prices till 2014), a slowdown in the European economy, the Ebola crisis and a strong FCFA, linked to the high valuation of the Euro versus US\$. When all these factors abated, both domestic and foreign demand pushed to higher growth rates in 2015 and onwards.

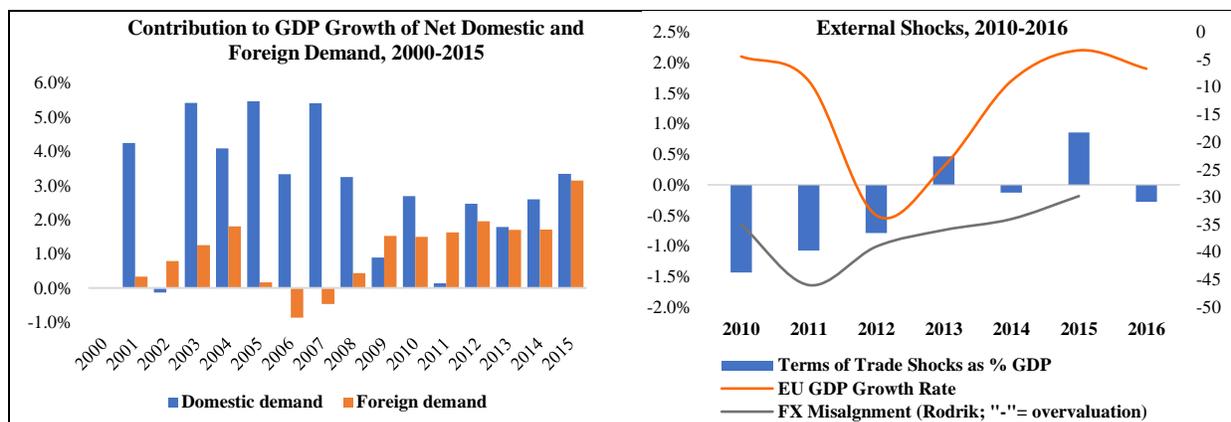
Figure 1.6: Recent Growth Drivers: Significant Role of Exports and External Shocks

Foreign demand has been growing steadily since 2010... ..but was offset by exogenous shocks in 2011-2014.

¹⁰ ENES 2015, using ILO methodology to compute the unemployment indicator. The authors chose this methodology, as it reflects international standards and allows for international comparability. This approach is different from the ANSD official unemployment definition, which produces a rate of 16 percent.

¹¹ Ibid.

¹² Stephen Golub, Aly Mbaye, Hanyu Chwe (2015). Labor Market Regulations in Sub-Saharan Africa, with a Focus on Senegal, DPRU Working Paper 201505, December 2015, World Bank, Washington DC.



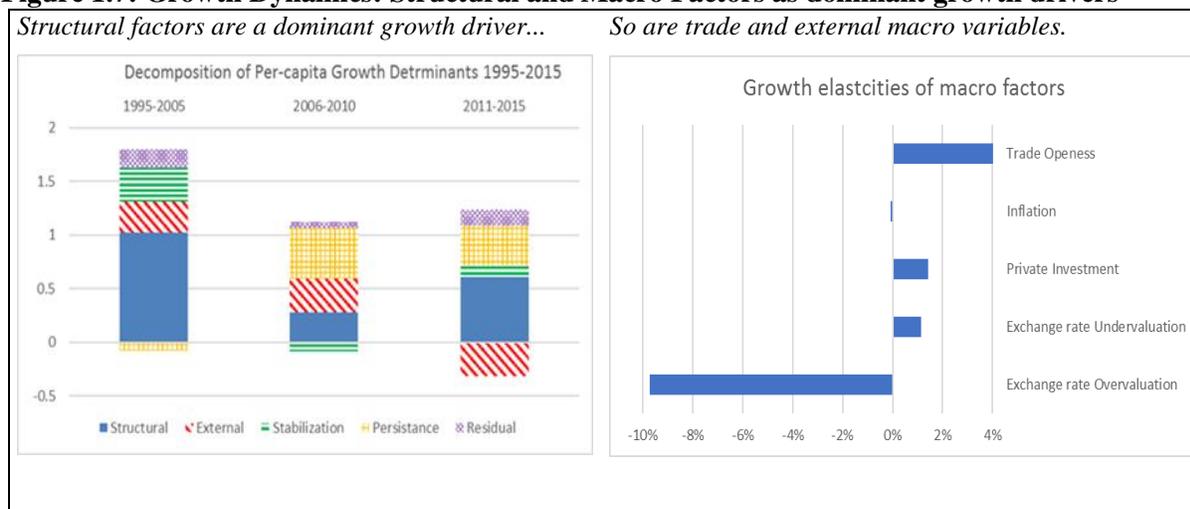
Source: World Bank staff calculations based on national accounts.

25. **A more in-depth analysis of the recent export surge indicates that it was driven more by enhanced competitiveness of the Senegalese economy rather than exogenous pull factors.** A recent IMF paper¹³, which examined the diversification of the Senegalese export and decomposed its growth, concluded that “its main driver over the last decade has been Senegal’s competitiveness. In particular, the largest changes in export market shares - which increased significantly in 2009 and 2011 and then partially contracted in 2013 - were not due to Senegal’s product mix or its trading partners, but to its performance...”. More specifically, Senegal has succeeded in steadily improving its product diversification and exports quality along with broadening the range of its trading partners. In particular, it has diversified exports into food products, some manufactured goods (mostly cement), chemicals and mining, and in 2014, it exported 1,727 products, a significant increase from the 1,284 products exported in 2000. This is more than in some fast-growing countries, such as Mali (902 products in 2012) and Ethiopia (1,654 products), but still less than in Cote d’Ivoire (2,079 products). Its trading partners are also well balanced, with West African countries absorbing around a third of its exports, the rest going predominately to Europe, and to a lesser extent Asia. Consequently, as noted earlier, the country’s systematically declining market share of global exports demonstrated a turnaround and started to expand since 2010.

26. **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.**¹⁴ The model indicates that structural factors (trade, infrastructure, financial intermediation, education, government size, and institutions) were key in explaining per-capita growth in 2011-2015, being three times more important than in the low growth period of 2006-2010. The model also confirms that the external factor was negative in 2010-2015, contributing to the delay in the growth uptake after 2010. The model equally underlines the critical importance of structural factors and the favorable external environment during the high growth period of 1995-2005.

¹³ IMF (2017) *Export Diversification and Competitiveness in Senegal*, Senegal Selected Issues, IMF Country Report No. 17/2, January 2017.

¹⁴ The analysis mainly uses the cross-country growth regression model in Brueckner (2014). See Moller and Wacker (2015) and Araujo *et al.* (2014) for applications in the context of Ethiopia and Latin American countries, respectively.

Figure 1.7: Growth Dynamics: Structural and Macro Factors as dominant growth drivers

Source: World Bank staff calculations based on national accounts.

27. **Macro and stabilization policies also played an important role in higher growth periods.** The cross-country regression model highlights a positive impact of stabilization policies in 1995-2005, linked to the adjustment of the real exchange rate after the 1994 devaluation through nominal devaluation and inflation control. This effect faded in subsequent periods, as the currency appreciated in real term up to the mid-2000. A regression model¹⁵, testing the impact of macro variables on economic growth in Senegal from 1980 to 2014, evidences the importance of trade openness and the asymmetric effect of currency valuation. This confirms that the reduction in overvaluation after 1995 (due to realignment) and after 2014 (due to the strong Euro depreciation vis-à-vis the US\$) had a positive impact on growth in the two higher growth periods.

28. **The cross-country regression model points to the fact that structural strengthening of the Senegalese economic competitiveness has been cumulatively driven by different waves of reforms, started in the early 1990s, reinforced after the 1995 devaluation, and complemented by recent punctual progress in economic management and governance.** Starting in the early to mid-1990s, Senegal embarked on a path of sustained, though uneven, reforms to stabilize the macroeconomic aggregate and to deregulate the economy, which had been persistently affected by anemic growth and negative terms of trade shocks. A new wave of reforms was implemented in the mid-1990s, accompanied by a devaluation of the FCFA, which ushered 10 years of relatively high growth. The first political shift of power in early 2000s brought renewed impetus to open the economy to the private sector and to upgrade infrastructure. The cross-country regression model shows that the effect of these multiple waves of reforms kept providing momentum to the subsequent economic growth. Since 2012 Senegal has pursued a number of additional punctual reforms that improved overall economic governance and supported higher growth rates in 2015 and 2016. Between 2012 and 2016, Senegal appeared for two consecutive years (2014 and 2015) in the list of the top ten Doing Business reformers, while over the same period it also experienced a significant improvement in several governance indicators¹⁶. Targeted interventions to unlock the potential of critical economic sectors included important measures, such as liberalizing the groundnut market, restructuring the Chemical Industries of Senegal, opening up the energy sector to independent power providers and the cement sector to new private players, changing the regulatory framework for mining, and liquidating the loss-making public airline.

¹⁵ Cédric M. S. DEGUENONVO (2017). *Le Mésalignement du Taux de Change Réel au Sénégal et Son Effet Sur la Croissance*. SCD technical background paper, September 2017.

¹⁶ Three of the six Worldwide Governance Indicators (WGI) showed significant improvements.

Conclusion

29. **Overall, against the background of enhanced economic competitiveness, Senegal's medium-term prospects appear positive but remain fragile, and ensuring high and more inclusive growth will require deeper structural reforms, maintaining a robust macroeconomic framework, a continuation of benign external environment and an ability to properly manage the upcoming hydrocarbon resources.** Strong recent performance of the Senegalese economy already falls short of the ambitious PSE growth targets, envisioned in the range of 7.6 and 8.3 percent for 2016-2018. Reaching and sustaining such high growth rates will require synergetic combination of all growth drivers, pointing simultaneously and continuously in the same direction. On top of a favorable international environment, this implies deepening structural reforms aimed at enhancing economic efficiency and external competitiveness, maintaining a credible fiscal policy while avoiding large currency overvaluations, and creating productive jobs. The country's inclusive growth prospects will also be impacted by its ability to manage the proceeds of recently discovered offshore oil and gas deposits, the economic value of which is potentially significant, albeit still uncertain and sensitive to both the international prices for hydrocarbons and to the quality of the economic management of the resource.

B. POVERTY AND SHARED PROSPERITY

The recent turn-around in the economic performance has translated in a similar, although more modest, turn-around in poverty reduction. The trend is estimated to have resumed since 2011, largely driven by increasing agricultural incomes and non-farm economic activities in rural areas, and dynamism in construction and services in urban areas. Enhanced access to basic services has also contributed to improve the population's general wellbeing. However, these positive developments have been overshadowed by stagnating inequality and rising regional disparities, as growth has been insufficiently pro-poor and job creation in urban areas has been too slow to absorb rising demographic pressures. Against this background, while promising social assistance programs are still unfolding, most of the Senegalese poor continue to live in rural areas, deriving their livelihoods mainly from rain-fed agriculture and livestock, and being highly vulnerable to external shocks. At the same time, high numbers of the urban poor remain concentrated in the outskirts of Dakar, living off informal and largely unproductive services. In this context and in light of Senegal's ambitions to achieve an emerging market status by 2035, it is critical not only to maintain robust growth, but also to make it more inclusive.

Levels and Trends in Poverty, Shared Prosperity and Vulnerability

30. Over a third of the population in Senegal is considered poor based on the international poverty line, and two thirds live on less than US\$3.2 a day. With a per capita gross national income (GNI) of US\$ 1,056 in 2016, Senegal is classified by the World Bank as a low-income country. Based on the international poverty line¹⁷ and GDP simulations, the poverty rate was estimated at 35.4 percent in 2016¹⁸, lower than in low-income countries worldwide, while still well above the average of 12.7 percent for LMIC¹⁹. In fact, when using the lower-middle income line, poverty gets as high as 65.5 percent in 2016.

31. The evolution of poverty reduction was mixed between 2001 and 2011. Based on available household surveys²⁰, the largest poverty reduction (from 55.2 to 48.3 percent using the national poverty line²¹) was observed during the period of dynamic economic growth over 2001-2005, when the average annual GDP per capita growth reached 2 percent in real terms. Subsequently, between 2005 and 2011 poverty stagnated, reaching 46.7 percent (or 38 percent based on the international poverty line) in 2011, the year of the latest official national poverty survey. On the back of a decelerated real GDP per capita, which grew annually by mere 0.4 percent over the period of 2005-2011, nationwide poverty reduction was limited, with a modest decrease of 1.6 p.p., small enough to be statistically insignificant.

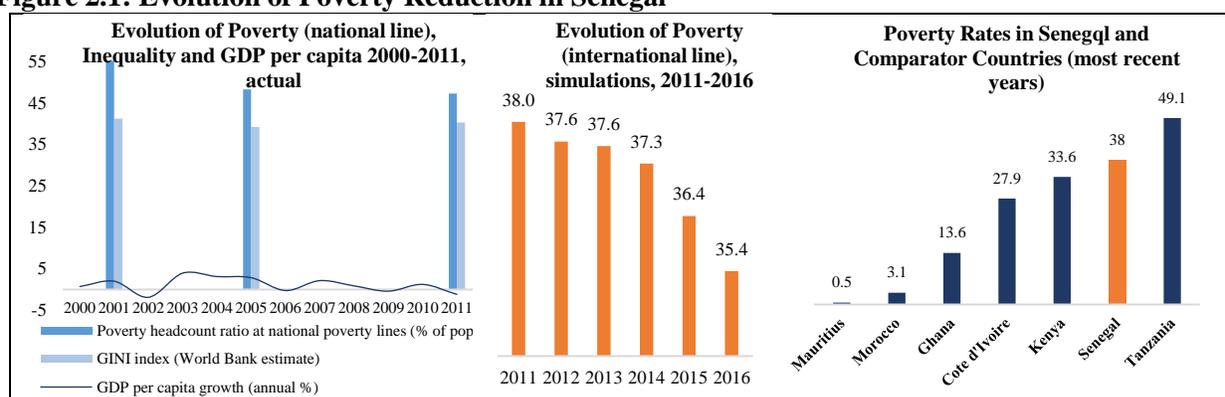
¹⁷International poverty estimates obtained using the US\$1.90 (international poverty line) and the US\$3.2 (lower-middle income line) poverty lines are based on consumption per capita. These lines, established at the global level and anchored in 2011 US\$, are best adapted to make international comparisons but resulting consumption growth and changes in poverty may differ from the national official measures.

¹⁸ Macro Poverty Outlook, October 2017. World Bank. These simulations are rather conservative and based on regional elasticity of -0.729 and -0.33 respectively applied to get US\$1.9/day PPP and US\$3.2/day PPP poverty numbers.

¹⁹ WDI 2017.

²⁰ ESPS 2001, ESAM 2005 and ESPS 2011, all from ANSD.

²¹ The official poverty measurement methodology in Senegal follows the Cost of Basic Needs approach: the national poverty line reflects the minimum acceptable living standard established based on national consumption data and includes both food and nonfood components. The welfare measure is consumption per adult equivalent. Separate poverty lines are used for the three zones: Dakar, "other urban," and rural areas.

Figure 2.1: Evolution of Poverty Reduction in Senegal

Sources: National Accounts, ANSD poverty survey series, Macro-Poverty Outlook 2017 and World Bank staff calculations.

32. **Based on simulations and the use of alternative indicators, poverty reduction may have resumed since 2011.** Based on the evolution of per capita GDP and more recent consumption data, simulations suggest that poverty may have decreased by 4-7 p.p. since 2011, possibly driven by rural areas.²² Assets indicators²³ are often used to proxy monetary measures, as they represent the capacity of households to accumulate wealth and therefore durably improve their living conditions, helping them to avoid falling into chronic poverty. For the period 2011-2016, these indicators show a moderate progress in living conditions at the national level, with improvements for the bottom 40 percent mainly in both urban and rural areas.²⁴

33. **However, shared prosperity and inequality stalled over the same period, pointing to the non-pro-poor nature of growth.** Even in the high growth/high poverty reduction period, from 2001 to 2005, growth was relatively less favorable for the bottom 40 percent of the wealth distribution than for the richest quintiles, particularly in rural areas. From 2005 to 2011, on the other hand, the average annual growth rate, across the entire distribution, was not significantly different from zero, explaining the low rate of poverty reduction during this period.²⁵ Inequality of consumption, as measured by the Gini coefficient, has also stagnated over the decade, with small differences between the first and the second half.²⁶ Despite the lack of the recent household consumption, the evolution of asset indicators suggests that inequality has not changed between 2011 and 2016. However, the very top of the distribution has become richer, with the top 10 percent demonstrating 8 times the wealth of the bottom 10 percent (versus 7 times back in 2011).²⁷ In rural areas in particular, inequality of assets has increased from 0.38 to 0.41, and the top decile now holds 14 times the wealth of the bottom decile (versus 11 times in 2011).

²² GDP simulations (for the period 2011-2016) use country specific elasticities, unlike the macro-Poverty Outlook previously referenced. These are calculated using two methods: point-to-point and annualized. In both cases, a low growth, high growth and long-term elasticities (2001-2011) are used. Results span from a headcount of 40 to 43 percent, equal to a reduction of poverty of 4-7 p.p. Other simulations (for 2014 and 2015) using survey to survey imputation techniques applied to recent households surveys present the consistent results.

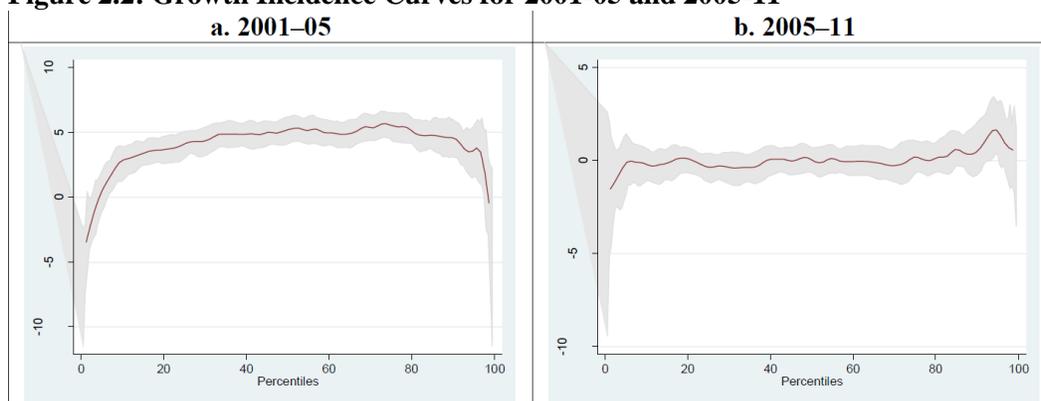
²³ The asset indicator was constructed using the DHS continuous survey 2011-2015. It was not possible to use the DHS welfare indicators to monitor living conditions as its methodology changes every round, jeopardizing comparability.

²⁴ Two assets indicators were constructed: using ESPS 2011 and Listening to Senegal 2014; and using DHS 2011 and DHS 2015.

²⁵ Datt-Ravallion decompositions of the impact of growth and redistribution on poverty reduction confirm the negative impact of redistribution on poverty reduction in both periods, particularly in rural areas for 2001-2005, and nationwide in 2005-2011.

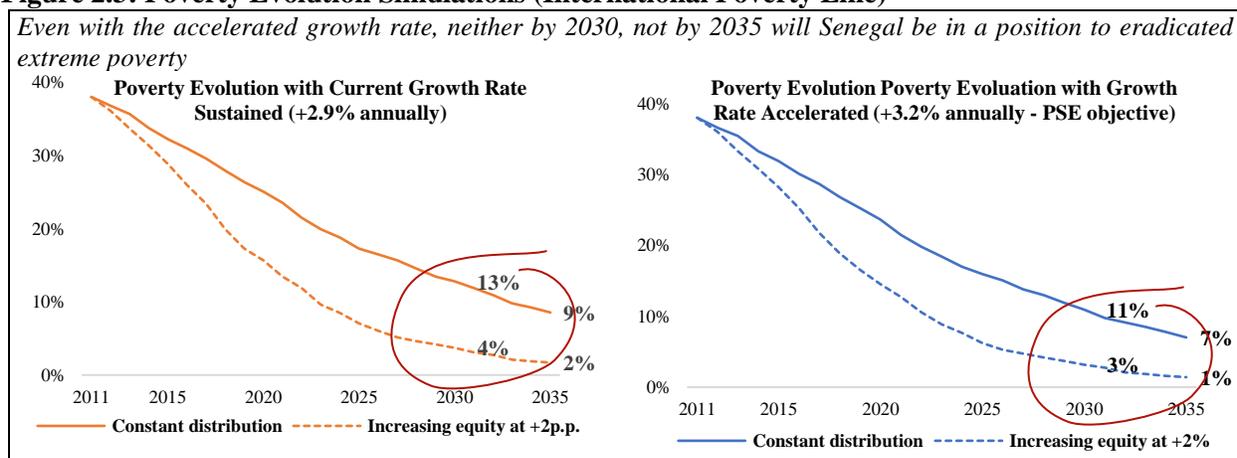
²⁶ Between 2001 and 2005, inequality marginally decreased in urban areas, while increasing in rural. The decomposition (Datt-Ravallion) of the effect of growth and redistribution on poverty confirms that the latter played a negative role at the national level, mainly driven by rural areas, while it stayed neutral in urban areas allowing for more poverty reduction. Between 2005 and 2011, on the other hand, inequality marginally increased in urban areas and decreased in rural, balancing out the previous reduction, with an overall unchanged national rate.

²⁷ Asset indicator constructed using DHS 2011 and 2015.

Figure 2.2: Growth Incidence Curves for 2001-05 and 2005-11

Source: World Bank (2015), Poverty Assessment.

34. **To eradicate poverty and achieve both the WBG twin goals and the national target of becoming an *equitable* emerging economy, Senegal will need not only to sustain the current growth rate, but also to accelerate it for the bottom 40 percent.** Simulations indicate that an annual real growth rate of 5.2 percent in mean consumption for the bottom 40 percent would be necessary to eradicate poverty, as measured by the international poverty line (US\$1.90 / day), and reach a headcount level of 3 percent by 2030. Such performance would require a shared prosperity premium of at least 2 p. p., on top of an acceleration of the GDP growth rate from the current 6.6 percent (average 2015-2017) to 7.4 percent per year, corresponding to the PSE original targets. On the other hand, the current growth performance would allow the country to achieve its own objective of poverty reduction set at 5 percent by 2035, based on the simple average of poverty rates of a set of inspirational countries²⁸ identified during the formulation of the PSE. Even in this case, however, the shared prosperity premium needs to be positive. A low growth scenario, on the other hand, would make this target unachievable altogether, while only a positive shared prosperity premium would allow to reduce the absolute number of poor.

Figure 2.3: Poverty Evolution Simulations (International Poverty Line)

Note: The two *scenarios* refer to the current growth trend (2.9%, corresponding to the average annual per capita consumption growth rate during the 2015-2017 period) and the aspirational trend (3.2%, corresponding to the annual average per capita consumption growth preconized by the PSE). *Increasing equity* corresponds to a positive shared prosperity premium (+1p.p. or +2p.p.) which refers to the differential between growth for the bottom forty and average growth: When positive, it indicates that growth is pro-poor and inequality reducing.

Source: World Bank staff calculations.

²⁸ Algeria, Angola, Botswana, Brazil, Bulgaria, Chile, China, Colombia, Costa Rica, Dominican Republic, Gabon, Jordan, Malaysia, Maurice, Mexico, South Africa, Thailand, Tunisia, Turkey.

35. **Poor households in Senegal are disproportionately exposed to risk, linked to both macroeconomic volatility and idiosyncratic shocks.** A variety of macro shocks has affected Senegal in recent years, including climate-related shocks, such as droughts and floods, as well as commodity price spikes, the global financial crisis and, more recently, the Ebola epidemic, which did not reach Senegal, but did affect its trading partners, including bordering Guinea. Individual households are also exposed to a variety of idiosyncratic shocks, including illnesses, deaths of family members, loss of assets or employment, etc. And while one-third of the households reported experiencing at least one economically damaging shock over the 12 months preceding a survey, those in the poorest quintile are around 20 p. p. more likely to have suffered a shock in the past year than those in the richest quartile.²⁹ Although the situation may have marginally improved recently and promises to improve further underpinned by new government initiatives, in 2011 less than 3 percent of households reported receiving help from the Government or NGOs when faced with a shock.

36. **In this context, shocks are an important determinant of downward transitions into poverty, particularly when climate-related.** Dang and Lanjouw (2014) found that one of the determinants of either remaining in poverty or falling deeper into poverty between 2005 and 2011 was the exposure to a natural disaster (self-reported). A more recent study conducted in the framework of this SCD³⁰ revealed that both idiosyncratic shocks and a high malaria incidence decrease welfare by 18 and 20 percent, respectively. The biggest impact though, is caused by climate-related shocks: covariate rainfall shocks result in between 30 and 47 percent drops in welfare.³¹ These impacts are more pronounced in rural areas, where large parts of the population rely on rain-fed agriculture and therefore 32 percent are considered vulnerable to falling (deeper) into poverty. Dang and Lanjouw (2014) also reveal that having a permanent disability drastically lowers the likelihood of escaping poverty and raises the prospects of falling into poverty, pointing to this group as particularly vulnerable.

37. **Vulnerability to food insecurity and malnutrition remains worrisome.** Although improving over time and varying throughout the year, overall food security remains a challenge for a non-negligible share of the population³², as over 15 percent of rural households, and over 8 percent of the urban ones are food insecure. In key production areas, high rainfall variability at inter-annual and inter-decadal scales affect agricultural production and, in consequence, food security.³³ Similarly, a drop in rainfall from its long-term average generates a 5 percent decrease of both height (HAZ) and weight (WAZ) for age indicators.³⁴ As a result, and despite important progress in reducing malnutrition, particularly in the west of the country³⁵, 44 percent of households are still vulnerable to drops in child malnutrition indicators – *nutrition poverty* - in rural areas, according to a recent study.

²⁹ Both self-reported and objective weather and health related shocks. Based on ESPS 2011 and DHS continuous (2011-2015). Marzo, Porter, Rougeaux 2017. Vulnerability to shocks and multidimensional poverty in Senegal.

³⁰ Marzo, Porter, Rougeaux 2017. Vulnerability to shocks and multidimensional poverty in Senegal.

³¹ The use of the continuous DHS series (2011-2015) and district fixed effects allows to get closer to a causal relationship between shocks and welfare, as measured by the DHS welfare indicator used as a proxy of monetary poverty. Rainfall variation is measured by deviations from the long term means, both for the entire agricultural season and for early rains. The latter have the strongest impact. Marzo, Porter, Rougeaux 2017. Vulnerability to shocks and multidimensional poverty in Senegal.

³² WFP (2014).

³³ Fall et al., 2006; McSweeney et al., 2010.

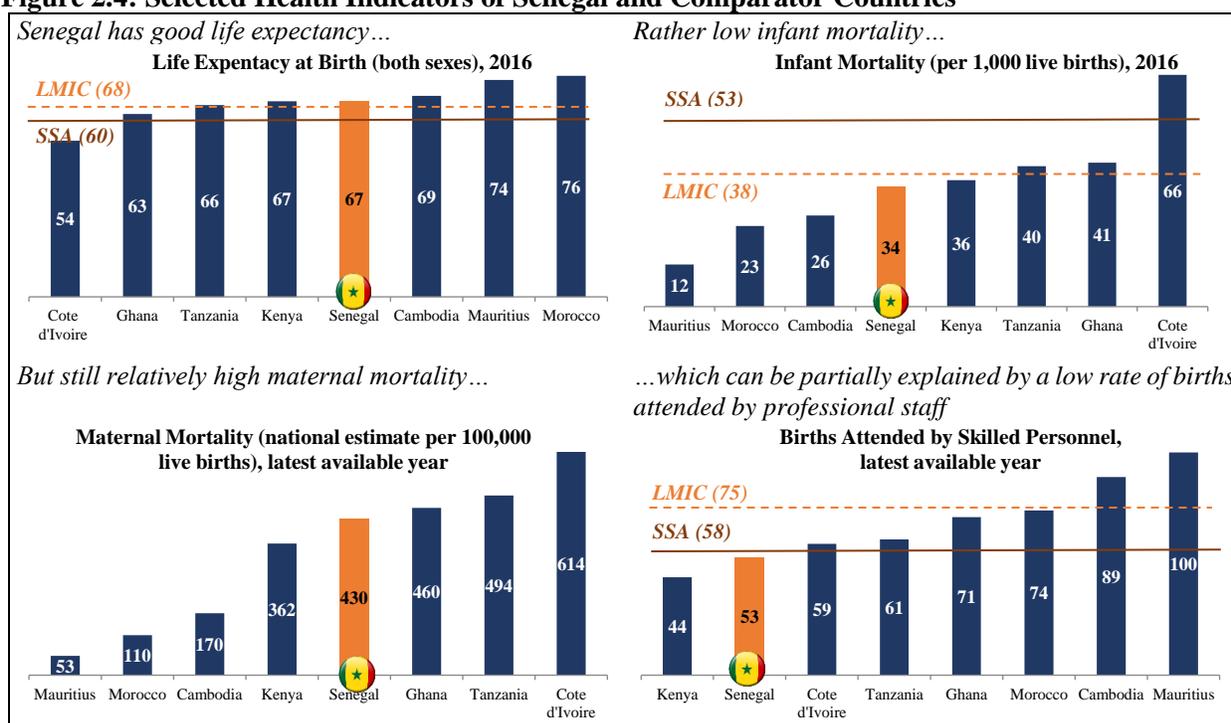
³⁴ Marzo, Porter, Rougeaux 2017.

³⁵ Nutritional Outcomes in Senegal: Reducing Geographic and Socioeconomic Inequalities to Accelerate progress towards the 2025 Goals. Marc Nene.

Evolution of Non-Monetary Dimensions of Welfare and Human Capital Indicators

38. **The decrease in monetary poverty has been accompanied by considerable, albeit uneven, progress in access to basic services and infrastructure.** Solid performance has been demonstrated in selected health areas (especially life expectancy and infant mortality), providing nearly universal safe water access (now reaching 92 percent of population), expanding the coverage of electricity (to 64 percent in 2017) and social assistance programs.³⁶ Chronic malnutrition or stunting among children under 5 years old (i.e. children being too short for their age) has fallen from a rate of more than 30 percent before 2000 to approximately 17 percent in 2016, thus making Senegal the top performers in this area across continental SSA. Notwithstanding the progress, today Senegal is still classified as a low Human Development Country, ranking 164th out of 194 countries in the 2017 Human Development Index.³⁷ More than half of its population does not have access to sanitation services and maternal health care still lags, with almost one fifth of infants born with low birth weight³⁸, which jeopardizes critical early childhood development prospects. Moreover, critical disparities exist between various groups of population. In particular, rural access to electricity or sanitation is only a fraction of that in Dakar (a third and a half, respectively), and 40 percent of rural households live in precarious dwellings, while this percentage is well below 10 percent in urban areas.

Figure 2.4: Selected Health Indicators of Senegal and Comparator Countries



Source: World Development Indicators.

39. **Some of the poorest regions of the country are affected the most by spatial inequality, which is in fact increasing.** Between 2011 and 2016 access to basic infrastructure and services, particularly to sanitation and healthcare, generally improved in the regions with the highest incidence and density of poverty, such as those of the groundnut basin and Casamance (see maps in Annex 1). Nevertheless, access in the poorest regions still remains very low and is not increasing at higher rates than in more dynamic and

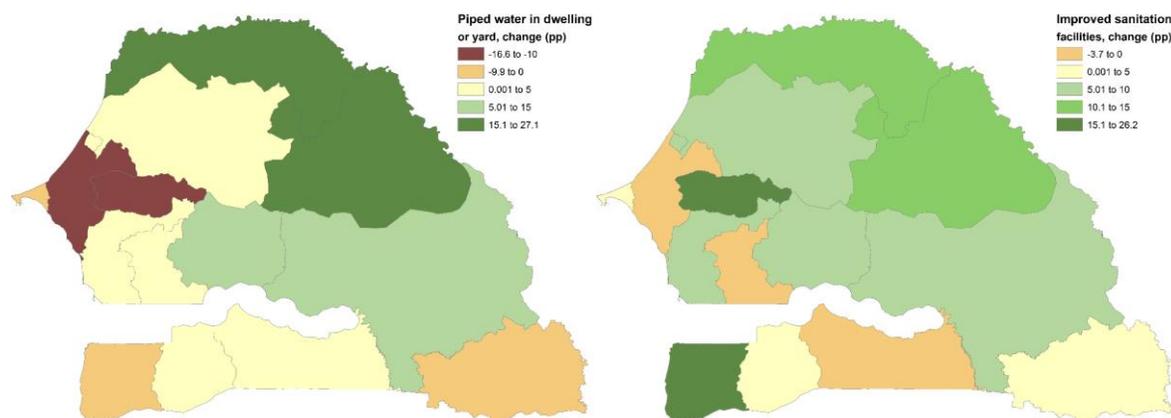
³⁶ Access rates provided by the national survey *Listening to Senegal* (ANSD 2014).

³⁷ United Nations Development Program (2018). *Human Development Indices and Indicators: 2018 Statistical Update*. Available at: http://hdr.undp.org/sites/default/files/2018_human_development_statistical_update.pdf.

³⁸ 18.6 percent in 2011, according to the World Development Indicators

less poor areas, suggesting that no real convergence is taking place. For instance, in the region of Kolda, in Casamance, the growth rates of access to electricity and sanitation were negative between 2011 and 2016, while access to piped water only increased by 2 percent against a national average of 7 percent. Similarly, access growth rates were positive, but very low, in the regions of the northern groundnut basin, such as Fatick and Kaolack, where poverty incidence is lower, but its density is high. On the other hand, Diourbel has largely benefitted from significantly improved access rates (up by 26 and 27 percent for electricity and sanitation, respectively), suggesting that it is a recipient of important public investments.

Map 2.1: Growth Rates of Access to Piped Water (left) and Sanitation (right), 2011-2016, by Region



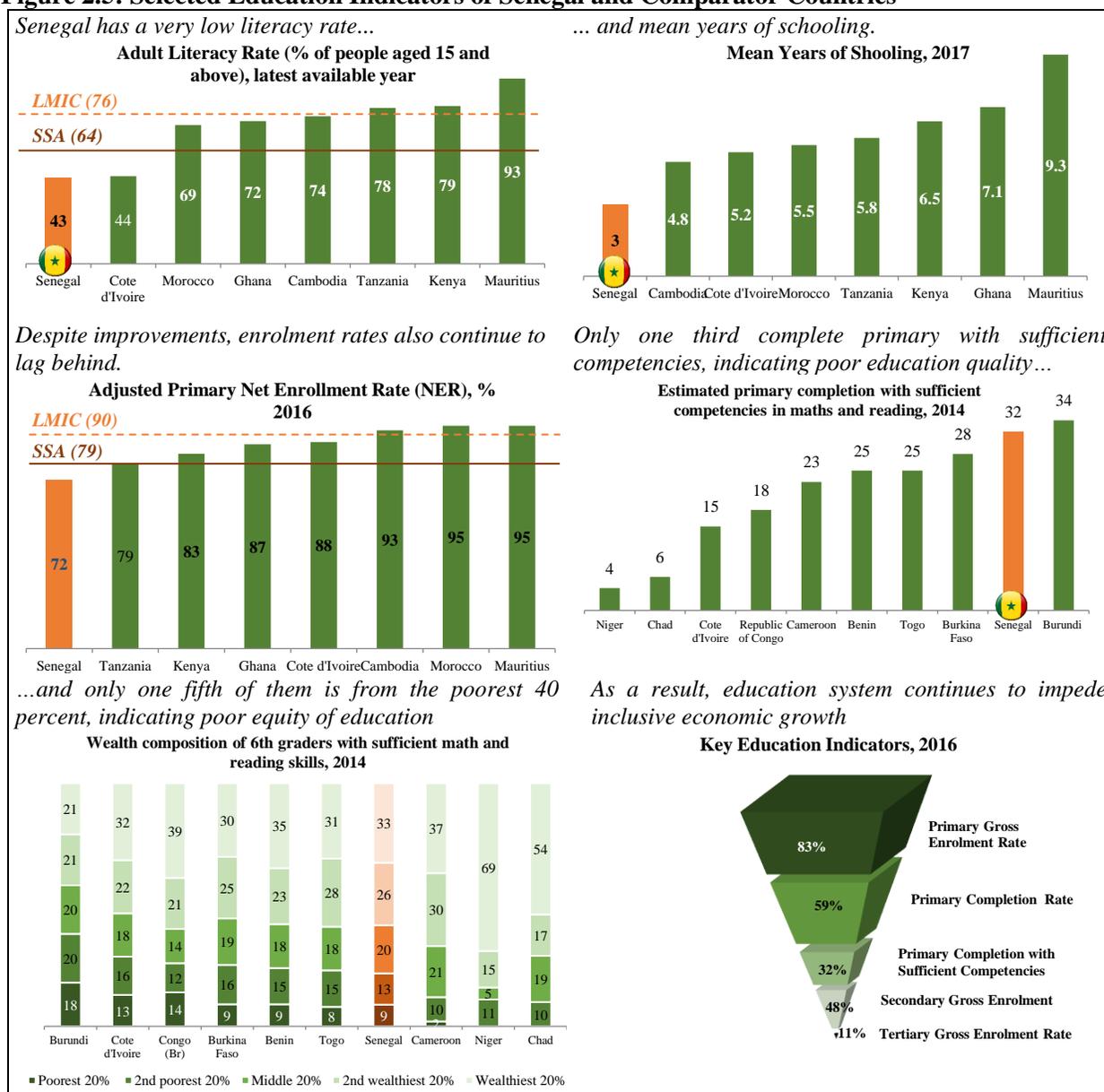
Source: DHS 2011-2016 and World Bank staff calculations.

40. **Despite recent progress, Senegal still displays underwhelming results in key education indicators, especially for poor children, resulting in inadequate skill sets and weighing heavily on future productivity gains.** Lanjauw and Swinkels (2014) identify education as the single most important determinant of the transition out of poverty.³⁹ With the completion of primary school the likelihood of moving out of poverty increases by 58 percent, while chances of falling into poverty drop by 32 percent. In light of the importance of education, as a key factor of inclusion and poverty reduction, it is particularly worrisome that, despite increasing over the past five years, both gross (GER) and net enrollment rates (NER) in Senegal still remain low, with GER standing at 83 percent for primary education, 48 percent for secondary education, and mere 11 percent for tertiary level⁴⁰. As much as one third of school-aged children is out of school with the ratio increasing to two thirds for the poorest quintile. Current adult literacy rate stands at 43 percent, well below both SSA and LMIC averages (64 and 76 percent, respectively), and households' heads have on average only 3 years of schooling.⁴¹

³⁹ Other determinants include working in the formal sector, living in an urban area, having a female household head, working in the nonagricultural sector, having social capital, having no disaster, and having no disability.

⁴⁰ World Development Indicators, 2016.

⁴¹ The adult literacy rate (% of people aged 15 years old and above) for Senegal is taken for the latest available year – 2013, while for SSA and LMIC it is based on 2016 data, as reported by WDI. The mean years of schooling are based on the data provided by United Nations Development Program (2018). *Human Development Indices and Indicators: 2018 Statistical Update*. Available at: http://hdr.undp.org/sites/default/files/2018_human_development_statistical_update.pdf.

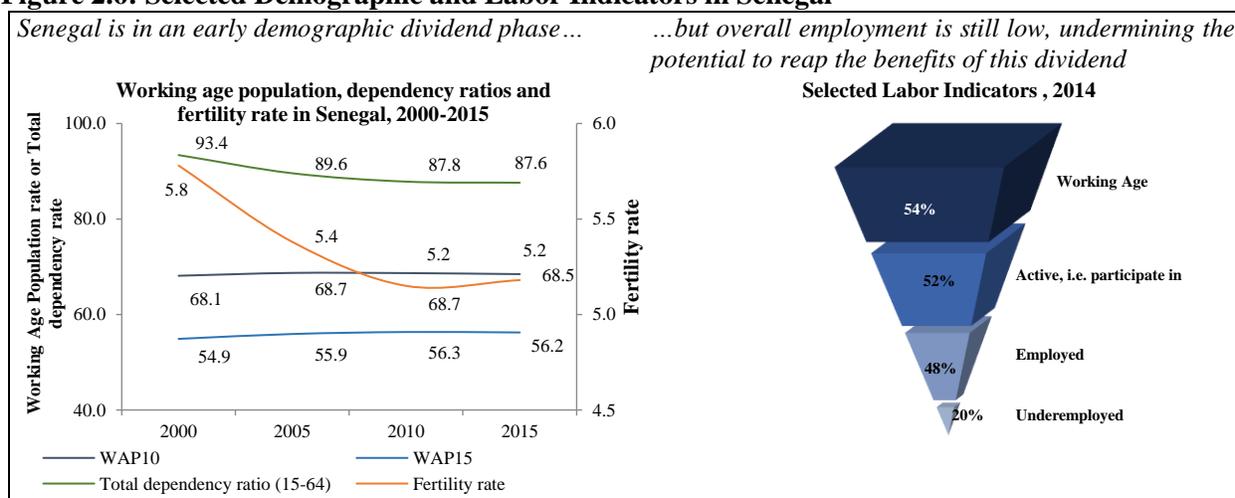
Figure 2.5: Selected Education Indicators of Senegal and Comparator Countries

Source: World Development Indicators; UNDP, World Development Report 2016.

41. **Moreover, Senegal's education system faces important quality and equity challenges.** Learning outcomes are low, especially for the poorest children and in rural areas that score worse than urban areas in terms of enrolment rates (NER of 54 percent in rural areas against 83 percent in Dakar), age for grade delays (almost a third of primary students in rural zone experience a delay of more than three years) and other key indicators. Although Senegal ranks relatively well among ten low-income francophone African countries (second after Burundi) in the first PASEC2014 international assessment, the results suggest that the learning outcomes are quite poor, even by SSA standards, as only one third of children complete primary school with sufficient competencies, while this share drops even lower for the poorest 40 percent, and particularly for girls (only 7 percent).

42. **The weakness of skills compounded by the limited availability of good jobs prevent Senegal from leveraging its emerging demographic transition, as employment fails to lift people out of poverty, especially the youth.** Despite the encouraging evolution of the demographic trends, with a population growth of 2.5 percent, a decreasing dependency ratio and increasing labor force, Senegal is only partially taking advantage of its demographic dividend⁴², which accounted for mere 0.5 p.p. of the per capita GDP growth since 2000. Besides still high (albeit decreasing) fertility rates⁴³, slow job creation is another key constraint for Senegal to better leverage its demographic transition. In fact, over the last 15 years, job creation has been largely outpaced by the growth in the working age population, particularly in the formal sector. Since 2011, employment has picked up, but the jobs created have been of very poor quality and mostly concentrated in commerce, a sector characterized by high informality and low (and decreasing) productivity, partially due to the inadequacy of the skills of the labor force. As a result, in 2015 inactivity was still very high (at 58.5 percent) and so was underemployment (at 29.5 percent in rural and 10.3 percent in urban areas)⁴⁴. Young adults aged 15-34 are among the most affected, showing the highest unemployment rate at 9 percent, as well as high inactivity and underemployment rates, respectively at almost 60 and 22 percent.

Figure 2.6: Selected Demographic and Labor Indicators in Senegal



Note: WAP15 = working age population of 15+ years old.

Source: World Bank staff calculations based on ENES 2015. United Nations, Department of Economic and Social Affairs, Population Division (2015). World Population Prospects.

43. **The demographic dividend is equally constrained by important gender inequalities that persist in accessing basic services and productive inputs, hampering women's capacity to accumulate human capital and pursue economic opportunities.** Despite recent progress, women in Senegal are penalized in many respects, and particularly in rural areas and among the poorest quintiles. While net enrollment for girls and boys has reached parity for both primary and secondary cycles, girls are still more likely to drop out early, mainly due to cultural practices, such as early marriages (according to DHS 2016, 50 percent of women get married before the age of 19). As a result, and despite the encouraging intergenerational progress, adult women are systematically less educated than men, which, together with

⁴² A demographic dividend is the potential economic benefit associated with a country's demographic context. It can take place when a country undergoes rapid declines in mortality and fertility, producing smaller, healthier families and a large youth cohort. This demographic transformation leads to a period when a country has large number of people of working age and smaller number of dependents. With fewer dependents to support, the youth cohort when educated and empowered to enter the labor market can boost economic growth of the country.

⁴³ Fertility went down from 5.7 children per woman to 4.7 in 10 years, based on the latest – 2016 – DHS data.

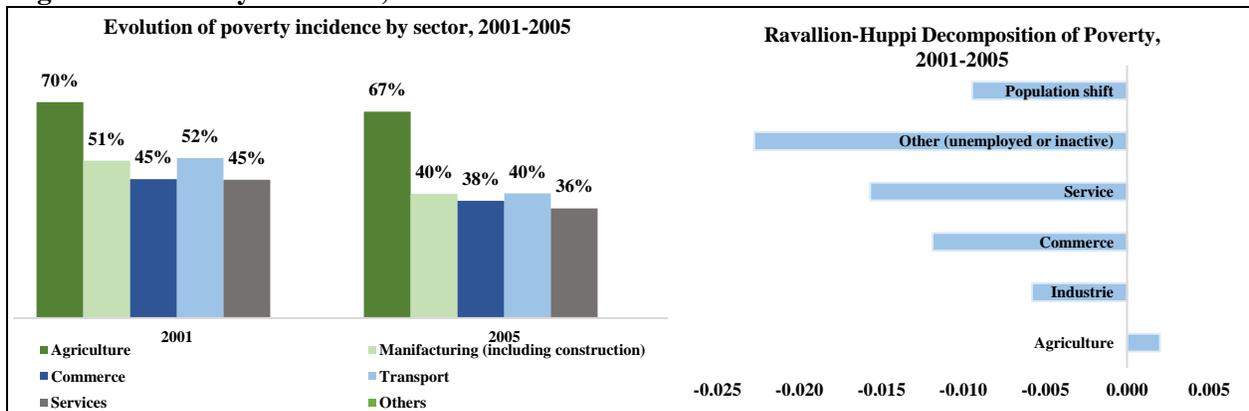
⁴⁴ Based on Labor Force Survey (ENES 2015), authors calculations.

their lower access to productive inputs and discrimination, weighs heavily on their earning capacity⁴⁵. In terms of health, in 2016 41 percent of women still gave birth unattended by trained personnel (the share alarmingly increased from 35 percent in 2011) and, despite it being illegal since 1999, one out of every four women was subject to a traumatic female genital mutilation (FGM) procedure, with important regional and ethnic disparities.⁴⁶ Equally daunting is the fact that, according to DHS 2016, 80 percent of women do not decide for themselves about healthcare, and 20 percent of the poorest women do not seek care because their husband would not approve of it pointing to restrictive gendered social norms limiting women's agency. Family planning services are particularly weak, which partly explains the low prevalence of modern contraception, especially among adolescents: among 15-19 and the 20-24-year-old girls, the prevalence is only 5.5 and 17.9 percent, respectively.

Evolution and Drivers of Poverty

44. **One of the most important drivers of poverty reduction in Senegal is economic growth, coupled with sectorial pull factors and remittances tightly linked to external conditions.** The significant poverty reduction between 2001 and 2005 was grounded in a relatively good performance of per capita GDP, which contributed to raising living standard across all groups of the welfare distribution. Growth was mainly driven by expanding services, including transport and commerce, and construction, generating increases in household incomes predominantly in urban areas. In these sectors, employing a considerable share of the urban poor, poverty incidence consistently decreased. Beyond economic growth, consumption, particularly in urban areas, was supported by increased migrants' remittances, which grew annually by 28 percent over the same period.⁴⁷ Agriculture performed relatively well, although with a certain degree of volatility as well as low and stagnant productivity. The nature of the drivers of poverty reduction explains the imbalance in favor of urban areas, where poverty decreased by 4 p.p. more than in rural areas.⁴⁸

Figure 2.7: Poverty Evolution, 2001-2005⁴⁹



Source: ESPS 2011 and ESAM2, World Bank staff calculations.

45. **The stagnation in poverty recorded since 2005 was similarly driven by external factors (this time unfavorable), affecting economic growth and households' purchasing power.** Besides being too

⁴⁵ Marzo, Atuesta 2017.

⁴⁶ According to the 2016 DHS, 24 percent of women aged 15-49 have undergone the procedure, but this rate hides huge regional (77 percent in the south) and ethnic disparities (from only 1.3 percent among the Wolofs to 71 percent among the Mandingues).

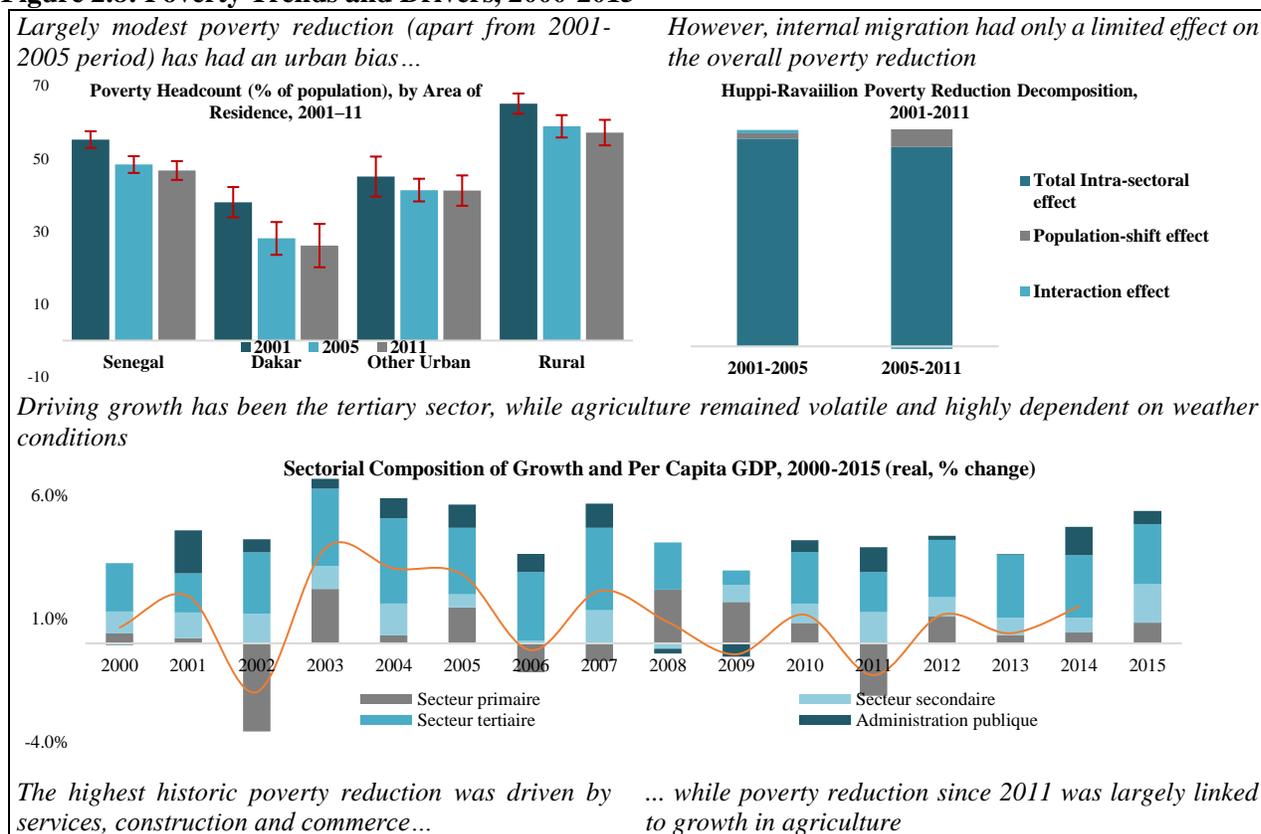
⁴⁷ In 2015 migrants' remittances represented more than 11.9 percent of total GDP with urban areas accounting for more than 70 percent of these flows - World Bank Data on Remittances and Migrations.

⁴⁸ Poverty in Dakar reduced from 38 to 28 percent, while percent in rural areas it decreased from 65 to 59 percent.

⁴⁹ To run the decomposition the sectorial occupation of the head of the households was used. Note that construction is categorized under industry.

slow, particularly when compared to rapid population growth, economic growth has failed to be pro-poor⁵⁰, as it occurred almost exclusively in capital-intensive tertiary sub-sectors, while commerce, and construction significantly slowed down. Agriculture, still supporting two-thirds of the poor, significantly contracted in the wake of repeated droughts. Finally, in the context of the global financial crisis, remittances inflows retracted, reaching the bottom at -4 percent in 2009, while surging oil and imported food prices⁵¹ further eroded households' purchasing power.⁵² These exogenous factors contributed to increased volatility of GDP per capita and poverty reduction, which, being highly responsive to growth, demonstrated significant fluctuations over a short period of time.

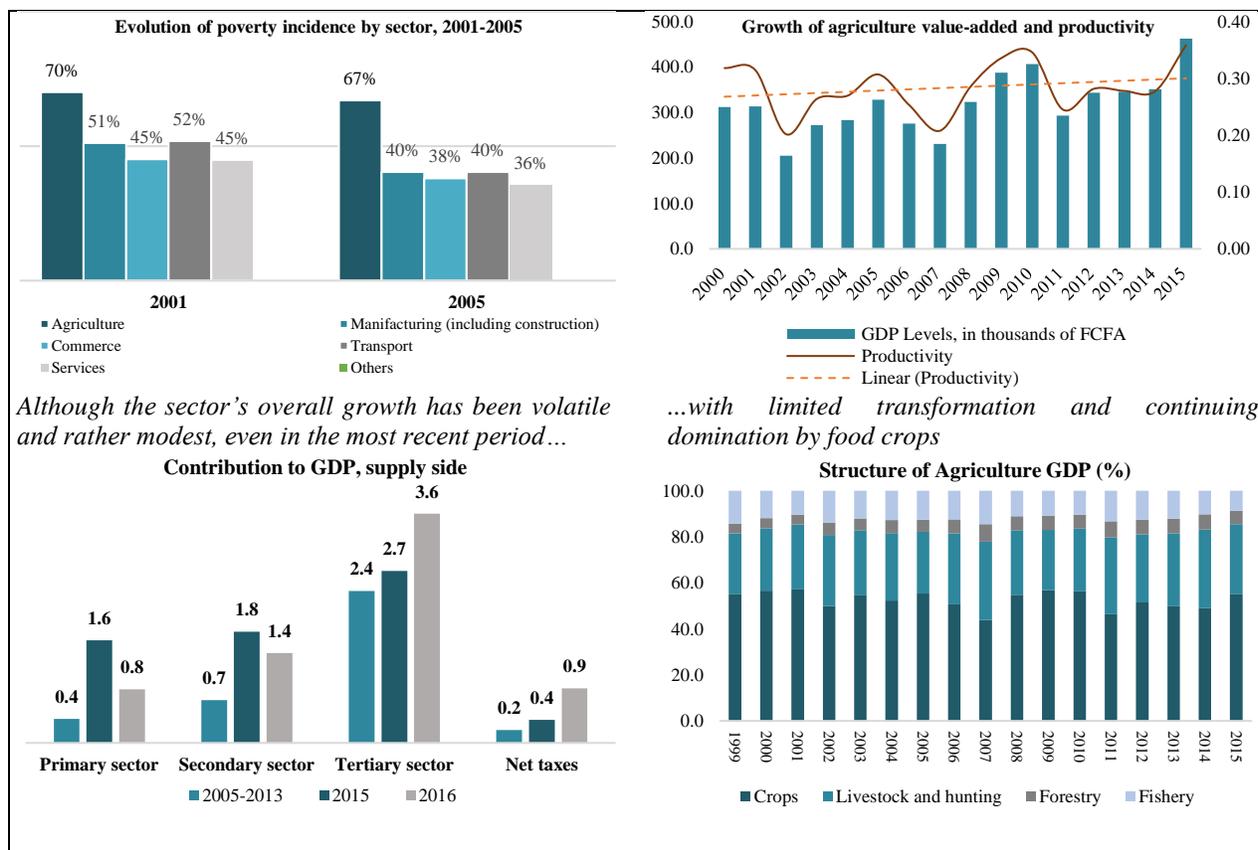
Figure 2.8: Poverty Trends and Drivers, 2000-2015



⁵⁰At the sectorial level, growth between 2005 and 2011 was driven by the tertiary sector, which doesn't employ the poor, who are typically concentrated in rural areas and work in agriculture, subject to frequent shocks and volatile output.

⁵¹ Only over 2009-2010, the World Bank Food price index for Senegal rose by 29 percent— See World Bank, Security Watch.

⁵² Simulations conducted in 2008 suggest that a combined 25-percent increase of five staple products may result in a 5 p.p. poverty increase, potentially absorbing all the progress achieved up to date. In particular, a raise by 25 percent in the price of rice would increase poverty by 1.9 p.p., 1.0 p.p. for vegetable oils, 0.6 p.p. for sugar, 0.8 p.p. for millet and 0.6 p.p. for milk.



Source: World Bank staff calculations based on ESAM II, ESPS I, and ESPS II and National Accounts.

46. **The decrease in poverty since 2011 – as suggested by simulations – was largely driven by the expansion of agriculture, benefitting from conducive weather conditions, but also incipient structural improvements.** Agriculture has the highest elasticity of poverty to growth, followed distantly by commerce. Since 2012, the agricultural sector registered low, but positive growth with two exceptionally good years in 2015 and 2016, and positive and rising returns for producers in poor-intensive groundnut sector. Moreover, data on the evolution of employment suggest that some jobs in rural areas were reallocated out of agriculture, while general value added per agricultural worker, a measure of apparent labor productivity, started modestly improving, reversing a negative trend of more than a decade – these jointly point to signs of structural transformation and might have further contributed to poverty reduction. Following a new trade agreement with the European Union, fisheries volumes and values have also increased, although the sustainability of the sector remains challenged by sea impoverishment. Falling international oil prices have helped to contain domestic inflation, preserving households' purchasing power.

47. **Interestingly, rural-urban migration played only a minor role in poverty reduction, as migrants remained poor across all analyzed periods.** Senegal's urbanization rate has almost doubled since 1960, increasing from 23 to 44 percent in 2016 (vis-à-vis 38 percent of SSA average)⁵³. However, its cities, and Dakar in particular, have failed the hopes of the migrating population, who left the countryside in search of better living conditions. Almost two thirds of the poor in Dakar are internal migrants, poverty incidence among which reaches 72 percent and a large share of which live in precarious settlements (the largest of the country) east of the city, such as Pikine and Guédiawaye.⁵⁴ Most of the national poverty

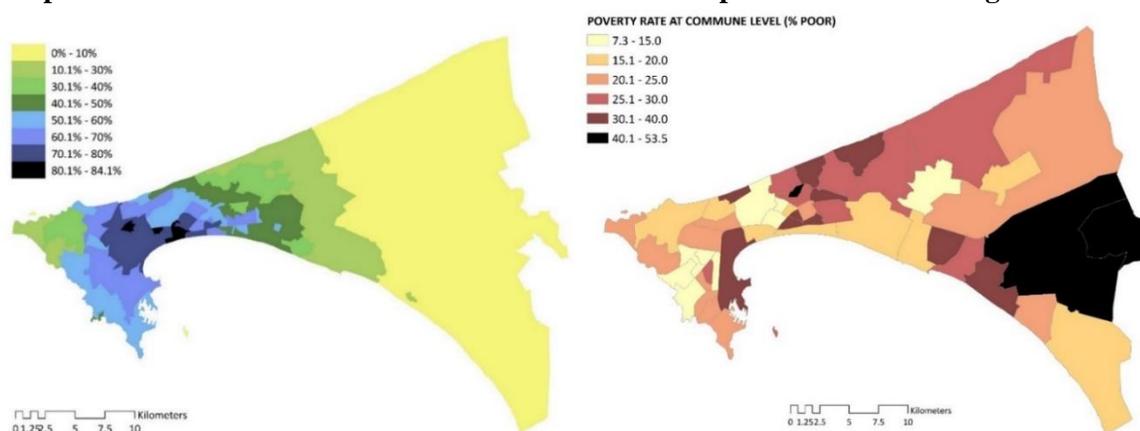
⁵³ WDI, 2016. Available at: <https://data.worldbank.org/indicator/>.

⁵⁴ World Bank (2015). Urbanization review.

reduction between 2001 and 2011 can be accounted for by the dynamics within both urban and rural areas (92.07 and 96 percent, respectively)⁵⁵, which indicates that, although a contributing factor, internal migration was not the main driver of poverty reduction.

48. **One of the underlying reasons why moving to urban areas does not provide a way out of poverty is the limited inclusiveness of the growth process in urban areas, as reflected by the lack or limited access to good jobs for people, particularly in suburban Dakar.** Public transport connectivity and access to employment opportunities are closely linked in the capital city. As the distribution of employment within the city is uneven and not aligned with the distribution of residential densities and, especially, the residential locations of the poor, good connectivity is key for the poor to be able to access labor markets, particularly for women who are subject to more stringent mobility constraints. Thus, while the average Dakar dweller can access about 400,000 (or 52 percent) of the city's jobs within an hour commute (on public transport)⁵⁶, the share of jobs accessible to the poorest residents (clustered in poorly connected eastern and northern communes with the highest poverty incidence and significant share of migrants) is much lower – at below 10 percent. Furthermore, as illustrated in paragraph 21 of the *Growth* section, urbanization did lead to some labor reallocation from agriculture to commerce. This shift, however, seems to be having a relatively small impact on poverty as jobs in commerce are generally informal, characterized by low remunerations, underemployment and no social protection.

Map 2.2: Jobs Accessible Within an Hour of Public Transport Commute During Rush Hours, 2015



Source: EMTASUD (2015) data on employment locations; analysis using Open Trip Planner Analyst (OTPA), World Bank staff calculations.

Poverty Profile

49. **Poverty in Senegal is mainly rural and principally affects households that are large in size and lack education.** In 2011, nearly 70 percent of the poor and 84 percent of the extreme poor lived in rural areas, accounting for 57 percent of the total population and suggesting rural poverty to be deeper and more severe. Apart from geography, the main correlates of poverty are, as expected, education, the size of the household and sectorial occupation. In 2011, 80 percent of the poor lived in households with 10 or more members, and 83 percent lived in a household whose head had no formal education. Female-headed households were less likely to be poor, as women tend to head smaller households, and are more likely to receive cash and in-kind transfers.⁵⁷ The poverty profile constructed using the DHS wealth indicators for

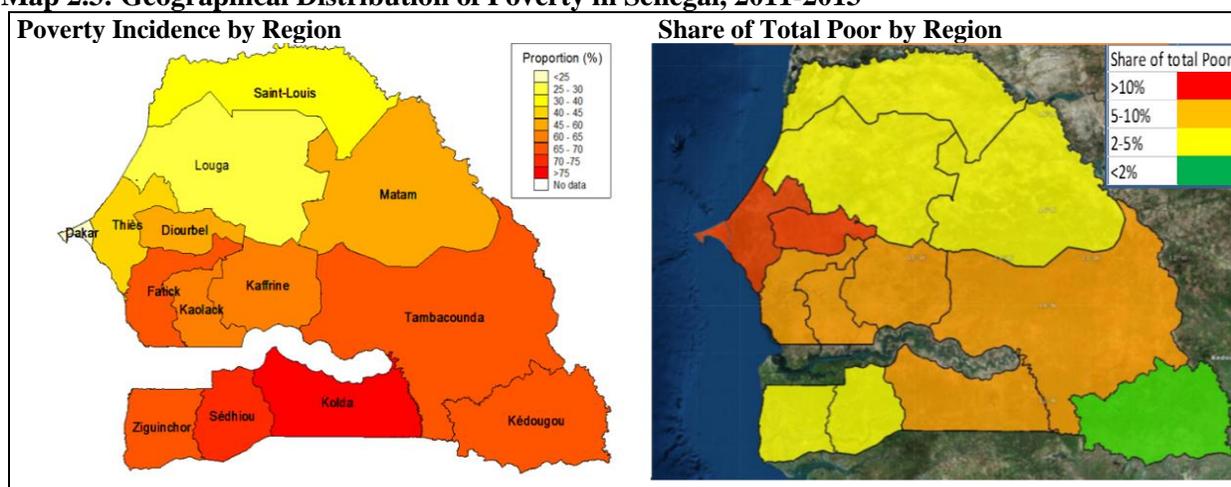
⁵⁵ Huppi-Ravallion decomposition for changes in the poverty headcount between 2005 and 2011 using the total poverty line.

⁵⁶ The 'effective size of the labor market' in the literature is defined as the average number of jobs that are accessible within a given time threshold, usually one hour (Bertaud, 2014).

⁵⁷ Moreover, due to self-selection women, heading their households, may represent a sub-sample of women with different preferences, norms, and characteristics.

2015 suggests that the characteristics of the poor have largely remained unchanged since 2011 in terms of geographic distribution, households' size and education levels.

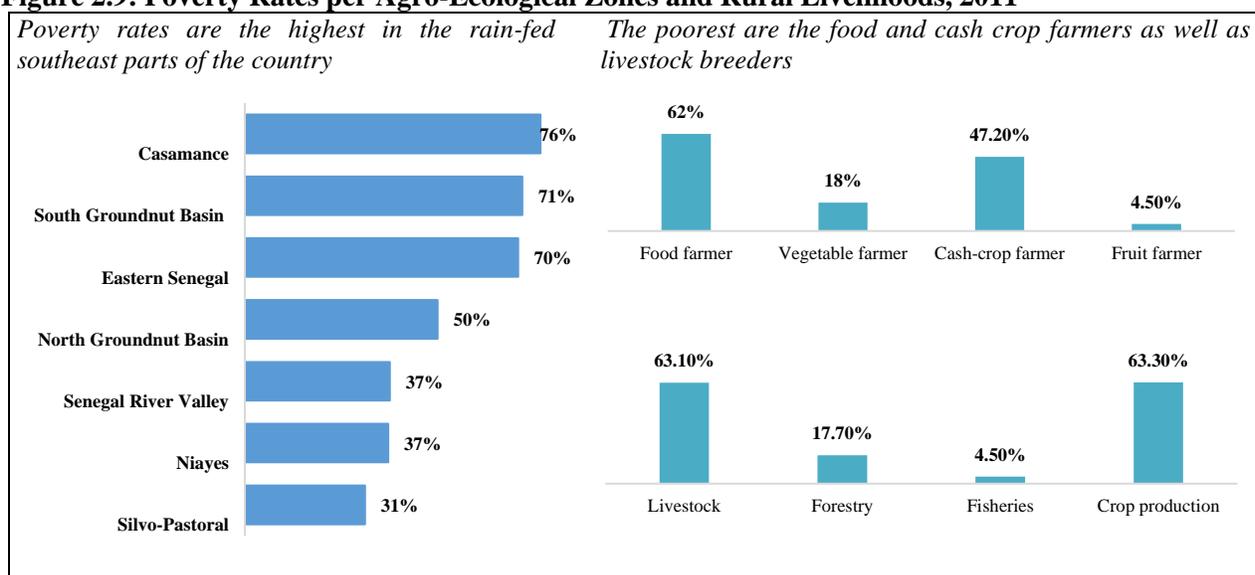
Map 2.3: Geographical Distribution of Poverty in Senegal, 2011-2013



Source: World Bank Staff estimations based on ESPS 2011 and RGP 2013.

50. **Agriculture employs a large share of the poor, particularly in rural areas, with the rain-fed sub-sector being the poorest.** Not surprisingly, 62 percent of the rural population live off agriculture, which employs more than 36 percent of the total labor force of the country, according to the 2015 Labor Force Survey. However, despite relatively favorable climatic conditions and the fertile soil, poverty incidence among farmers is the highest. In rural areas, nearly 80 percent of paid workers in the bottom quintile of the distribution of consumption worked in agriculture, while the more prosperous engaged in largely informal services. Among the poorest are the farmers growing rain-fed food crops (including cereals), main livelihood in the sparsely populated southeast of the country, and cash crops, mostly groundnuts, concentrated in the north and south groundnuts basins and in Casamance. Households having livestock as a main livelihood are also among the poorest. On the other hand, poverty is at its lowest rates among horticulture farmers, mainly based in the Niayes, on the coast between St. Louis and Dakar, or rice producers along the Senegal River valley.

Figure 2.9: Poverty Rates per Agro-Ecological Zones and Rural Livelihoods, 2011



Source: World Bank Staff estimations based on ESPS 2011.

51. **Low productivity and underdeveloped infrastructure and logistics limit the potential of agriculture to reduce poverty.** Despite the importance attributed by the Government to the agricultural sector in the PSE, agriculture still has the lowest productivity among all sectors, the average farmer being more than six times less productive than her average counterpart in the rest of the economy⁵⁸. This result is not surprising if one thinks that only 3 percent of cultivated land is irrigated; the production system is still archaic; harvest losses span between 10 and 30 percent and access to inputs is problematic. Productivity is particularly low among the poor for whom these problems are exacerbated by the lack of resources. The recent success recorded in the subsector of horticulture and rice, where productivity increased significantly during the last 10 years, was made possible precisely by overcoming at least part of these problems, by mastering of water (right quantity at the right time), access to seeds, fertilizers and machinery, and benefitting from better connectivity⁵⁹.

52. **On the other hand, large numbers of the poor live in the outskirts of the metropolitan area of Dakar.** The incidence of poverty remains much lower in cities, particularly in Dakar (26.1 and 41.3 percent in Dakar and other urban areas, respectively). However, with almost half of the population living in urban areas and one quarter living in the capital, urban Senegal hosts 30 percent of the total number of the poor (Dakar alone has 13.3 percent of the nation's poor and 2 percent of the extreme poor). Within the metropolitan area of Dakar, the poor population is mainly concentrated in suburban areas, typically characterized by lower access to services and infrastructure.

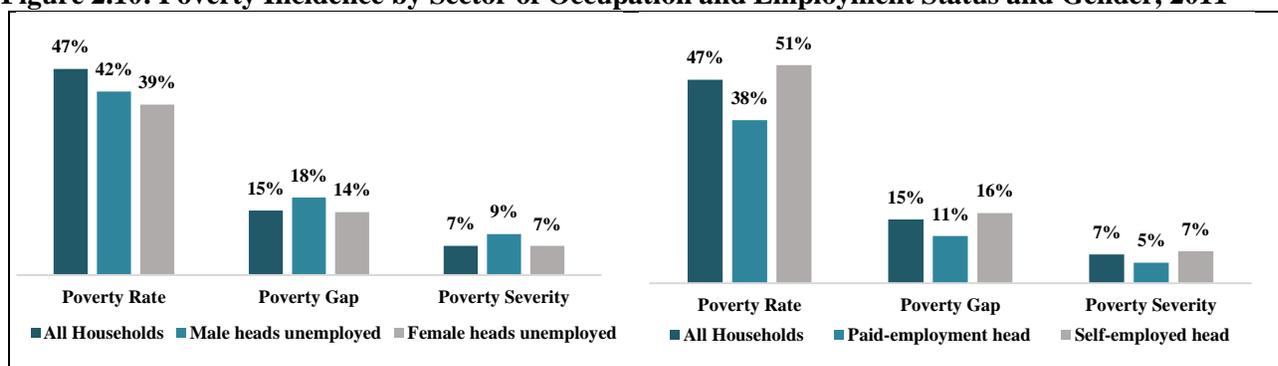
53. **The poor in urban areas mostly work in the informal sector, which is afflicted by low productivity and earnings.** Although less than in rural areas, having a job does not affect the likelihood of being poor in urban areas, where the poverty rate among the employed is only marginally lower than among the inactive⁶⁰ or unemployed (at 33 percent against 35 and 34 percent respectively) and the Labor Income Poverty Index stands at 54.8 percent against a national average of 61.6 percent. These numbers suggest that for poverty reduction, besides areas of residence (i.e. urban/rural), the quality of employment matters more than merely having a job. Indeed, 93 percent of the poor work informally in sectors, such as construction, commerce and other services, reflecting a severe lack of formal wage jobs. Despite providing an income generation opportunity, particularly to women, the informal sector has productivity six times lower than formal activities and accounts for only a third of total earnings.⁶¹ Even among non-agricultural wagedworkers, informality increases the likelihood of poverty, as suggested by the poverty incidence among formal wagedworkers (15 percent) compared to their informal counterparts (32 percent). In reason of the time, mobility and cultural constraints they face, women are overrepresented in the informal sector, where their productivity is almost half the men's, due to difference in productive assets endowment, including human capital.

⁵⁸ Abdullay Seck, 2016. Agrodep.

⁵⁹ The latter refers to basic infrastructure allowing producers/people to reach markets and services, both critical to increase productivity and access to jobs on the one hand, and profits on the other.

⁶⁰ Not in school.

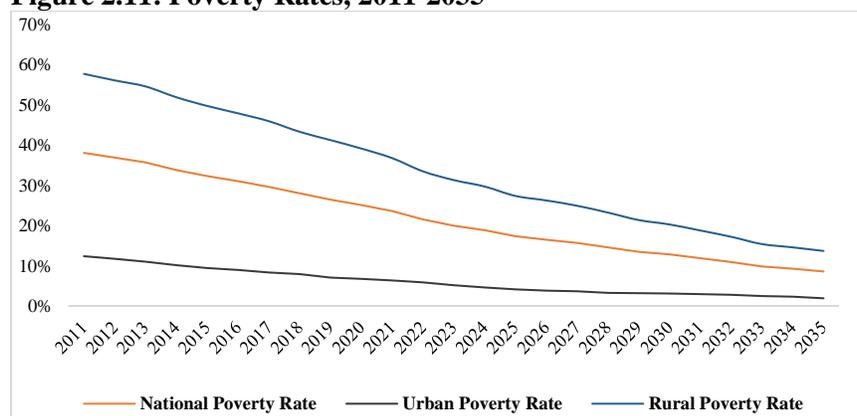
⁶¹ Echevin and Murtin (2008).

Figure 2.10: Poverty Incidence by Sector of Occupation and Employment Status and Gender, 2011

Source: World Bank Staff estimations based on ESPS 2011.

Charting a Course Towards Inclusion

54. **In summary, to become an equitable emerging economy Senegal must do more to address its high levels of monetary poverty, persistent inequalities and high vulnerability.** Progress towards poverty reduction has been slow during the last 15 years, although resuming since 2011 thanks to high GDP growth, the good performance of pro-poor sectors, such as agriculture and construction, and the expansion of access to basic services. However, large shares of the population are still excluded from the turnaround in growth, mainly due to the uneven distribution of opportunities, including productive jobs, and resulting in stagnating levels of inequality and vulnerability. Although most of the poor will remain concentrated in rural areas according to simulations (see Figure 2.9), this evidence is all the more worrisome for urban areas, where the lack of opportunities compounded by the raising demographic pressures from urbanization and youth bulge risk generating social instability. To achieve the World Bank twin goals of poverty eradication and shared prosperity, and become an equitable emerging economy as formulated in its vision of an emerging Senegal, the country needs to maintain or even accelerate the current growth trend, while boosting the welfare of the bottom 40 percent. This can be achieved by unlocking the potential of poverty reducing sectors, increasing the job creation capacity of the economy and further investing in the access and quality of basic services, thus contributing to increase the asset base of the poor and their resilience.

Figure 2.11: Poverty Rates, 2011-2035

Note: The simulations were conducted assuming the current growth trend (2.9%, corresponding to the average annual per capita consumption growth rate during the 2015-2017). Actual and projected urbanization rates from ANSD were applied.

55. **A more inclusive growth would be beneficial for social sustainability, as it would entail a reduction in inequalities of all types.** Although relatively low, when compared to SSA⁶² at 0.38 in 2011⁶³, the current level of inequality of consumption in Senegal still indicates that the top 20 percent of the distribution enjoys almost 45 percent of the total wealth, while the recent data based on asset indicators suggests that the economic growth between 2011 and 2015 may have been disproportionately captured by the better-off. Similarly, inequality of opportunity, as measured by access to basic services and infrastructure, is persistently high and sticky, particularly in its spatial and socio-economic dimensions. In light of this, more inclusive growth would be beneficial not only to accelerate poverty reduction through higher elasticity, but also to preserve social stability.

⁶² Gini estimates can sometimes differ depending on data sources. For Senegal, the official 2011 Gini coefficient is 37.8 (based on the ANSD surveys), as opposed to 40.3 (based on the World Bank's WDI and PovcalNet databases).

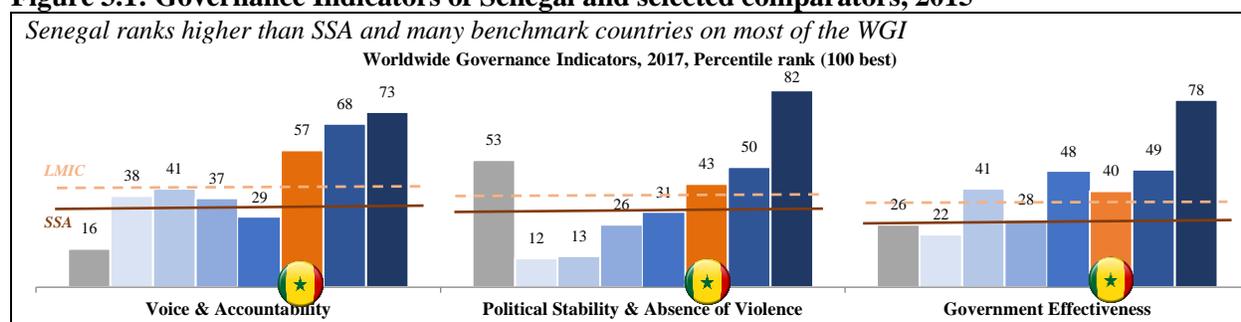
⁶³ The Gini coefficient in 2015 based on the asset index was also 0.38.

C. GOVERNANCE AND INSTITUTIONS

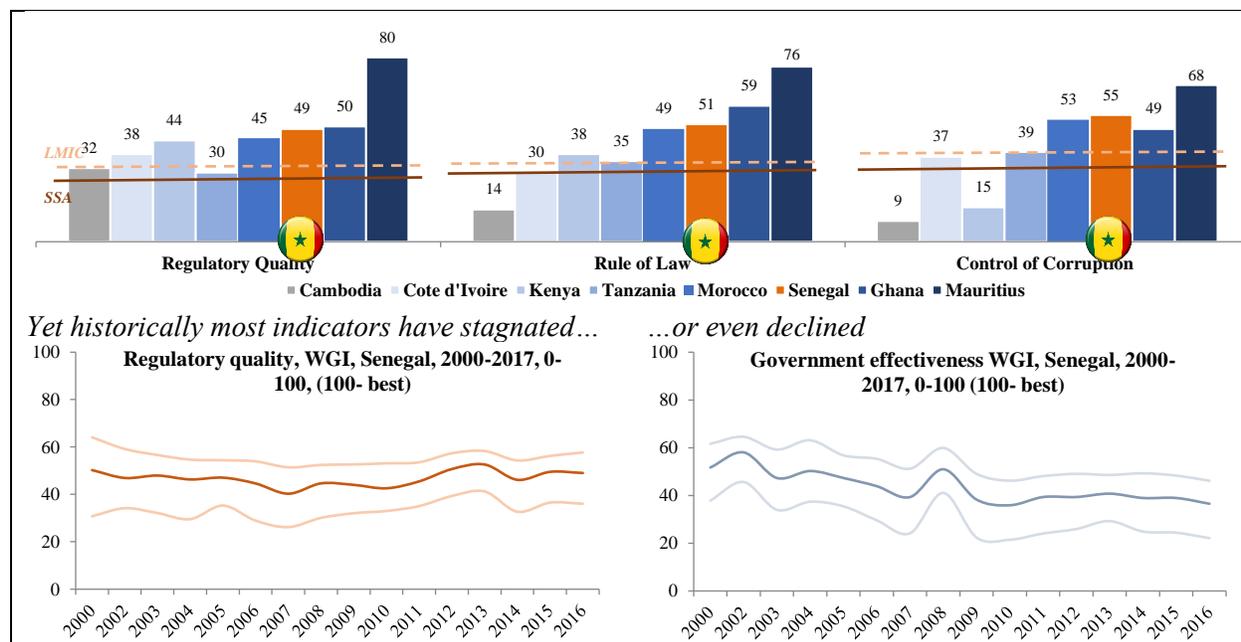
Senegal has historically benefited from a stable and active democratic political process, which has laid foundations for the emergence of relatively solid formal institutions, making the country one of the best performers in the region in terms of key governance indicators. However, a few areas have persistently stagnated or deteriorated, such as governance effectiveness. More importantly, weak regulatory enforcement, power centralization and politicization of public administration undermine effective policy contestation at the local or citizens' levels. These challenges underpinned by a complex web of interlocking interest groups, have resulted in a long-lasting low-level equilibrium, in which political alternation and robust reform agendas do not lead to desired development outcomes. Placed in the context of serious regional threats and instability stressors, this creates a need to further strengthen public institutions and policy implementation.

56. **Senegal has been one of the most stable and politically open countries in Africa, which has resulted in relatively good governance outcomes, but has also led to considerable challenges in effective implementation of development policies.** The country has a long history of stable and active democratic political process underpinned by well-established formal institutions. Senegal's performance with respect to governance is generally above that of the sub-region. In 2015, the country ranked 10th out of 54 states in the Mo Ibrahim Governance in Africa Index. In contrast to other countries in the region, the perceptions of corruption incidence in Senegal are also low and declining. Senegal's ranking in the Corruption Perception Index of Transparency International has improved markedly in recent years: from 143rd in 2011 to 124th in 2014 (out of 175) and 66th in 2017 (out of 180). Senegal generally scores well on the rule of law, ranking above the SSA and LMIC averages with respect to all World Justice Index indicators for 2016. Despite these relatively good outcomes, political contestation and alternation do not seem to have translated into effective public policy implementation. Senegal's democracy has allowed many centers of influence to emerge and exercise a veto power in a highly politicized environment, creating a system good at designing abstract policies, but marked by evident inertia in implementation. This might explain Senegal's low rank in terms of the cost of Doing Business (CoDB) (140th/190 in 2018⁶⁴), indicating significant scope for improving the quality of government-to-business procedures.

Figure 3.1: Governance Indicators of Senegal and selected comparators, 2015



⁶⁴ World Bank (2017). Doing Business Report 2018: Reforming to Create Jobs. Washington, DC: World Bank. © World Bank. Available at: <https://openknowledge.worldbank.org/handle/10986/28608>.



Source: WGI, 2016; World Justice Index 2016; World Bank Doing Business Report 2016.

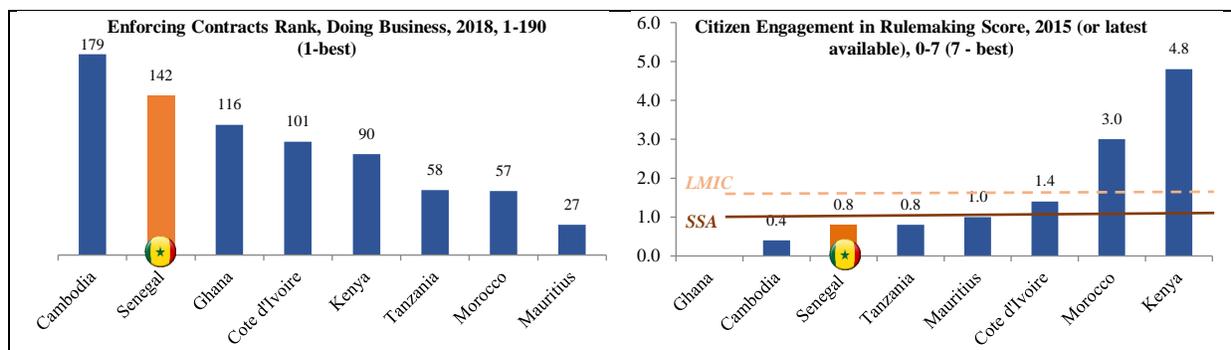
57. **A good recent performance in governance outcomes is overshadowed by deteriorating government effectiveness.** Under the current administration, recent progress with respect to voice and accountability, rule of law and control of corruption has reversed the deterioration in governance scores prior to 2012. However, when expanding the analysis horizons, it becomes evident that only limited improvements in governance indicators have occurred over time. In particular, government effectiveness has actually progressively declined.

58. **Notwithstanding the comparative strength of its institutions and the robustness of the democratic process, Senegal continues to face challenges in key aspects of regulatory enforcement and citizens' engagement in rulemaking.** Although Senegal generally scores well on the rule of law, key aspects of regulatory rules and enforcement critical for private sector development continue to pose significant challenges.⁶⁵ According to the Doing Business Report 2018, an average of 740 days is needed to enforce a contract through the court system in Senegal, which on average costs 36.4 percent of the value of the contract. Although costing less than the SSA average (44.3 percent), this takes longer than the SSA average (655 days) and results in Senegal still ranking 142nd of 190 economies on the ease of enforcing contracts.

Figure 3.2: Governance Indicators of Senegal and selected comparators, 2015

Challenges also persist in regulatory enforcement, as well as in citizen's engagement in rule-making evident in DB contract enforcement scores

⁶⁵ For example, weaker performance is registered with respect to (i) due process of law; (ii) the absence of improper government influence in judicial proceedings; (iii) access to publicized laws and government data; (iv) administrative complaints mechanisms; and (v) unreasonable delays in regulatory enforcement.



Source: Doing Business, World Bank, 2018. Johns, Melissa Marie; Saltane, Valentina (2016). *Citizen engagement in rulemaking -- evidence on regulatory practices in 185 countries*.

59. **Drawing upon the conceptual framework of the World Development Report (WDR) 2017, the following analysis links shortcomings in government's effectiveness, rules that facilitate business, regulatory enforcement and citizens' engagement to the country's political economy context.**

Political Economy Background

60. **From a historical perspective, the evolution of the state established a series of path dependencies that have ultimately shaped Senegal's governance environment.** Under the French colonial rule, Senegal became the first territory in the French West Africa (*Afrique Occidentale Francaise*) to be administered as a territory. As such, the colonial powers conferred a range of privileges upon the territory that were only later provided to other African territories. Political representation of an enfranchised urban (and then rural) population gave the country an early introduction to democratic competition. Yet, in contrast to other African territories, the French administration and the elected territorial representatives relied upon the adherence of the majority of the population to Islamic Sufi orders or brotherhoods as the basis for securing support and maintaining social order across the territory and notably in the hinterland. For 25 years after independence, new political leaders, Léopold Sédar Senghor and Abdou Diouf, relied upon the political endorsement (*ndigel*) of *marabouts*. These patrimonial arrangements expanded to other locally influential intermediaries over time. Notwithstanding the political transformations witnessed thereafter, these neo-patrimonial underpinnings continue to be firmly anchored in subnational clientelist networks whose relative and changing socio-economic weight have significantly impacted the institutions of electoral competition and participation (Beck, 2008).⁶⁶

61. **Since independence, a progressively more pluralistic polity has emerged in Senegal, and alternation in power has been achieved through regular and relatively peaceful democratic elections.** Following a short experience of a one-party system, from 1966 to 1974, Senegal restored political pluralism and an unrestricted multi-party system was instituted in 1981 under President Diouf. Political parties in Senegal have since proliferated with more than 200 parties now officially registered, most of which are centered around the identity of the party leader. In response to the expansion of identity-based political parties and in the absence of structured voting allegiances along ethnic or regional lines, the political landscape is now dominated by coalitions focused principally on consolidating voter support. Given often-limited convergence on matters of politics, these coalitions are characterized by frequent mergers, divisions and reorganizations.

62. **The current political system is structured around a complex web of political and economic interests that has stifled policy implementation.** Despite the dynamism of the democratic process,

⁶⁶ Beck, Linda, J. (2008). *Brokering Democracy in Africa: The Rise of clientelist democracy in Senegal*. Palgrave Macmillan, NY, USA.

beneath the evolving political coalitions and shifting alliances, political elites have remained relatively stable.⁶⁷ These political elites negotiate their survival with a multitude of entrenched interest groups in both public and private spheres (trade unions, business interests, religious orders, technocrats, etc.), which, in their turn, exert significant influence over state policies and the distribution of state resources, in a context of otherwise limited economic and employment opportunities. The intersection of a political elite driven by short-term electoral imperatives and a diverse set of corporatist interest groups deeply rooted in prevailing societal structures and constituting influential aggregate voter groups, creates a political system which provides stability and prevents extreme forms of state predation. Yet, it also implies difficulties in constructing an arm's length regulatory regime free of political interference, and results in high costs to the ruling elite to effectively implement structural reforms needed to deliver public goods and social services.

Government Effectiveness

63. **The distortive effects of patronage erode the effectiveness of the public administration.** As the former colonial administrative capital of West Africa, Senegal inherited a comparatively well-established and competent public administration. However, in a context in which political elites are both captive to, and emanate from, the multitude of corporatist interest groups in the country, the persistence of clientelist system has provided an enduring mechanism for elites to reward allegiance and maintain stability through the distribution of state positions. Consultations undertaken during the preparation of the SCD, together with a government diagnostic on public sector reform, point to the increasingly political nature of senior official nominations and appointments. Over time, the politicization of the public administration has both created structural impediments to effective public administration and distorted incentive structures.

64. **The fragmented and dynamic structure of the administration, together with the State's heavy reliance on autonomous agencies and SOEs to execute public policy and implement public investments present particular challenges.** The logic of patrimonialism sees bureaucracy as a potential source of political opposition, which should be kept weak and incoherent (Robinson 2008). Since the early 2000s, Senegal has witnessed a proliferation of ministries, departments and agencies and frequent organizational restructuring. Within the administration, overlapping institutional mandates, blurred lines of responsibility for outcomes and the underlying quest for institutional survival have ultimately weakened performance incentives. The prominence of public agencies constitutes a critical issue. In the early 2000s, significant swathes of responsibility for public spending were transferred from core public administrations to a rapidly expanding parastatal sector. By 2013, 57 SOEs and agencies executed about one-third of public spending and had a total annual budget of close to 10 percent of GDP. Limited state control over the sector raised concerns over the adverse implications for the efficiency and transparency of public spending and created the space for rent-seeking. Despite initial efforts by the current government to strengthen its ownership policy following a restructuring plan in July 2013, the size of the parastatal sector remains significant, while internal control systems, and the timely production of reliable financial information continue to pose challenges, as indicated by the ROSC review in 2016.

65. **Public administration reforms have yielded few substantive gains in shifting incentives or creating appropriate enabling environments for reform implementation.** Since independence, the country has engaged three generations of public sector reform. Although discrete results⁶⁸ were achieved and 'pockets of effectiveness' have emerged within the administration and state agencies,⁶⁹ the reforms appear to have had limited impact on enhancing government effectiveness. For example, Senegal dropped a quarter of a point in its score on government effectiveness between 1998 and 2008 notwithstanding the

⁶⁷ Much of the current ruling elite occupied political functions under the former regime.

⁶⁸ For a more detailed analysis of individual reform efforts see: *Etude Diagnostique du Service Public: Analyse de Synthèse des Réformes Publiques*, May 2016: Ministry of Civil Service, Senegal.

⁶⁹e.g. Gainer, M. Chan, S. & Skoet, L (2016) *Faster Together: A One Stop Shop for Business Registration in Senegal*. Innovations for Successful Societies, Princeton University, <http://successfulsocieties.princeton.edu/> (accessed 30 August 2016).

implementation of 27 projects with public sector institutional reform content at a cost of over US\$ 1 billion (Andrews, 2013). In addition to structural shortcomings, the following challenges are identified:

- (a) *Disparities in remuneration distort incentives.* From 2000 to 2015, Senegal's aggregate wage bill size, including SOEs and agencies, accounted for around 5.8 percent of GDP and 23 percent of government expenditures, close to the region's averages of 6.9 and 27 percent, respectively. However, Senegal's civil service is relatively small in terms of staffing with public sector employment representing mere 1.8 percent of the working age population and 1 percent of the total population, against the regional averages of 5.3 and 3.3 percent, respectively. This implies that Senegal's employee wage bill is higher than in the neighboring countries, which is consistent with data on wage compression or relative wages of higher skilled to lower skilled occupations. While this ought in principle to have stimulated performance, horizontal inequities in remuneration across government institutions have been the source of significant discontent.
- (b) *Performance-based management has yet to take root.* Senegal was an early leader in advancing PFM reforms to introduce performance-based budgeting and decentralize spending authority to line ministries in alignment with the directives of the West African Economic and Monetary Union (WAEMU). The organic law on public finances (LOLF) was approved in July 2011, and a Transparency Code was passed in 2013 to establish key budget management principles. Despite these promising beginnings, the authorities have delayed organisational reforms that would enable the effective application of a performance-based PFM system. Spending authority remains centralized and there are few institutional incentives to hold administrative institutions to account for results in reform implementation and service delivery. At an individual level, career and performance management systems are grounded upon poorly defined performance targets and politicized higher-level appointments provide few incentives for civil servants to invest in delivering results.
- (c) *The authorizing environment for reform innovation and initiative is constrained by an entrenched informal culture of information retention.* Though Senegal has embarked upon a program to introduce e-government systems under the auspices of the state information systems agency (*Agence de l'Informatique de l'Etat – AdIE*), existing systems for information management are weak. Even within the same institutional structure, limited sharing of information between officials hampers efforts to make informed decisions on reforms and causes delays in administrative processes. As demonstrated by a recent micro-analysis of selected administrative procedures, the silo-ed manner in which administrators often operate, combined with the absence of effective systems to document, archive and share information ultimately opens opportunities for gate-keeping and rent-seeking.⁷⁰

Judicial and Regulatory Enforcement

66. **Limited independence of the judiciary undermines effective law enforcement.** The rule of law in Senegal is comparatively robust and the professional reputation of the Senegalese judiciary is relatively strong. However, the judiciary remains vulnerable to political influence (Index of Economic Freedoms, 2017), and its independence has been questioned, as demonstrated by the country's weak scores on undue executive interference in criminal and civil matters. Despite the series of institutional reforms adopted to strengthen the anti-corruption framework⁷¹ and the highly-publicized conviction of the former President's

⁷⁰ Case Study on Triggering Effectiveness in the Public Administration (2017), World Bank.

⁷¹ These include (i) the reactivation of the Special Court for the Repression of Illicit Enrichment (*Cour de répression contre l'enrichissement illicite*, CREI) designed to fight illegal enrichment and corruption in government; (ii) the creation of the National Anti-Corruption Office (Office national anti-corruption – OFNAC); and (iii) the introduction of an embryonic asset declaration system for high-level public officials.

son for illicit enrichment, sanctions against corruption are few and far between. Few of the recommendations of the State control organs (IGE, IGF and the Court of Accounts) have been pursued and only one of the nine cases referred by National Anti-Corruption Office (Office national anti-corruption – OFNAC) to the Prosecutor has concluded in prosecution. The dismissal of the President of OFNAC following the publication of its 2015 annual report raised concerns with regard to its capacity to operate effectively. Corrupt officeholders at the lower levels of the public administration rarely attract public attention and petty corruption remains commonplace (BTI, 2015).

67. **Weak and uneven regulatory enforcement particularly impacts private sector operators.** SCD consultations with private sector operators indicated that legal arrangements, particularly tax and customs regulations, are not always consistently applied across all companies and are dependent upon personalized interactions with government officials. Such uneven regulatory enforcement underscores the high levels of informality, which characterizes the private sector in Senegal. Formal companies, especially those with high turnover and profitability, experience systematic challenges in dealing with tax and customs authorities, while large informal importers seem to be resolving these issues leveraging their clientelistic relationships with the political elites. Despite consistent improvements in administrative streamlining⁷², procedures remain too complex, and regulations are not always precise, leaving ample room for interpretations, negotiations and ultimately bribery, which acts as an incentive for some companies to remain (partially) informal.

Citizens' Engagement and Decentralization

68. **Notwithstanding the fact that Senegal boasts a vibrant and active civil society and has developed a robust reputation for fostering public dialogue and consultations, the capacity of non-state actors to engage substantively and influence policy remains limited.** The government's respect for civil liberties has improved over time, and the country is known for its independent media and public engagement in free expression and debate. Senegal's freedom status in the Freedom House 2017 index is categorized as 'free'. Active national level civil society engagement played a significant role in mobilizing support for alternation in the 2012 national elections. The media also acts as an effective intermediary between opinion leaders and the public. The wide range of public, private and community radio stations, operating on more than 80 frequencies are particularly influential. However, despite government efforts to establish forums for public consultation and dialogue, these initiatives are rarely perceived to influence policy making. During SCD consultations, for example, civil society expressed frustration at the limited take up of the recommendations developed during the national consultations in 2008 to 2009. Moreover, civil society engagement is often heavily politicized. The plethora of organizations in Senegal, is, in part, linked to funding opportunities provided by political alliances, migrant networks and international donors and this makes them vulnerable to co-optation. The capacity of civil society to substantively engage in informed policy debate is further impeded by low information environment. Though the issue has been debated over the course of several years, Senegal has yet to pass a comprehensive law securing the right to information. Finally, there appears to be an ongoing disconnect between the national discourse engaged by civil society actors that constitute an 'urban social elite' and the policy concerns affecting impoverished rural populations. Few intermediaries act to bridge this divide, resulting in the exclusion of poor rural populations from the national policy arena.

69. **The decentralization process has yet to provide an effective vehicle for enhancing citizen engagement in the policy process and orienting service delivery to the needs of local populations.** In principle, the decentralization process presents an opportunity to bring government closer to the people as it enables local populations to engage and hold their local representatives accountable for policy and service delivery outcomes that are directly relevant to them. In practice, however, limited progress in devolving

⁷² Senegal has achieved 19 reforms recognized in the Doing Business report over the past four years.

fiscal and administrative authority to LGs has undermined their capacity to substantively respond to citizen expectations. Despite the proliferation of sub-national governments induced by Act III, several factors have limited the effectiveness of the decentralization process:

- 1) **LGs continue to lack the necessary financial resources to fulfill their mandates⁷³, and weak technical and managerial capacity create disincentives for the central government to devolve financial resources.** Total financing for LGs 2011-15 amounted to only 1.4 percent of Senegal's GDP and 5.1 percent of total government expenditure – a level similar to other countries in the region (Mali, Benin, Burkina Faso), but well below the average for unitary decentralized countries (8.3 and 25.1 percent respectively). With the exception of larger cities, most LGs depend on intergovernmental transfers for financing. Furthermore, the fragmentation of the intergovernmental fiscal transfer system together with the lack of clearly defined and objective allocation criteria result in a situation in which fiscal transfers are not reflective of the financing needs of municipalities and their allocation is characterized by opacity and disparities between the level of financing afforded per capita to individual LG. Local revenue mobilization represents less than 1 percent of national tax revenue with 60 percent of local taxation revenue concentrated in the Greater Dakar area. Vast disparities in the composition, profiles and capacity of LGs administrative personnel limit the quality of planning, budgeting, and public investment management processes. Limited LG capacity creates a vicious cycle whereby the central government is reluctant to transfer additional resources and the lack of resources further compounds the ability of LGs to develop capacity.
- 2) **The institutional arrangements originally intended to accompany LGs have done little to progressively enhance their autonomy.** As a response to the weak capacity of LGs in the 1990's, Senegal's decentralization policy was oriented towards the creation of national agencies that were conferred with delegated responsibility for realizing local investments and managing basic urban services on behalf of LGs. Over time, these agencies became the direct recipients of central government financing. For example, around 50 percent of investment transfers under the Local Government Equipment Fund (*Fonds d'équipement des collectivités locales* – FECL) between 2011 and 2015 were allocated directly to certain national agencies. Increasingly they managed or executed LGs investments in the place of LGs, providing limited opportunities or incentives for LGs to develop their own implementation and managerial capacity. With the advent of Act III and the renewed focus on building LG capacity and autonomy, these agencies have been slow to adapt their modes of intervention to support progressive capacity development rather than substitute LGs.
- 3) **Finally, participatory approaches to local governance have yet to be institutionalized.** Act III formerly acknowledges, for the first time, the need for LGs to engage citizens in the management of local affairs. While innovative participatory approaches to programming, budgeting and oversight have achieved results in discrete locations, they are not systematically applied across LGs. In addition, the lack of accessible information on LGs financing and performance at a national level presents challenges for informed engagement of non-state actors in matters of local governance.

⁷³ The 2015 assessment of the first phase of implementation of Act III places particular emphasis on the mismatch between the mandates transferred to LGs and chronic deficiencies in the financial and human resources available to them to effectively implement their mandates - Nine "areas of competence" have been partially or totally transferred to LGs in the following sectors: environment and management of natural resources; health; population and social action: youth, sports and leisure; culture; education; investment planning; land-use planning; housing and urban development.

Security Threats and Fragility Risks

70. **Although historically considered as a linchpin of stability and security in West Africa, Senegal has been facing mounting transnational threats that can have an impact on its state institutions.** Although the incidence of civil wars and large-scale conflicts in West Africa has reduced dramatically, representing a watershed in the political stabilization of the region, other forms of political violence and new threats have emerged, such as drug trafficking, maritime piracy, and extremism. Coupled with other stressors, including youth inclusion, migration, and land management and placed in the context of an unstable region, further destabilized by the 2016-2017 terrorist attacks in Mali, Burkina Faso and Cote d'Ivoire, the spillover risk of many transnational threats is high. Although Senegal has so far managed to avoid major turbulence and is considered to be well equipped to face regional security challenges⁷⁴, it is not immune to stresses, such as the rising presence of cross-border terrorist groups, the intensification of illegal trade, maritime piracy and religious radicalization⁷⁵. A spike in drug trafficking throughout the sub-region has undermined governance and corroded state institutions in some of the neighboring states (especially Guinea Bissau and Mali)⁷⁶, spilling over and fostering criminality in Senegal, where narcotics seizures has recently increased in size and frequency⁷⁷, and where proceeds from this trafficking and other illicit activities tend to be laundered⁷⁸. Moreover, the surge in maritime piracy threatens the stability and economic development of the coastal states in the Gulf of Guinea. Compounded by other risk factors, such as protracted political crisis in Guinea Bissau, historic social fragility in Mauritania, the spread of ISIS ideology, a sharp increase in deadly attacks by Boko Haram against Nigeria's civilian population and the rise of extremist groups in Sahel, such as Al-Qaeda in the Islamic Maghreb (AQIM) and Ansar Dine, these stressors risk bringing protracted period of instability in the region.

71. **Many local experts point that the tradition of large Sufi brotherhoods in Senegal means extremism has difficulty in taking roots in the country.** Professor Ibrahim Thioub from the University Cheikh Anta Diop, for example, highlights that figures promoting extremism are marginalized and punished by these brotherhoods. *"The brotherhoods that <are generally well organized and have strong networks> know how to discipline these urban youth leaders. But the problem is the Salafists who have existed in Senegal since the 1950s."* He argues that even abroad, where Senegalese might be exposed to extremism — in France, for example — these brotherhoods have local chapters and encourage moderation and a very Senegalese version of Islam⁷⁹. At the same time, as found by the Pew Research Center in 2015, while 60 percent of the Senegalese population disapprove of ISIS, 11 percent have a favorable opinion of it (second largest approving share after Nigeria with 14 percent)⁸⁰, indicating that risks of ideological infiltration cannot be ignored or underestimated.

72. **A low-level separatist conflict in the southern Casamance region has been waged for three and a half decades, but has been progressively losing its relevance, especially following the 2017 change in the Gambian administration.** The southern Senegambia conflict system covers Senegal, The

⁷⁴ Senegal has a high-quality independent army that doesn't play a role in politics and has experience fighting abroad in Mali and, most recently in Yemen.

⁷⁵ Marc, A., Verjee, N., Mogaka, S., (2015) The Challenge of Stability and Security in West Africa. Africa Development Forum. Washington, DC: World Bank and Agence Française de Développement. © World Bank. Available at: <https://openknowledge.worldbank.org/handle/10986/22033>

⁷⁶ Ibid.

⁷⁷ Economist Intelligence Unit (2014). Senegal Country Report.

⁷⁸ In fact, as emerged from the recently conducted National Risk Assessment, the AML/CFT regime is weak, largely due to poor enforcement of existing provisions, which increases money-laundering risks and shell companies' establishment in several sectors, particularly real estate.

⁷⁹ Frantzman, S. (2016). "Senegal: The linchpin of security in West Africa". The National Interest. Available at: <http://nationalinterest.org/feature/senegal-the-linchpin-security-west-africa-15485>

⁸⁰ Poushter, J. (2015). "In Nations with Significant Muslim Populations, Much Disdain for ISIS". Pew Research Center. Available at: <http://www.pewresearch.org/fact-tank/2015/11/17/in-nations-with-significant-muslim-populations-much-disdain-for-isis/>

Gambia, which separates Casamance from the rest of Senegal, and Guinea-Bissau. The uprising for self-determination in the Casamance region is rooted in the grievances of the Diola people linked to the perceptions of political underrepresentation and economic disadvantage.⁸¹ Widely seen as one of the key causes of the conflict, land became an issue following a clash between the beliefs and traditions of the Diola and the land policies initiated by the Senegalese authorities. This low-intensity long-term conflict was further complicated by the links of kinsmanship between the secessionists and President Yahya Jammeh of The Gambia, which led to claims that he played an active role in aiding the rebels, as did various governments of Guinea-Bissau.⁸² The Casamance uprising triggered the civil war in Guinea-Bissau from 1998 to 1999, after officers from the armed forces were found to have aided Casamance separatists.⁸³ With the change of the recent Gambian administration in 2017, the conflict, which was already waning following the election of Macky Sall, has further subsided, creating new opportunities for development in the Casamance. And although a dormant rebel movement has recently reactivated its activities in light of planned mineral sands project in the Niafarang mine rich in zircon and ilmenite operated by Australia-listed Astron, calling it "a declaration of war", the likelihood of the situation escalating into a full-fledge conflict again is minimal.

⁸¹ M'Cormack, F. (2011). *Conflict Dynamics in West Africa*. GSDRC Helpdesk Research Report.

⁸² Fall, A. (2010). *Understanding the Casamance Conflict: A Background*, KAIPTC Monograph No. 7, Kofi Annan International Peacekeeping Training Centre, Accra.

⁸³ World Bank (2015). *The Challenge of Stability and Security in West Africa*. The Africa Development Forum Series.

D. ENVIRONMENT AND CLIMATE CHANGE

Senegal remains exceedingly vulnerable to environmental shocks, including recurring natural disasters (particularly floods and droughts), coastal erosion, and land degradation, which can jeopardize livelihoods and infrastructure, affect productivity of climate sensitive sectors and threaten social stability.

73. **Like most of Sahelian West Africa, Senegal is highly vulnerable to recurring environmental shocks that are likely to further increase in magnitude due to increased climate variability.** Droughts and floods have intensified in recent years and climate change is expected to further increase the extremes of weather patterns and natural hazards facing Senegal, roughly 67 percent of whose population resides in the urban coastal zone, also the location of 90 percent of the Senegalese industrial production. This coastal area is characterized by low-lying, rapidly expanding, high population suburbs, high water tables, and poorly planned drainage systems – all of which place much of the coastal population, infrastructure and ecosystems at risk of flooding and erosion. Climate change also has a serious impact on climate sensitive sectors, such as agriculture (70 percent of production is rain-fed), livestock and fisheries, which account for 20 percent of GDP and employ a majority of the workforce.⁸⁴

74. **Climate change will be driven by increased temperatures and likely decreased precipitation, exacerbating consecutive floods and droughts and further contributing to the degradation of livelihoods in the absence of adaptation mechanisms.** Mean annual temperatures in Senegal are projected to increase by 1.1-3.1°C by the 2060s, with projected rates of warming faster in the interior than in coastal areas. As for the rainfall, it is difficult to draw robust conclusions with different models projecting a wide range of changes in the mean annual precipitation, from -41 to +48 percent by the 2090s, however more models show decreases. Recurrent storm-water flooding is the most serious natural hazard Senegal has been facing over the last three decades.⁸⁵ Urban floods are recurrent, especially in Dakar, and are caused not only by heavy rains, but also (or rather) by unplanned urbanization, the lack and/or obstruction of drainage systems and maintenance works and rising groundwater

75. **In addition to flooding, sea-level changes and land degradation lead to coastal erosion, which poses a major threat to the population and economy of Senegal.** Sea level could rise by up to one meter by the end of the century as a result of climate change, which could result in the disappearance of between 55 and 86 square kilometers of the country's beaches and could flood 6000 square kilometers of low-lying areas. The population living in low elevation coastal zone (LECZ⁸⁶) are highly vulnerable to the impacts of sea level rise, storm surge and erosion. Senegal ranks second in SSA, after Nigeria, on the number of people exposed to coastal flooding. It is expected that in 2030 the population living in LECZ will account for 32 percent of the total, while in 2060 for 46 percent. The observed erosion rate of the shoreline varies between one to two meters per year for sandy beaches, with the coastal zones between Joal and Djiffere and between Saint-Louis and the Mbao-Bargny most affected. In the Dakar Metropolitan Area, over US\$2 billion or 5 percent of physical assets are considered exposed to high natural hazard potential.⁸⁷ Moreover, over the period of 1982-2006, 14 percent of Senegal's land area, which accounts for some 22 percent of population,

⁸⁴ USAID (2017). Climate Change Risk Profile – Senegal. Available at: <https://www.climatelinks.org/resources/climate-change-risk-profile-senegal>.

⁸⁵ From 1980 to 2008, floods have affected an estimated 400,000 to 600,000 people a year and caused significant damage to infrastructure, public equipment and private property along with economic losses.

⁸⁶ Low Elevation Coastal Zones (LECZ) are defined as areas below 10m from sea level. Source: Neumann et al. 2015. Future Coastal Population Growth and Exposure to Sea-Level Rise and Coastal Flooding - A Global Assessment. <https://doi.org/10.1371/journal.pone.0118571>.

⁸⁷ World Bank (2009). Preparing to Manage Natural Hazards and Climate Change Risks in Dakar, Senegal. A Spatial and Institutional Approach.

has suffered from land degradation.⁸⁸ Of particular significance for efforts to reduce poverty is the loss of productivity on 13 percent of cropland and 20 percent of grassland (significant for livestock production).

76. **Environmental changes are also likely to intensify migration and reinforce tensions across the region.** The academic literature shows that adjusting household composition in response to climate change shocks is a common strategy used to cope with them. In particular, prime- age adults often leave both rural and urban households, particularly the adult children of urban household heads (Safir 2009). This suggests that there may be a link between climate change and migration. Consequently, population growth and pressure on natural resources will continue to intensify competition between migrants and indigenes over access to arable land and pasture. Meanwhile, nomadic pastoralists (particularly those from Mauritania) are likely to continue to search out resources farther south in Senegal, which will put pressure on coastal regions, as the advance of desertification in some areas of West Africa boosts the incentive for migration as a coping mechanism (Aning and Atta-Asamoah 2011). Moreover, the competition for water resources is likely to be intensified, especially the water resources of the Senegal River that are shared by four riparian countries (Rasmussen 2003).

⁸⁸ Quang Bao Le, Ephraim Nkonya and Alisher Mirzabaev, Biomass Productivity-Based Mapping of Global Land Degradation Hotspots, ZEF - Discussion Papers on Development Policy No. 193, Center for Development Research, Bonn, July 2014.

PART II. PRIORITY CONSTRAINTS TO POVERTY REDUCTION AND SHARED PROSPERITY

77. **Building on the analysis in Part I, the Second Part of this SCD conducts a prioritization exercise to identify the binding constraints to the twin goals.** *Part I* of this report has argued that, against a historical backdrop of lackluster economic growth and poverty reduction, Senegal has recently achieved a structural turnaround in its economic performance, stepping on a path of enhanced international competitiveness and incipient demographic transition, with tangible impacts on poverty reduction. The analysis suggested that these gains are still fragile and that sustaining high economic growth and building a diversified competitive economy requires addressing critical remaining structural constraints. *Part I* also showed that inequality and shared prosperity have stagnated, even in periods of relatively dynamic growth, suggesting that limited job creation, both in numbers and quality, and insufficient improvements in access to services by the poor have prevented growth from being more inclusive. However, without a more pro-poor orientation, the eradication of extreme poverty by 2030 would not be achievable even with high economic growth rates, putting a premium on policies promoting inclusiveness of growth and the equity of resource distribution. The constraints analysis laid out in *Part II* of the SCD proposes to identify the most critical of the obstacles to sustained inclusive growth for the achievement of the twin goals⁸⁹.

78. **This part of the report is organized in the following way.** It starts by setting forth the methodological approach for the identification of binding constraints to poverty reduction and shared prosperity. The following sections then apply the approach to select a short list of binding constraints.

A. Overall Approach and Analytical Prioritization Framework

Overall Approach

79. **The SCD uses a three-step approach to arrive at the final set of binding constraints and associated solution areas.**

- First, an analytical prioritization framework is used as a conceptual guidance to identify a shortlist of binding / priority constraints.
- Second, each of the selected constraints is analyzed further through a ‘Deep Dive’, which focuses on the underlying policy and institutional issues and allows dissecting key crosscutting institutional challenges.
- Finally, based on these two layers of constraints analysis, the SCD further consolidates the binding constraints to better account for common underlying factors identified in step 2.

The selection of priority constraints has involved frequent consultations within the WBG Country Team (through thematic groups discussions and country team retreats), as well as extensive national consultations with the Government (both national and local) and non-government stakeholders, including key representatives of the private sector, civil society, and academia (refer to Annex 3 for detailed consultations description).

⁸⁹ With poverty estimated close to 40 percent of the population, the twin goals broadly coincide in Senegal. Hence, the SCD primarily focuses on poverty reduction to structure the analysis and the prioritization process.

Analytical Prioritization Framework

80. **The main function of the prioritization framework is to provide a conceptual guidance to assess the differential impact of various constraints on poverty reduction through the following sequence:**

- **First, the framework links the achievement of the twin WBG goals with the three categories of inclusive growth, distribution, and sustainability, corresponding to commonly accepted drivers for poverty reduction.** Inclusive growth focuses on the potential of the economy to provide new employment and livelihood opportunities for the poor. Distribution captures the potential for poverty reduction associated with a more equitable allocation of existing resources, independently of the growth process. Sustainability reflects the long-term resilience of resources related to growth opportunities and livelihoods of the poor. Although distinct, these three drivers are linked. For instance, a better distribution of current resources helps reduce poverty, but also helps the poor accumulate more resources over time, allowing them to participate in an inclusive growth process. Improving sustainability translates in a better distribution of resources for the poor and in a more productive economy. The use of these three categories in the framework is therefore a heuristic construct for the analysis of binding constraints rather than a definition of mutually exclusive categories.
- **Second, the framework breaks down each of these three categories into lower level constituent elements.** These three categories are further split into several analytical constituents, as described schematically in Figure 5.1.1 For instance, the Growth drivers are divided into leveraging comparative advantages in the short to medium term, realizing economic structural transformation in the medium to long term and ensuring productivity growth in the longer term.
- **Within each of these sub-categories, the team has selected relevant metrics to measure or assess the impact of different constraints on poverty reduction.** For instance, the metrics informing the comparative advantages analysis is the relative size of national endowments using national wealth accounting and/or the ranking of sectors in product space, combined with information on whether these sectors are operating to their full potential. Similarly, under the public transfers sub-category of the Distribution pillar, the Commitment to Equity (CEQ) methodology, applied in a recent study on Senegal, allows ranking the impact of different public expenditure and revenue categories on the wellbeing of the poor.

Figure 5.1.1: Prioritization Framework: Step 1



Source: Senegal SCD Team.

Policy and Institutional Deep Dives and Crosscutting Constraints

81. **The second step of the process will consist in a ‘Deep Dive’ into prioritized constraint areas to elicit underlying policy and institutional issues.** After identifying a shortlist of prioritized binding constraints, the SCD undertakes an in-depth analysis of policy and institutional bottlenecks underpinning each of them. The policy layer looks at both policy design and implementation, while the institutional layer focuses on the institutions that ensure the legitimacy and stability of the state, including underlying formal legal and regulatory frameworks, informal rules, dominant social norms, institutional and administrative capacity, and the interface between institutions and political power.

Figure 5.1.2: Prioritization Framework: Step 2



Source: Senegal SCD Team.

82. **This step will involve a further distillation of issues across several areas to draw out crosscutting policy and institutional constraints.** From the policy and institutional Deep Dives, certain themes are likely to emerge as being systematically important across multiple constraint areas. These crosscutting constraints, representing deeper, institutionally entrenched factors, are extracted in order to articulate solution areas, as they are better addressed transversally.

83. **It will also include solution areas related to each of the selected binding constraints, which are identified using existing analytical and technical work.** The discussion of potential solution areas draw upon extensive consultations, the World Bank expertise and other available sources, including evaluations of existing interventions and applicable lessons from international experience.

84. **To conclude, the binding constraints are consolidated into a few critical areas to better account for timeframes, synergies and complementarities between them.**

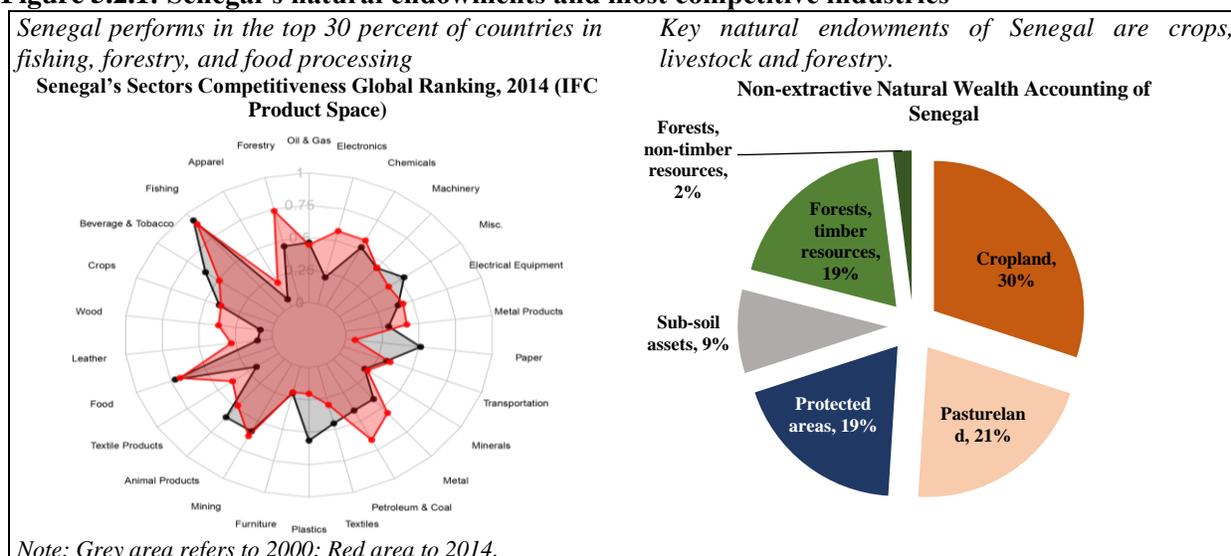
B. Identification of Binding Constraints

Inclusive Growth

Leveraging Comparative Advantages

85. Using both a measure of Senegal's natural endowments and International Finance Corporation (IFC) product space analysis, the country's strongest current comparative advantages are identified as linked to its primary sectors. Apart from recently discovered oil and gas resources, which are discussed separately, the largest natural endowments in Senegal are cropland, forestry, and pastureland. Marine resources are not featured, but fishing stocks are, nonetheless, substantial.⁹⁰ A recent IFC product space analysis -which identifies industries for which a country has a well-developed capability in term of the skills and technologies required to be a globally competitive exporter- echoes this evaluation, identifying fishing, food and forestry, as the three top sectors with the highest global competitiveness. Agriculture, defined broadly to cover crops, forestry and livestock, employs more than a third of the Senegalese workforce and the largest number of the poor, and hence can have a significant and direct impact on the poverty reduction. Food products identified by the IFC product space analysis include horticulture goods, prepared foods (e.g. soups and malt extract), and nuts.

Figure 5.2.1: Senegal's natural endowments and most competitive industries



Sources: IFC Product Space Analysis; WB National Wealth Accounting, 2016.

86. **The growth potential of agriculture and livestock is far from being fully realized.** As detailed in *Part I*, the contribution of agriculture and the primary sector to the economic growth has historically been very low, volatile, and productivity stagnant, and, despite strong performance in 2015, by 2016 its contribution had fallen back to below average, accounting for only 0.8 p.p. of the total growth rate of 6.8 percent. The development of agro-processing has been equally below potential, with an estimated 5 percent of total horticultural production being transformed. The weight of livestock sector is also important amounting to between half and three quarter of agriculture GDP and two thirds of employment in agriculture, while the percentage of livestock-dependent households under the poverty line, at 63 percent, is similar to that of agriculture. As recognized by the PSE, stronger growth in these sectors is therefore a priority for inclusive and sustainable growth. As mentioned in *Part I*, more recently Senegal's agriculture

⁹⁰ Globally the maximum sustainable net benefit of marine fisheries is estimated at around US\$86 billion annually, while the world marine fisheries currently achieve only US\$3 billion (World Bank, *Sunken Billions Revisited*, 2009). Equivalent figures for the entire fisheries of Senegal are not available.

has demonstrated signs of structural transformation and rising productivity with expanding exports of fresh horticulture produce, sustained increases in rice production, and more competitive producer prices for groundnuts. However, important issues remain to be addressed to ensure a stronger and sustained contribution of agriculture, other primary sectors and associated agro-processing industry to inclusive growth.

87. In addition to agriculture, other important sub-sectors are fisheries and forestry, the impact of which on poverty reduction is, however, currently limited. Although Senegal is well known in the West African region as a traditional fishing nation, the sector currently employs only around 130,000 people (84,600 fulltime fishers and 47,800 people in auxiliary activities), or 4 percent of the total active population (according to the BNP case study). Moreover, as demonstrated by the poverty data, the impact of the sub-sector on poverty reduction is rather limited, as the current poverty rate among those engaged in fisheries is relatively low, at 4.5 percent against 63.3 among crop producers (see Figure 2.8). Key sector-related issue is hence its sustainable development in the context of climate change resilience and will be touched upon below (in the Climate Change Deep Dive). The same is relevant for forestry, the total area of which is estimated at 13,674,029 ha, including classified forests, protected areas and other wooded land.⁹¹ The sub-sector is important for distant, low-density areas of the country, and is stricken by illegal timber trafficking and desertification effects of the climate change.⁹² It employs an even smaller share of the total population, accounts for 8 percent of agriculture GDP and registers a poverty rate of 17.7 percent.

88. Tourism, another sector, which leverages natural resources, with a clear impact on job creation and the livelihoods of the poor, is only gradually recovering after years of neglect. Senegal is competitively endowed with many tourism assets, such as short-haul access to Europe, year-round good weather, a tradition of hospitality (*teranga*), a diverse and rich asset/product base, including 700 km of coastline and large protected areas, strong business and conference product in Dakar, rich cultural heritage of cities, such as St Louis, and increasingly internationally recognized music and arts scene. However, the Government has been largely unable to unlock its full potential, with the sector heavily influenced by fluctuating degrees of political support and external shocks. As a result, while in the 1980s Senegal was a booming African tourism destination, second only to Kenya in terms of arrivals, in 2015 it did not make it to the top ten SSA destinations. An expanded tourism sector could provide the poor with enhanced and productive employment opportunities, in light of its accessibility due to relatively low skills and investment requirements. The sector could also provide part-time job opportunities, serving as an income supplement for people continuing to engage in other activities, such as agriculture.

89. The extractive hydrocarbon sector will be an important source of comparative advantage in the years to come. Given that the sector is yet to be developed, with early production of oil expected to start around 2021, the sector is covered under the sustainability risks, later in the report, rather than in the section on constraints to inclusive growth.

Realizing the Structural Transformation of the Economy

90. Senegal has the potential to become a diversified economy, mostly service-driven, if it can support the expansion of its most productive and competitive sectors. As discussed in the Growth section of *Part I*, Senegal's economic growth has been characterized by weak dynamic structural change, whereby the share of high productivity sectors, such as finance, transport, manufacturing and utilities has not been growing. It has been estimated that if the sectoral distribution of workers in Senegal matched the one in developed countries, with the current level of sector productivity, overall productivity would

⁹¹ Ministry of Environment and Sustainable Development (2014). Forestry Policy of Senegal 2005-2025 (Updated in 2014).

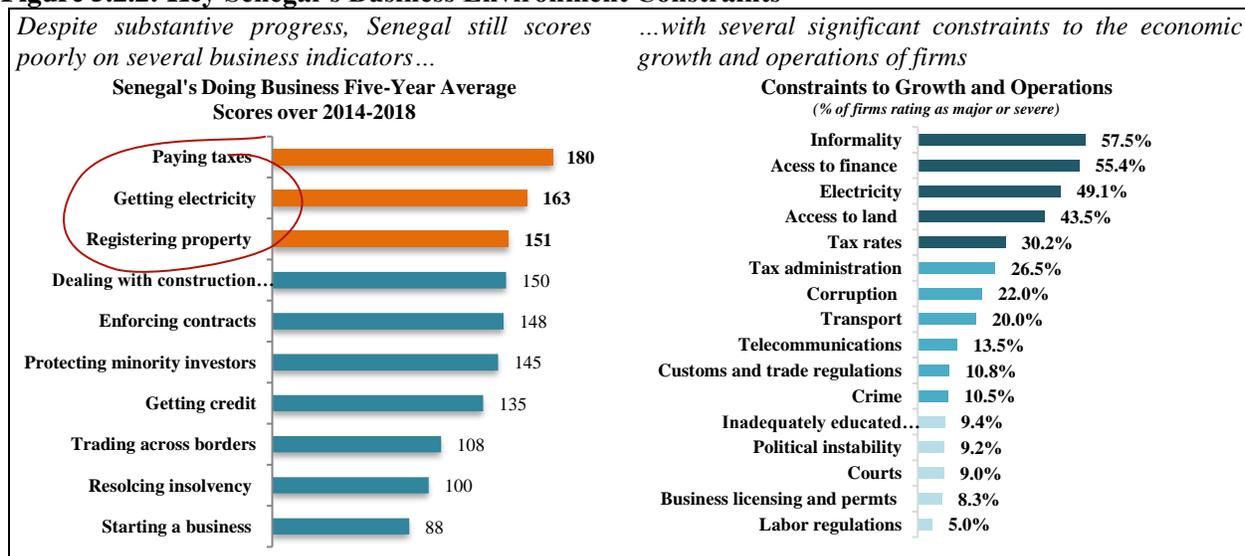
⁹² Reuters. "Timber smugglers could make Senegal's last forests disappear soon". May 2016. <http://www.reuters.com/article/us-senegal-gambia-lumber/timber-smugglers-could-make-senegals-last-forests-disappear-soon-idUSKCN0YH1Y8>.

increase by a factor of 11.⁹³ So, even with limited productivity growth, a structural transformation towards more modern economic sectors, mostly in services, but possibly including certain segments in agriculture and industry, would go a long way to sustain inclusive economic growth for the years to come.

91. **The sub-section identifies binding constraints to structural transformation of the Senegalese economy by analyzing the structural factors and macroeconomic policies driving economic growth.** The multi-country growth regression analysis presented in *Part I* estimated that during the periods of stronger performance two thirds of the economic growth in Senegal can be attributed to structural factors, around 20 percent to macroeconomic policies, while the rest is driven exogenously. To identify top structural constraints, the SCD uses the CoBD combined with the constraints perception from the 2016 Investment Climate Assessment (ICA). To identify critical macroeconomic policy constraints, the report relies on the results of the growth regressions presented in *Part I*. Finally, the SCD analyzes longer-term constraints to structural transformation through the prism of key long-term determinants of productivity growth - human capital and technology.

92. **The SCD uses the average CoBD ranking over the past five years to detect the top three persistent structural constraints to growth, cross-checking them against the ICA perceptions to validate and nuance the selection.** Notwithstanding recent progress in improving its investment climate⁹⁴, Senegal still lags behind most of its comparators on a number of critical business environment indicators, most notably taxes, energy and land/property registration, which emerge as top three constraints in the analysis of average scores of Senegal over the past five years in the World Bank Doing Business Reports (2014-2018).

Figure 5.2.2: Key Senegal's Business Environment Constraints



Source: World Bank, Doing Business 2014-2018; World Bank, ICA 2016 based on the Enterprise Survey 2014.

- **Taxes (both tax rates and administration) consistently emerge as a top CoBD constraint, related in part to the unfair competition from the informal sector.** Over the course of extensive SCD consultations, formal private sector companies highlighted an arbitrary implementation of the tax code, underpinned by what is seen as a predatory behavior by tax authorities, and resulting in high levels of uncertainty around tax liabilities. These perceptions of uneven application of tax regulations rooted in personalized interactions with government officials underscore high levels

⁹³ McMillan, Margaret, Dani Rodrik, and Íñigo Verdúzco-Gallo. 2014. "Globalization, Structural Change, and Productivity Growth, with an Update on Africa." *World Development* 63 (C): 11–32.

⁹⁴ Over the last five years the country was twice listed among the top 10 reformers in the World Bank Doing Business report.

of informality of the Senegalese economy and are consistent with the results of the 2016 ICA, which point to the issue of unfair competition from informal firms as the leading constraint for formal businesses. More than half of respondents in Senegal find these challenges as major or severe (versus 39 percent in SSA) with more than three quarters of the firms declaring to be in direct competition against unregistered or informal companies. At the heart of the problem, as revealed by the SCD consultations, are not small “*neighborhood*” firms, but rather large, pseudo-formal enterprises that leverage their size and connections to escape VAT, corporate taxation and customs controls, thus creating a de-facto underground economy and unlevelled playing field for formal private sector.

- **The energy sector, despite clear progress and adequate access rates, remains characterized by unreliable and expensive electricity.** The electricity access rate in Senegal, at 64.5 percent nationally, is comparable with regional benchmarks (59.3 percent in Nigeria, 64.3 percent in Cote d’Ivoire, 79.3 percent in Ghana⁹⁵). It is particularly high in urban areas, reaching 85 percent, though significantly lower in rural areas, registered only at 33 percent, with the quality of service deteriorating even further outside of the largest cities. Moreover, Senegal faces serious affordability issues, with current electricity costs of US\$0.22 per kilowatt-hour much higher than the global average (closer to US\$0.10) and other key markets in the region, such as Nigeria at US\$0.09, Ghana at US\$0.11, and Cote d’Ivoire at US\$0.13, critically hampering the country’s competitiveness. As reported in the Enterprise Survey, issues associated with electric outages come at a substantial opportunity cost for firms. Outages last on average two hours – which often translates into the loss of production for the entire day – and result in about 5 percent of annual sales lost.
- **Accessing and owning land as well as registering property are also among the most difficult aspects of doing business in Senegal.** Notwithstanding ensured tenure security, the legal land framework is largely outdated and strongly limits transferable land rights, acting as a hindrance to private sector investment, while spawning an extensive informal land market. Based on the 1964 Land Law, rural communities – rural communes since 2013 - are allowed to allocate land use rights that are neither tradable nor transferable only to the members of their communities. Since no accompanying measures (tools, training) ever came to enforce this law, investors undertake transactions directly with communities or individuals, which raises uncertainty and leads to suboptimal outcomes. The risks are compounded by the pressures on land due to population growth and climate change related degradation, on the one hand, and increasing interest of urban elites and international firms in agricultural land, on the other hand. The resulting situation is particularly problematic for structural transformation, as transacting land is a key driver of increasing productivity in agriculture and of shifting resources to other sectors of the economy. A study on Ethiopia⁹⁶, where, similarly, land sales are prohibited, and land rentals remain restricted, show that rentals increase the proportion of farms utilizing more capita-intensive technologies, further contributing to increased productivity, but that subdued aggregate rental activity results in substantial misallocation in agriculture, an elimination of which can increase aggregate agricultural productivity by 136 percent.
- **Although access to finance does not appear in the top three constraints in the five-year average CoDB rankings, it features as one of the top constraints in firms perceptions surveys.** Although a sophisticated financial sector is present in Senegal, financial inclusion is still limited, and small and medium private firms have difficulties in accessing credit. Ultimately, the

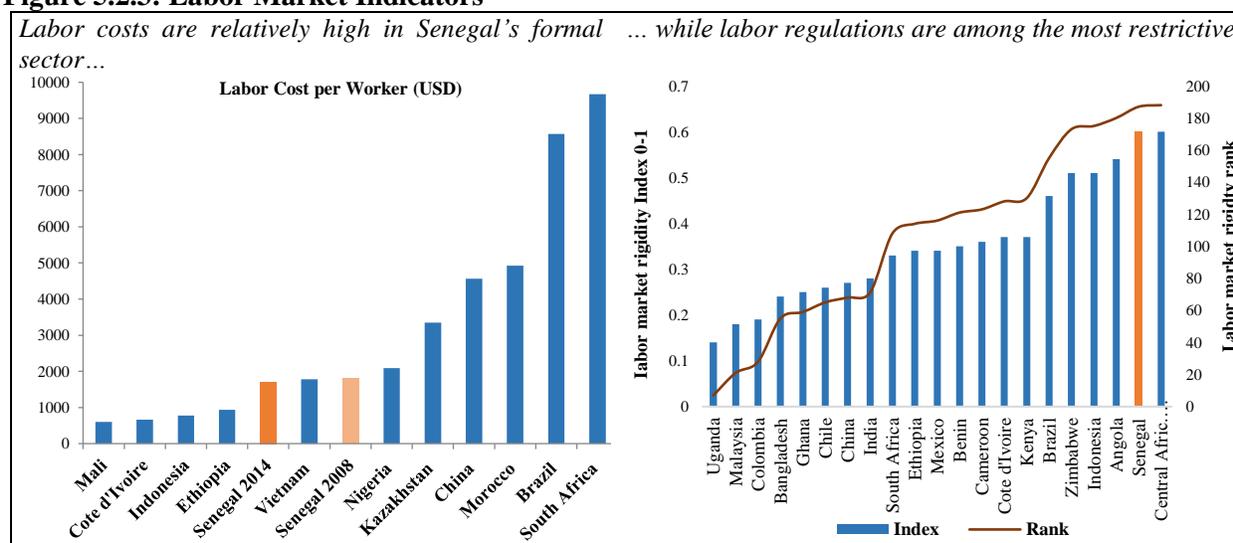
⁹⁵ World Bank WDI database for 2016.

⁹⁶ C. Chen, D. Restuccia, R. Santaaulalia-Llopis. *Land Markets, Resource Allocation, and Agricultural Productivity*, research paper, University of Toronto, 2017.

underlying issue, constraining firms' financing, appears to be linked to the diffused informality (as only 85 percent of firms are formally registered, according to the 2014 Enterprise Survey), including the weak credibility of firms' official accounts, as documented by a recent accounting and auditing ROSC. Moreover, firms lack sufficient collateral, as on the one hand, the value required is very high⁹⁷ and, on the other hand, they don't have access to collateral land titles due to the legal limitation of transferable land rights discussed above.

93. **Key macroeconomic factors affecting growth, as presented in Part I, are linked to trade openness and competitiveness.** With a fixed peg to the Euro, countries in the FCFA zone, such as Senegal, can try to control their international cost competitiveness by managing domestic inflation and domestic production costs, but are left vulnerable to exogenous factors, particularly large swings in the Euro-Dollar exchange rate. For instance, the higher growth in 2015-2017 was associated with a significant depreciation of the Euro, and correspondingly of FCFA, with respect to the US\$. In this monetary context, the impact of relatively high wages and rigidity in the formal labor market of Senegal is likely to be highly detrimental to domestic firms' competitiveness, especially in the tradable sector. In particular, wages in the formal manufacturing sector, at US \$1,800 in 2014, according to the ICA survey, were significantly higher than US \$600 in Mali, US \$660 in Cote d'Ivoire, and US \$930 in Ethiopia. Moreover, labor market rigidity indicators, built using the CoDB database, place Senegal among the top most rigid labor markets in the world.⁹⁸

Figure 5.2.3: Labor Market Indicators



Source: World Bank staff calculations.

⁹⁷ According to the 2014 Enterprise Survey, the value of collateral is 430 percent of the value of the loan for small enterprises and 228 percent for medium ones.

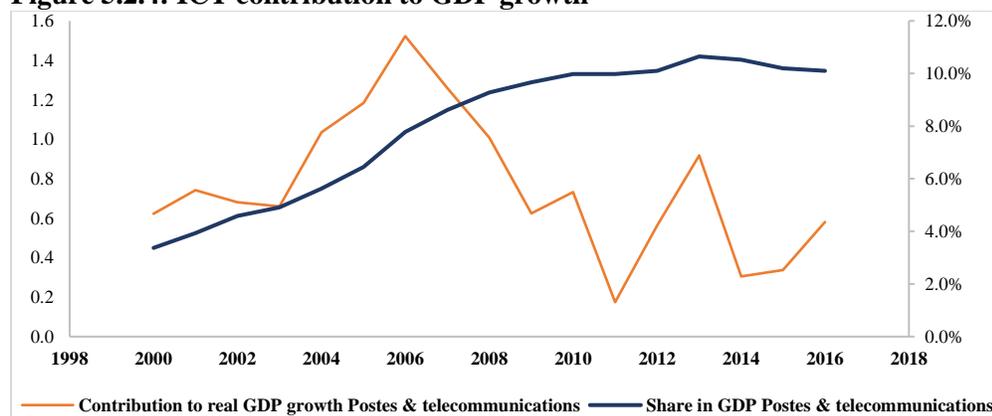
⁹⁸ Stephen Golub, Aly Mbaye, Hanyu Chwe (2015). *Labor Market Regulations in Sub-Saharan Africa, with a Focus on Senegal*, DPRU Working Paper 201505, December 2015, World Bank, Washington DC.

Increasing productivity

94. **In the medium to long term, only increases in productivity through strong human capital and innovation, can lead to sustained economic growth and rising living standards.** The endogenous growth theory emphasizes that sustained growth can only occur with continuous productivity increases generated by innovation. This entails building knowledge and skills needed for the technology development and absorption, stressing the importance of human capital for long-term growth. It also requires enhancing a technology-oriented eco-system in the economy that can support technology transfer to the broader productive system.

95. **As increasing automation of manufacturing and other disruptive technologies narrow the traditional path of economic development through industrialization, the digital economy is emerging as a key driver of economic activity in most countries.** In many markets affordable mobile internet access is driving demand for services such as financial payments, information and e-commerce as well as giving government's an effective platform for delivering government services and providing universal Digital ID. For the digital economy to function, the foundational elements need to be in place and operating: the digital connectivity infrastructure that is the backbone of a digital economy; the payments, transaction and government platforms that are the operating system; and the digital entrepreneurship ecosystem that brings the digital economy to life with new services, business models and local content -all creating economic activity and new jobs. Senegal can also benefit from a large diaspora, including many highly qualified professionals, who can feed the digital economy back home through linkages with more advanced markets.

96. **The best opportunity for Senegal to develop a vibrant innovation ecosystem and leverage the potential offered by the digital revolution is to modernize its ICT sector, a sector whose development has been stifled in the past decade.** For countries at a similar development stage, as Senegal, innovation is linked more to the absorption and diffusion of existing technologies rather than to new research and development (R&D). In the current context, the digital revolution has become a central platform for new technology, well recognized by the Senegalese Government in its recently adopted National Digital Economy Strategy (*Stratégie Sénégal Numérique 2025*). The country has a bandwidth of 23 Gigabytes/second (Gb/s) through three submarine cables (South Atlantic 3 (SAT3), Atlantis 2, ACE) and satellite connections, and its telecommunications infrastructure ranks among the most developed and successful in West Africa. However, despite these assets, Senegal has been steadily losing its leading ICT position in the region over the past 10 years, with access to the Internet broadband remaining relatively limited. As reported by the International Telecommunication Union (ITU) in 2014, the percentage of people who use the Internet is estimated at less than 18 percent in Senegal, against 49 percent in South Africa, 42 percent in Nigeria, 40 percent in Cape Verde, and 19 percent in Ghana. Such low broadband penetration coupled with relatively expensive mobile Internet connections has inhibited the development of even basic back services, such as back office services. Moreover, there is a persistent digital divide across geographic regions and groups of population, as well as an innovation deficit and limited capacity for digital service delivery by the Government. As a result, Senegal is yet to harness the power of technology and digital dividend for transformation.

Figure 5.2.4: ICT contribution to GDP growth

Source: World Bank staff calculations based on national accounts.

97. **Senegal has been facing serious challenges in developing its human capital, especially in terms of life long skills acquisition.** Over 70 percent of workers in Senegal are unskilled (80 percent in rural areas and 65 percent in urban areas), implying a completed education level of primary or below. With an adult literacy rate of just above 40 percent, Senegal ranks well below the SSA and LMIC averages of 60 and 73 percent, respectively. This situation is rooted in important shortcomings in human capital formation along the whole life cycle. Underlying low educational achievements and weak productivity of the poorest segments of the population is a lack of sustained investment in the early years of children's life (i.e. from pregnancy to the age of five), including through early stimulation and learning opportunities at home and preschool, and through further health and nutrition improvements, especially among the most disadvantaged children. The neurological foundations for key cognitive and socio-emotional skills are best developed during these formative years and, while some catch up is possible later in life, it is typically more difficult and costly. Consequently, as outlined in *Part I*, enrollment in primary, secondary, and tertiary education in Senegal still lags behind most other countries on the continent, while the quality of education is at best average, when compared across Africa, and is thus largely behind countries in other parts of the world. Overall, the poor performance of the Senegalese education system is a major constraint to the long-term competitiveness of the economy.

Figure 5.2.5: Senegal Lagging Behind African Peers on Educational Enrolments

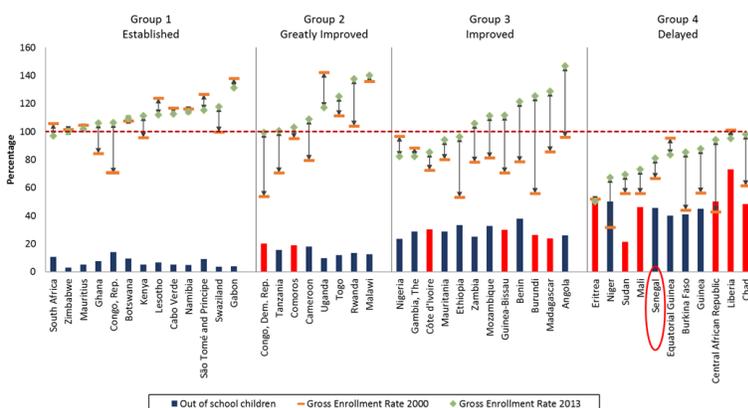
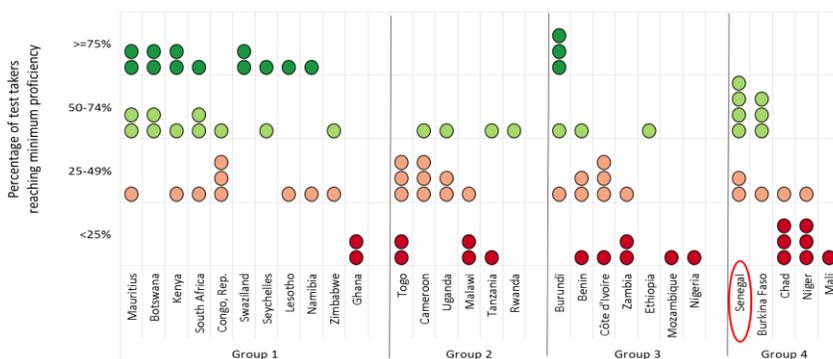


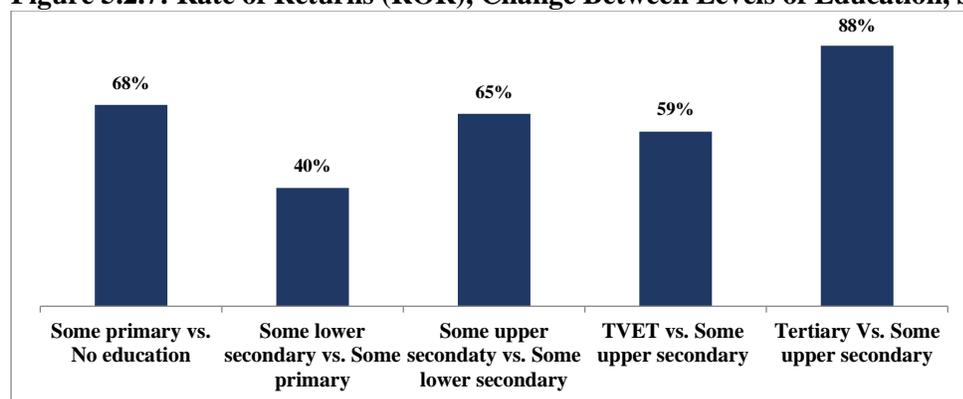
Figure 5.2.6: Learning Outcomes in Senegal - Average Regionally and Low Globally

(each dot represents an international or regional assessment in Reading, Math, and Science from early grade to lower secondary, and adult literacy)



Source: World Bank Regional Study on Quality of Education, 2017.

98. **Moreover, enhanced skills and better employability, particularly of the youth, is a critical short-term factor for the inclusive participation of the poor in the income opportunities generated by the economic growth.** Limited employment prospects of the poor in existing and upcoming growth opportunities represent a pressing constraint, especially in the context of the large number of the unskilled youth. As elaborated in *Part I*, cognitive skills - measured here in terms of mathematics and reading - are alarmingly low, resulting from the poor quality of learning in formal schools, low enrollment and high drop-out rates. At the same time, the labor market values skills and abilities beyond those provided by education institutions. Education returns are high at the lower levels of education, which contributes to explain how low enrolment, completion and literacy rates in Senegal lead to the high number of working poor. Providing illiterate adults or out-of-school young people with *second chance* opportunities to acquire basic literacy / numeracy, soft skills and appropriate technical capabilities is critical to ensure that the structural transformation of the economy is sufficiently inclusive to have a strong dent on poverty.

Figure 5.2.7: Rate of Returns (ROR), Change Between Levels of Education, Senegal

Source: ESPS 2011.

Distribution

99. **Improvements in resources distribution can significantly contribute to poverty reduction by abating its level, severity and depth.** Reductions in inequality can have a *direct* impact on poverty, lowering its headcount and possibly reducing the distance to the poverty line and/or inequality among the poor by redistributing resources in their favor. A more equal distribution can also affect poverty *indirectly* by increasing the elasticity of poverty to economic growth.

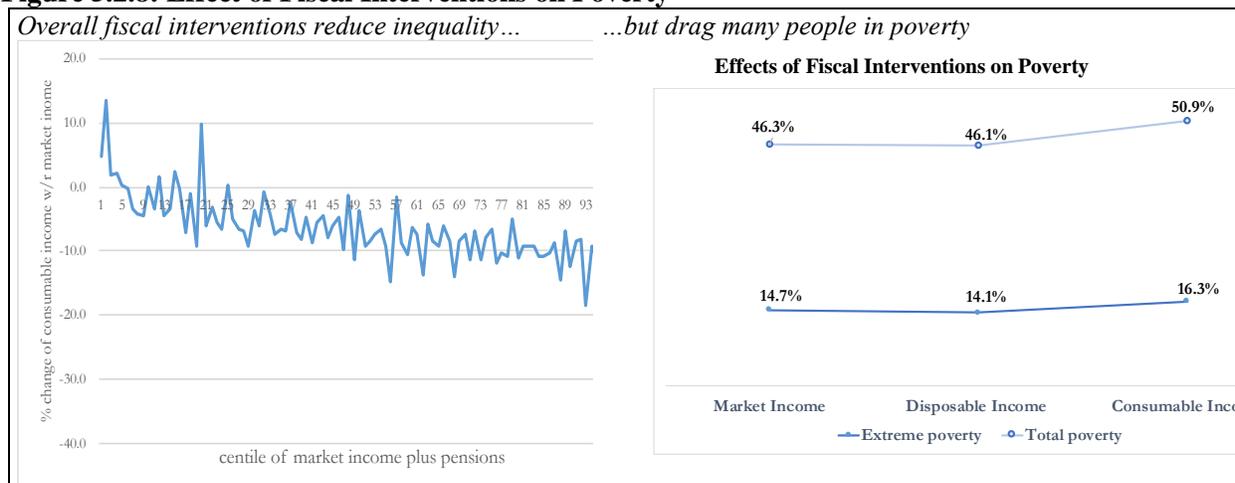
100. **Under the Distribution pillar, the framework focuses on constraints to poverty reduction generated by the allocation of public and private resources.** Following the framework, the SCD analyzes the distributional profile of the main transfers and social public spending programs, and their impact on poverty and equity based on the CEQ methodology.⁹⁹ The framework also examines distributional constraints related to private rents. Private rents are profits above the risk-adjusted market return on capital, resulting from oligopolistic or monopolistic market positions. Private rents are associated with higher prices, affecting the welfare of consumers and, thus potentially having a significant impact on the poor, depending on their size and distribution across goods consumed by the poor. Binding constraints are selected according to the magnitude of their impact on poverty.

Public Resources Distribution

101. **Fiscal interventions in Senegal progressively improve the distribution of income among all groups of population, although they result into an increase in poverty.** As revealed by the CEQ-based analysis¹⁰⁰, as of 2015 fiscal interventions bring Gini inequality down by 0.04 Gini points, placing Senegal as one of the top performers in terms of redistributive effects among countries undergoing a similar CEQ exercise. Direct taxation as well as direct and in-kind transfers in health and education reduces inequality. The only two components of the system that increase inequality are expenditures on tertiary education and electricity subsidies (when existing). However, the net fiscal impact to the population is negative, as the effect of the overall system is to impoverish people, with both poverty and extreme poverty going up by almost 5 and 2.1 p.p respectively. This means that the net social transfers are not large enough to compensate the strongly negative effect of indirect taxation (representing over 70 percent of total tax revenue) and given the depth of poverty. Furthermore, these transfers are concentrated in in-kind social services rather than spendable income transfers.

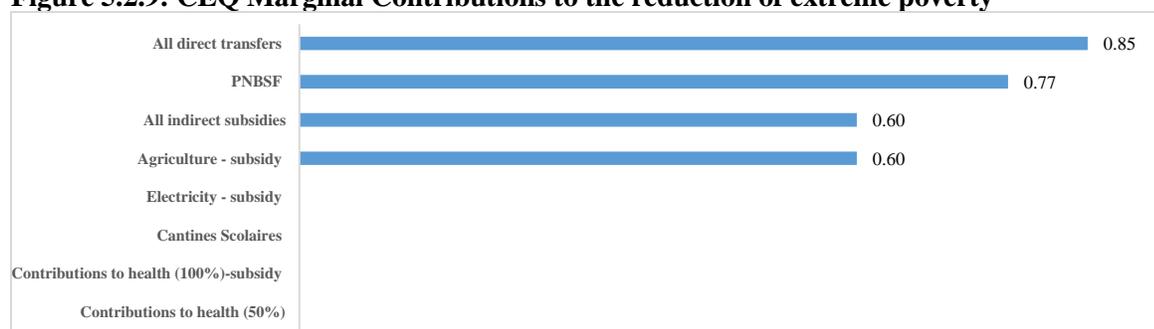
⁹⁹ The CEQ analyzes the impact of taxation and social spending on inequality and poverty, and provides a roadmap for building more equitable societies – See more at: <http://www.commitmenttoequity.org/>.

¹⁰⁰ *The Effect of Fiscal Policy on Inequality and Poverty in Senegal*. Cabrera, Martinez, and Marzo. The World Bank 2017.

Figure 5.2.8: Effect of Fiscal Interventions on Poverty

Source: Cabrera, Martinez, Marzo, 2017.

102. The CEQ analysis shows that the largest impact on poverty reduction could be achieved by rebalancing expenditure towards well-targeted social protection and health programs. Based on the concentration and incidence analysis¹⁰¹, primary education spending is pro-poor, secondary education is progressive, while tertiary is regressive with the richest two deciles receiving almost 80 percent of the total tertiary expenditure. In the health sector, expenditures on the universal health insurance (*Couverture Maladie Universelle, CMU*) programs are highly pro-poor (70 percent of the benefits covering 100 percent of the CMU contribution goes to the bottom 50 percent of the income distribution¹⁰²), while expenditures on general public health services are not pro-poor (almost half is captured by the richest four deciles), although still progressive. Finally, the conditional cash transfer program, Programme National de Bourses de Sécurité Familiale (PNBSF), has the strongest pro-poor profile.

Figure 5.2.9: CEQ Marginal Contributions to the reduction of extreme poverty

Source: Cabrera, Martinez, Marzo, 2017.

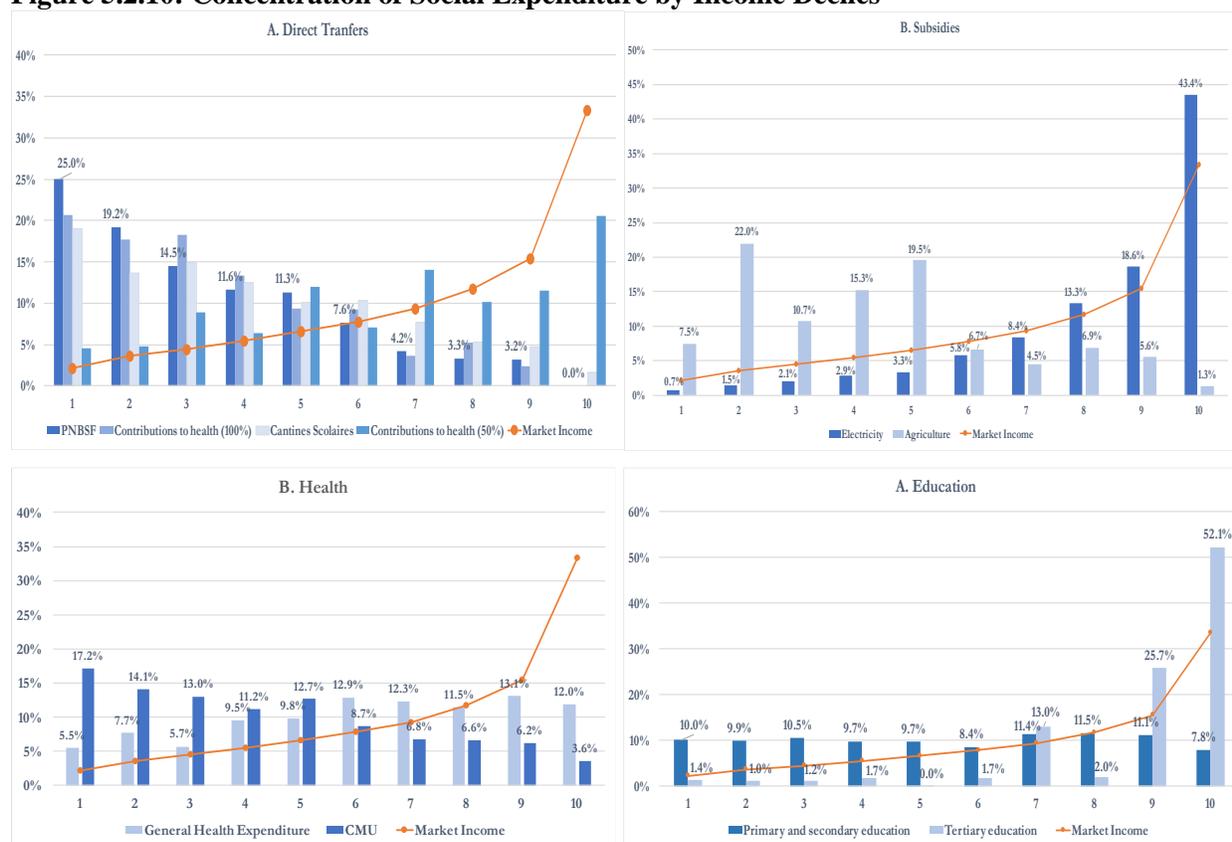
103. Social assistance direct transfers are the most impactful to reduce extreme poverty, albeit still negligible in size, and conditional cash transfers in particular prove to be the most effective

¹⁰¹ This analysis measures the transfers going to each decile, as a share of the total transfer and of the decile average income.

¹⁰² Subsidies for the CMU are of two types: one subsidy covers 100 percent of the contribution and is targeted to beneficiaries of the CCT program *Program Nationale de Bourses de Sécurité Familiale*; the other covers only 50 percent of the contribution and is targeted to informal sector workers, who currently do not benefit of any health insurance (unlike formal private sector workers).

interventions. Direct transfers¹⁰³ have the highest impact on both inequality and extreme poverty, yet the effect on the latter is still limited. The main reason behind it is that direct transfers represent only 0.7 percent of total expenditures in 2015 (0.2 percent of GDP) although the coverage of the main program, national conditional cash transfer program (CCT), has increased to 280,000 households by the end of 2016 (from 197,000 in 2015), bringing the program's share in total expenditure to 0.9 percent (0.3 percent of GDP). The limited impact on poverty rates is also linked to the depth of poverty, with transfers from the social assistance program improving income levels, but insufficient to bring households above the poverty line. CEQ countries that managed to achieve stronger impacts on poverty, such as Sri Lanka, devoted a larger share of their expenditure to direct transfers, indicating that there is scope to further increase their poverty-reducing impact in Senegal. As for the CCT program, one percent of GDP spent on it can potentially reduce extreme poverty by 4.3 p.p., making it the most promising program to reduce poverty. One way to maximize its positive impact may be to improve the quality and efficiency of spending, or further enhance targeting. The Government has recently improved the targeting system by associating community-based targeting to geographic targeting and Proxi Means Test (PMT). This change led to a significant reduction in errors of inclusion/exclusion. However, there is still scope for improvement, as today only 58 percent of the households, included in the National Unique Registry and eligible for the CCT, are extreme poor.¹⁰⁴

Figure 5.2.10: Concentration of Social Expenditure by Income Deciles



¹⁰³ Direct transfers included in the CEQ analysis refer to the national CCT program (*Program Nationale de Bourses de Sécurité Familiale*), the national school-feeding program (*Cantines Scolaires*); and subsidies for the universal health insurance contribution.

¹⁰⁴ World Bank (2017). Sénégal: Résultats de l'enquête de ligne de référence du Programme National de Bourses Sociales Familiales (PNBSF). Project background document.

Source: Cabrera, Martinez, Marzo, 2017.

104. **Energy subsidies, and, to a lower extent, agriculture subsidies, have limited impact on extreme poverty, while tertiary education public expenditures are mostly captured by the richest groups.** The electricity subsidies have zero impact on the reduction of extreme poverty and is at the same time is highly regressive, as 75 percent is captured by the three richest deciles (Figure 6.2, Panel B). The reform of electricity prices in 2016 helped reduce regressive features of this subsidy¹⁰⁵, as the poorest consumers now benefit from lower prices. However, the key equity problem of the sector is related to access rather than prices, as up to 90 percent of the top quintile enjoys a SENELEC connection, against only 19 percent of the bottom quintile. On the other hand, the agricultural inputs subsidy, although untargeted, is progressive, as 75 percent of it benefits the bottom 50 percent of the distribution and 55 percent of the bottom forty, and one percent of GDP in agricultural subsidies reduces extreme poverty about one percentage point, more than three times less than CCD¹⁰⁶. The poverty impact of this subsidy is lower than it could be as small farmers, who happen to be among the poorest groups of the population—62 percent of food producers and 47 percent of cash crop producers are poor, don't receive as much as they should due to diversion of subsidies to other groups. In this sense, the impact of this subsidy on extreme poverty could increase if better targeted at smallholder farmers. The most regressive expenditure of all is expenditure on tertiary education and scholarships. Spending on tertiary education has high opportunity cost, but potential long-term positive effects on growth, productivity, and development. So, the Government would do well to increase the chances of the poor to enroll in tertiary education and to make sure that these expenditures result in the creation of the appropriate skills that employers seek.

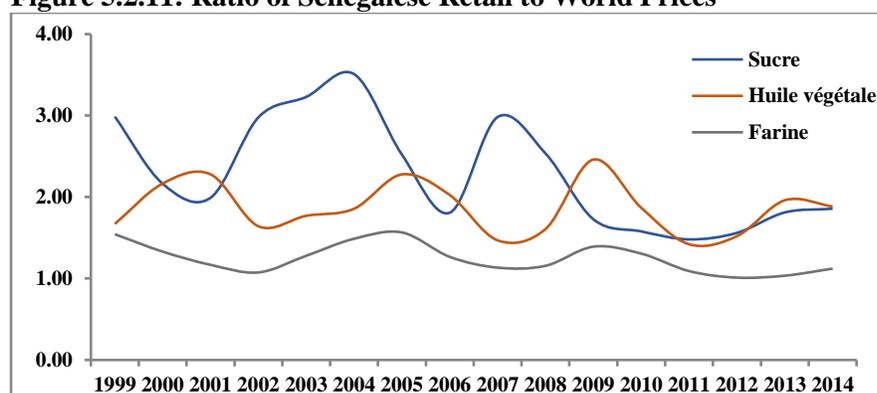
Private Rents Distribution

105. **Due to their dominance in the consumption basket of the poor, food prices have a considerable impact on their purchasing power.** Prices that have the most immediate and direct impact on the welfare of the poor are food prices, particularly those of staple foods, such as cereals and rice, since food represents more than half of total household consumption (64 percent for the extreme poor). Across all livelihood zones, households purchase over 80 per cent of their food, which suggests a strong dependence on these markets. Simulations conducted in 2008 suggest that a combined 25-percent increase of five staple products may result in a 5 p.p. poverty increase, potentially absorbing all the recent progress achieved up to date.

106. **Despite the market liberalization of the 1990s and 2000s, meant to bring the prices down, some important sensitive industries have retained special protection and have continued to be subject to price controls.** Domestic prices for selected staple foods often are two or three times higher than the equivalent world prices. These products, including sugar, vegetable oil and flour, account for roughly 14 percent of the total consumption among the poorest quintile of the population, and only a little less for the next quintile (2011 poverty survey). The tightening of price ceilings and some liberalization have taken place recently, but consumers have continued to pay above the global prices for sugar and edible oil in 2014.

¹⁰⁵ The subsidy to agricultural inputs was imputed, as the survey reports who receives the benefit and how much was the total expenditure on subsidized inputs. As each household represents a share of that total expenditure for 2011, the total government expenditure in subsidies for 2015 was allocated to households in the survey based on their share in the distribution in 2011.

¹⁰⁶ It is important to note that the CEQ study uses a household survey to estimate the impact of fiscal measures on poverty. The analysis of subsidies therefore cannot not seize the share of subsidies that are captured by big producers over the total.

Figure 5.2.11: Ratio of Senegalese Retail to World Prices¹⁰⁷

Source: Mbaye, Golub and English, 2015.

107. **As a result, consumers bear a significant cost of the protectionist measures**, which can be approximated as a difference between domestic and global prices, adjusted for transportation, wholesale-retail costs and margins.¹⁰⁸ As demonstrated in Table 5.2.1, which summarizes these calculations for annual averages over 2000-2010 and 2011-13, these costs tend to be quite considerable. Furthermore, tax breaks sometimes used to protect industries while lowering prices for consumers drain the Government budget, preventing it from investing in public goods. Importantly, these welfare costs are not outweighed by the wage bill paid by those industries, undermining any social rationale behind such anti-competitive policies.

Table 5.2.1: Implicit Costs to Consumers and Subsidies to Producers Associated with Protectionism in Sugar, Flour and Palm Oil Industries, 2000-2010 and 2011-2013

| | Domestic Retail Price (CFA per kg) | World Price adjusted (CFA per kg) | Ratio Domestic / World Price | 2000-2010 | | | |
|---------------|------------------------------------|-----------------------------------|------------------------------|-------------------------------------|---------------------------------------|--|-------------------------------------|
| | | | | Unit Cost to Consumers (CFA per kg) | Total Cost to Consumers (CFA billion) | Total Labor Compensation (CFA billion) | Customs Duty Revenues (CFA billion) |
| Sugar | 524 | 237 | 2.21 | 287 | 43.1 | 11.5 | 4.9 |
| Vegetable Oil | 948 | 536 | 1.77 | 412 | 49.5 | 5.7 | 3.9 |
| Flour | 349 | 278 | 1.26 | 71 | 14.2 | 3.6 | 0.1 |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | Domestic Retail Price (CFA per kg) | World Price adjusted (CFA per kg) | Ratio Domestic / World Price | 2011-2013 | | | |
| | | | | Unit Cost to Consumers (CFA per kg) | Total Cost to Consumers (CFA billion) | Total Labor Compensation (CFA billion) | Customs Duty Revenues (CFA billion) |
| Sugar | 666 | 419 | 1.59 | 247 | 44.4 | 14.7 | 6.7 |
| Vegetable Oil | 1360 | 848 | 1.60 | 512 | 61.5 | 5.4 | 3.9 |
| Flour | 442 | 426 | 1.04 | 16 | 4.8 | 4.0 | 0.1 |

Source: Mbaye, Golub, English, 2016.

108. **Removing prices distortion could result in a more equal distribution of resources and have a significant immediate impact on poverty.** Using the 2006 data, prices in Senegal were estimated to be roughly 90 percent higher than in The Gambia for sugar, 58 percent higher for vegetable oil, and 33 percent

¹⁰⁷ World price adjusted for trade costs, conversion coefficients of wheat into flour, wholesale-retail margins and domestic value added taxes. See Appendix 2 for technical details on the adjustments. *Policies, prices, and Poverty: The Sugar, Vegetable Oil and flour Industries in Senegal*. Mbaye, Golub, English. Policy research Working Paper, The World Bank. June 2015.

¹⁰⁸ This calculation understates the loss of consumer welfare since it does not capture the effect of protection on reduced consumption.

higher for wheat flour (Golub and Mbaye, 2009). Thus, reducing sugar prices to Gambian levels could have lifted 150,000 people above the poverty line, with additional 220,000 people escaping poverty if vegetable oil and flour prices were lowered to the Gambian levels. A similar calculation was made for the period of 2011-13, taking into account the evolution of prices. While domestic flour prices approximated world prices during this period, sugar and vegetable oil prices in Senegal remained about 60 percent above global. Eliminating this difference could have raised consumption levels of the poor by 3 percent, enabling about 227,000 people to move above the poverty line¹⁰⁹ and reducing the national poverty rate by 1.90 percentage points, which is more than what was actually achieved between 2006 and 2011.¹¹⁰

Transferrable Assets

109. **Finally, the SCD also reviewed the distribution of transferable assets, in particular financial assets, but their uneven distribution does not emerge as a binding constraint for poverty reduction in Senegal, but rather as the result of other underlying factors.** Although unequally distributed, with only 7 percent of the bottom quartile reporting financial assets against 24 percent in the top quartile, financial services remain largely unavailable for most of the population, with approximately only 17 percent of adults in Senegal owning an account at a formal financial institution (a bank, a microfinance institution, or an e-money agent), compared to 29 percent for developing SSA. Several constraints, exacerbated for the poor, prevent people from approaching a financial institution, including lack of collaterals, illiteracy, limited capacity to save, and limited resources against the high cost of financial services. To respond to some of these limitations, informal savings mechanisms, including *tontines*, have been developed and are widespread across the country. Although not available for everybody, particularly the poorest, and not adapted to facilitate investment, these tools are effective to smooth consumption and thus contribute to risk management.

Sustainability

110. **The third pillar underpinning poverty reduction is sustainability or management of existing and future systemic risks threatening the ability of future generations to meet their needs.** As such, these risks can jeopardize all the progress achieved in poverty reduction through inclusive growth and (re)distribution, while threatening the socio-economic resilience of the entire country. Living within our environmental limits is one of the key principles of sustainability. One clear implication of not doing so is climate change. But the focus of sustainability goes far beyond environment. It's equally focused on ensuring a strong, healthy and just society, as a recipe for social stability and a precondition for shared prosperity. This means meeting the diverse needs of all people in existing and future communities, promoting personal wellbeing, social cohesion and inclusion, and creating equal opportunities for all segments of the population.

111. **Senegal currently faces three major sustainability threats to its economic, social, and environmental systems, with measurable consequences for poverty reduction.** Against the background of sound macroeconomic fundamentals and low risk of debt distress, as underlined in *Part I*, one of the most important economic risks is related to recent discoveries of oil and gas reserves and their associated future revenue flows, which, without sound and transparent management, including PFM, can cause fiscal fluctuations, skewed public expenditures and a wide range of social and environmental consequences, all of which can have both direct and indirect impacts on the livelihoods of present and future generations.

¹⁰⁹ Sugar and vegetable oil, other than peanut oil, account for 7.4 percent of the consumption basket of the third quintile, which includes households around the poverty line. Peanut oil was excluded as it is assumed to be produced at the household or community levels, and therefore is not affected by market prices. These households would have spent only 4.6 percent of their income if they had paid world prices, implying a saving of 2.8 percent.

¹¹⁰ The national poverty rate declined from 48.3 percent in 2006 to 46.7 percent in 2011, or 1.6 percentage points.

Another significant sustainability risk is linked to the dichotomy generated by the youth bulge. The increasing number of young people entering the Senegalese labor market each year could significantly accelerate inclusive economic growth by triggering the demographic dividend, but only if real economic opportunities are accessible to them. However, if policies fail to reach them and give them a voice in decision-making, this youth bulge may well turn into a brake on the country's economic and social development, leading to increased poverty, illegal migration or failed citizenship.¹¹¹ Finally, sustainability of Senegal's progress towards inclusive growth can be further undermined by its high vulnerability to the climate change that disproportionately affects the poor and the vulnerable, particularly in rural areas.

Oil & Gas

112. **Experiences from resource-rich countries suggest that opportunities for economic development and diversification provided by large-scale production of oil and gas are difficult to exploit.** If well managed, natural resources provide an opportunity to accelerate economic diversification and growth, accumulate human and physical capital and alleviate poverty. However, they also pose major challenges, as demonstrated by the experience of poor macroeconomic performance and high inequality in several resource-rich countries. Macroeconomic risks linked to resource discoveries include: (i) macroeconomic instability, due to over-borrowing backed by the higher resource wealth, coupled with poor returns on rapidly expanding public investment program; (ii) potential deterioration of the non-resource tradable sector, following rapid increases in capital inflows and domestic currency appreciation; (iii) boom-boost cycles stemming from high revenue and price volatility, which bring significant challenges for fiscal planning and at the same time may lead to large fluctuations in domestic prices, exports and investment levels. Moreover, weak PFM and public investment management processes can create additional risks, undermining the effective and efficient use of resource wealth. These risks pose significant challenges to policy-makers aiming at transforming natural resource wealth into productive assets for economic development.

BOX 5.2.1: How Are the Neighbors with Oil Doing? The Case of Ghana

Ghana's economic growth continuously declined after it started oil production in 2011. While the arrival of the oil economy coincided with the country reaching middle-income status after a strong growth acceleration that really took off in 2003, it was also the beginning of its end. The growth rate also became increasingly fickle: *After a peak of 11.3 percent reached in 2011, growth continuously declined the following four years, down to 1.6 percent in 2015 and 3.6 percent in 2016.* The bust after 2011 reflected a combination of declining commodity prices, energy rationing (partly due to reduced hydropower output in the face of drought conditions), and a large fiscal crisis in 2012-2013.

Driven by strong pressure for higher current public spending, Public the budget deficit and debt quickly ballooned, leading to macroeconomic instability. The establishment of a single-spine salary structure for the public sector in 2010, coupled with a sharp rise in energy-subsidy costs and fiscal transfers, radically increased public spending. *The fiscal deficit rose from 3.2 percent of GDP in 2011 to 11.6 percent in 2012, the current-account deficit widened from 9 to 11 percent of GDP, and government arrears rapidly accumulated.* The twin fiscal and current-account deficits remained in double digits through 2013 and 2014, despite a multiyear deficit-reduction plan. Between 2012 and 2014, the Central Bank covered 20 percent of the fiscal deficit, and *the overall inflation rate increased from 8.8 to 17 percent,* with nonfood inflation rising from 11.6 to 23.9 percent. Ghana's public debt stock reached 73.4 percent of GDP in 2016 up from 49.1 percent of GDP in 2012.

¹¹¹ Prospective on Global Development: Social Cohesion in a Shifting World. OECD 2012.

Adjustment is proving difficult. The 2016 fiscal targets were missed by a large margin (again) with the fiscal deficit on a cash basis estimated at 9.3 percent of GDP compared with the target of 5.2 percent. The slippage was largely due to the failure to adjust overall expenditure in the face of revenue shortfall. This was compounded by weak fiduciary institutions and control environment, including issues around the Ghana Integrated Financial Management Information System (GIFMIS) recording of purchasing orders; in effect, not all expenditures were recorded in the system and hence could not be curtailed as needed.

113. **Senegal’s relatively solid governance indicators and vibrant political system are clear assets for sound natural resources management, but provide no guarantee of avoiding the *resource curse*.** The experience of Ghana, a West African country similarly endowed with an open democratic system, good governance, and a promising economic diversification trend when it started producing oil in 2011 is cautionary (see Box 5.2.1). The macro-economic impacts are complex, and require a sophisticated capacity to manage risks, including the capacity to ensure high productivity of an expanding investment program, which is difficult to obtain overnight. Open politics can in some cases exacerbate the pressures to spend the proceeds from oil and gas on recurrent expenditures, or lead to the use of resources for political competition following electoral cycles. The Ghanaian experience confirms that there are specific institutional checks and balances that must be upheld if a country is to avoid the resource curse.”¹¹²

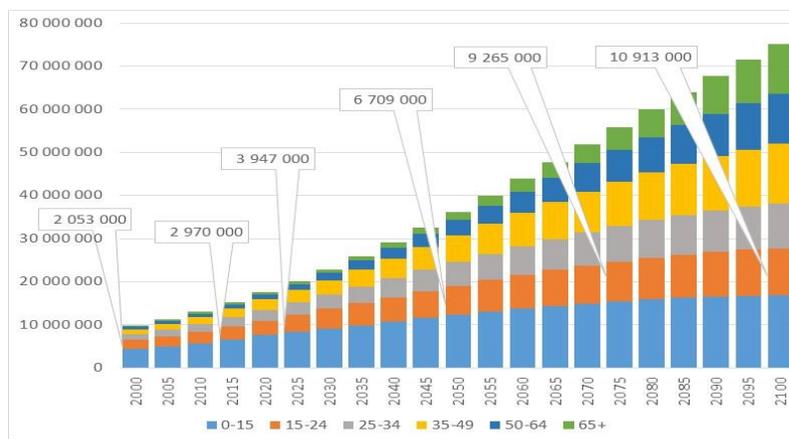
Social and Economic Inclusion of the Youth

114. **One commonality among young people across the world is their exposure to an increasing number of vulnerabilities and threats, which is highly relevant for Senegal**¹¹³. Young people face many social and economic constraints, and yet the decisions they take (or feel compelled to take) during this period have long-lasting impacts on their opportunities and life trajectories. Limited access to decent employment, education, health services and civic participation are the multidimensional barriers preventing young people from playing a full role in their societies. Moreover, many decisions are made for them, rather than by them, with families making choices as part of their overall strategies (e.g. while choosing members of the household who work, study, migrate, etc.), and because patriarchal society does not give young people, particularly girls, a voice in certain decisions. This is especially dangerous in Senegal, where demographic growth is still high, inequality is persistent, and new generations represent a large and increasing share of the total population, putting increasing pressure on the economic and social development. Their share (one fifth of the population) has remained stable since the 1950s and is expected to decrease starting 2035. However, due to the demographic growth, the actual number of young people will continue to raise, with about 300,000 of them entering the workforce each year starting from 2015, 400,000 from 2025 and 650,000 by 2050 (Figure 5.2.12), making employment-creating growth critical.

Figure 5.2.12: Population per Age Group, 2000-2010

¹¹² Mahamudu Bawumia, and Havard Halland. *Oil discovery and macroeconomic management: The recent Ghanaian experience*, World Bank, Policy Research Working Paper 8209.

¹¹³ Sénégal: Le travail productif des jeunes : Un dossier urgent – Un défi multisectoriel. The World Bank, 2017.



Source: Youth Employment in Senegal. World Bank 2017.

115. **In Senegal, large segments of the youth continue to remain outside of mainstream economic and social life.** Among the 15-29 and the 20-24-year-olds, 37 and 50 percent respectively are out of school and out of work.¹¹⁴ Considering the central role of employment and school participation in reducing poverty and strengthening social cohesion, the youth is therefore considered highly vulnerable to marginalization. At the same time, as elaborated in *Part I*, the conditions of those who work are often precarious. About 27 percent of young people who work experience underemployment, only 6 percent of those who work report having a written employment contract and only nine percent are employed in the formal sector. On average, young people have an income significantly lower than that of adults working in the same sectors, with the percentage of working poor among the 15-34 considerably higher at 67 percent¹¹⁵ (against 62 percent as a national average). The prevalence of young people working in vulnerable conditions (around 75 percent in Senegal) is similar to, or higher than, the rates observed in Mali, Ghana, Ethiopia, Tanzania and Uganda, with men tending to score better than women (Hamaguchi et al., 2013, based on ILO-Stat).

116. **In all dimensions, prospects tend to be worse for women, the poor and those with no or limited education.** Just as among adults, young women are more likely to be inactive (more than 50 percent of young women neither study nor work (both formally or informally) among the 20-24-year-olds in rural areas and 25-29-year-olds in urban settings versus about 15-20 percent among young men), more likely to be underemployed, less likely to be salaried, and more likely to work in vulnerable conditions (68 percent of women versus 51 percent of men). Overall, women earn less and this gap is more pronounced in agriculture, services and trade. Similarly, lower educational levels and poverty are associated with more underemployment and lower incomes. Some young people, sometimes referred to as ‘at-risk youth’, face additional challenges as they transition to adulthood, although their numbers and characteristics are difficult to estimate.¹¹⁶

Climate Change

117. **Climate-related shocks and stresses are already a major obstacle to poverty reduction in Senegal, affecting a wide range of sectors and areas of life.** Key climate-related shocks, that disproportionately affect the poor, are natural disasters (such as floods that cause asset loss and disability); health shocks (such as malaria that results in health expenditures and lost labor income); and food price shocks (due to failed crops). A substantial share of the poor Senegalese population lives in rural areas, more

¹¹⁴ Protection sociale: Qu’en est-t-il des jeunes ni employés, ni éduqués, ni formés? François Joseph Cabral, 2017. Nopoor project.

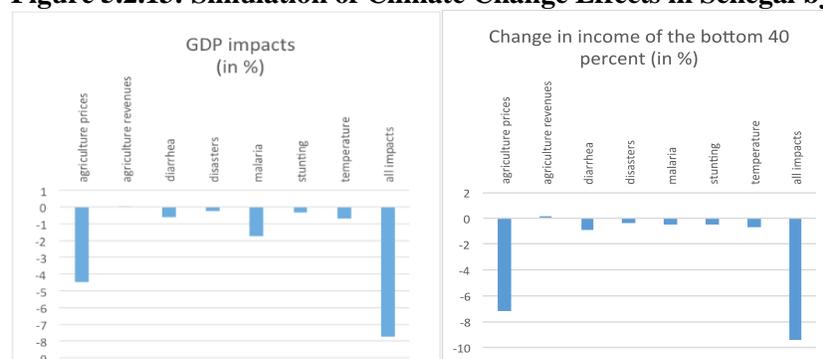
¹¹⁵ Labor Income Poverty Index (LIPI), measuring the share of people whose adult equivalent labor income is lower than the poverty line.

¹¹⁶ At-risk youth refers here to youth less likely to transition successfully into adulthood, financial independence and work.

or less close to the coast, with their livelihoods dependent on near-shore fisheries or nearby agricultural land (or rain-fed agriculture, as rain-fed crops remain the main source of livelihoods for the vast majority of farm households). In urban areas, especially in informal settlements, poor residents are highly vulnerable to flooding and related health hazards, due in part to inadequate or improperly maintained infrastructure, including weak or non-existent drainage systems. Even small amounts of rain can flood entire neighborhoods. Thus, environmental effects on poverty are a combination of many sectorial impacts, including climate-sensitive agriculture, fisheries, water resources, health and sanitation - to mention just a few.

118. **Climate change will worsen these shocks, contributing to a decoupling of economic growth and poverty reduction, thereby increasing poverty and making even harder to eradicate it in a sustainable manner.** Regardless of socioeconomic trends and climate policies, given the long lag between the introduction of mitigation policies, their impact on emissions, and the effect of emissions reductions on the climate system, the mean temperature increase between 2015 and 2035 would likely be between 0.5 and 1.2°C (IPCC 2014). Thus, between now and 2030, climate policies can do little to alter the amount of global warming that will take place, which is why it is particularly important to reduce vulnerability through both targeted adaptation investments and improved socioeconomic conditions (higher incomes and lower poverty and inequality). Recent simulations show that Senegal may lose up to 8 percent of GDP by 2030 due to climate change effects. The bottom 40 percent is likely to be the most affected, with their incomes reduced by more than 9 percent.

Figure 5.2.13: Simulation of Climate Change Effects in Senegal by 2030



Source: World Bank, 2015.

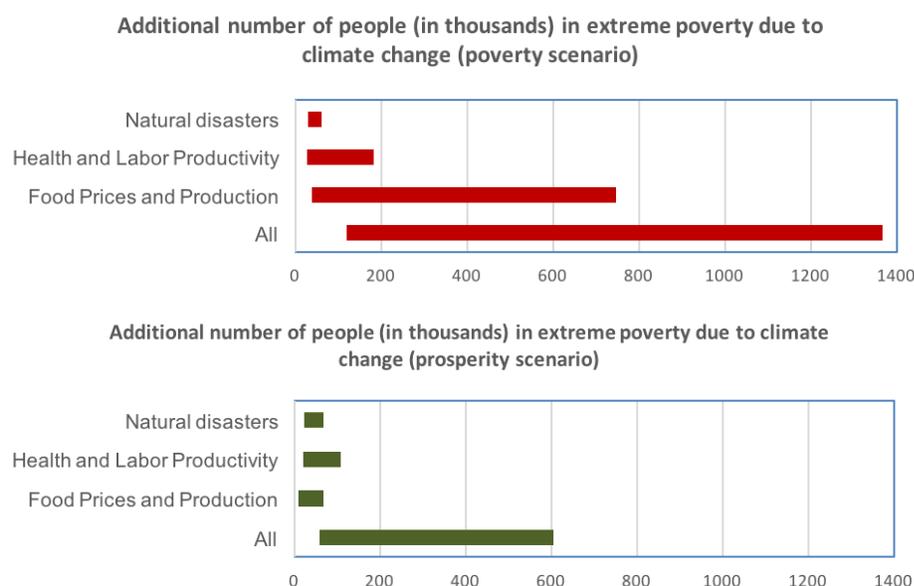
119. **Agriculture is the key driver for climate change's impact on the poverty in Senegal.** Agricultural production and food price impacts — whether triggered by climate change or climate policies — will significantly affect the poor through changing yields and higher consumption prices, which will make it more difficult to ensure food security despite increasing trade in the region. Over 70 percent of agricultural production in Senegal is rain-fed and estimates suggest that over 15 percent of rural households and over 8 percent of urban households are food insecure (USAID 2017). What happens to agricultural prices is particularly critical for poverty in light of their impact on the purchasing power and real income of poor households. The overall effect will depend on whether the households are net buyers or net sellers of food and while estimations vary, on average, the negative impact of climate change on yields and prices is expected to outweigh the potential positive impacts on income that will come from higher food prices.

120. **Following agriculture, climate change driven health impacts, particularly diarrhea, will have a significant effect on households.** Health shocks, triggered or aggravated by climate change, can bring and keep people in poverty, and can have irreversible impacts on lifelong earning prospects of children, leading to the intergenerational transmission of poverty. One of the most important health impacts exacerbated by climate change are diarrheal diseases, which already account for more than 40,000 deaths

in Senegal annually and are the second leading cause of pre-mature death in the country.¹¹⁷ Reduction in diarrhea incidence may be undermined by climate impacts that damage urban infrastructure and reduce the overall availability of water through water resource depletion. For instance, after the floods in 2009 in Dakar, Saint Louis, Kaolack, and Thies, some 2,000 reported cases of diarrhea were reported (Government of Senegal et al. 2011). And according to Kolstad and Johansson (2011) the prevalence of diarrhea could increase by 3.5-10 percent by 2030 because of climate change.

121. The climate change impacts disproportionately affect the most vulnerable groups of the population, including women. Poor non-agricultural and urban households will be hit the hardest. Estimates suggest that female-headed households are more economically vulnerable to even modest levels of climate change. Under some scenarios, climate related impacts could increase the number of people in extreme poverty in female-headed households by 62 percent by 2030. The equivalent impact for male-headed households is much lower at 16 percent. Women are particularly vulnerable, as they often take greater responsibility for household chores, serve as primary caregivers for sick family members, have lower access to healthcare, are more likely to work in the informal sector and therefore be outside in the heat, and spend more time cleaning homes after floods, being more likely to contract waterborne diseases.

Figure 5.2.14: Additional Number of Extreme Poor by 2030 by Climate Change Impact Category
Top panel: Pessimistic (poverty) scenario; Bottom panel: Optimistic (prosperity) scenario



Source: The World Bank 2017¹¹⁸.

Summary of identified priority constraint areas

122. The application of the prioritization framework has identified a selected number of constraints that are summarized in the table below.

Table 5.2.2: Priority Constraints

| Constraints Category → | Inclusive Growth | Equitable Distribution | Sustainability |
|------------------------|------------------|------------------------|----------------|
| Timeframe of impact ↓ | | | |

¹¹⁷ <http://www.healthdata.org/senegal>

¹¹⁸ *The impact of climate change on poverty in Senegal*. Background study for the SCD. Forthcoming. The World Bank 2017.

| | | | |
|-----------------------------------|---|--|---|
| SHORT TERM (1-3 Years) | <ul style="list-style-type: none"> • Weak agriculture / natural resources sector growth • Taxation / informality | <ul style="list-style-type: none"> • Distortion of food prices | <ul style="list-style-type: none"> • Oil & gas management |
| MEDIUM TERM (3-5 Years) | <ul style="list-style-type: none"> • Energy • Land • Rigid labor markets • ICT • Skills and youth employment | <ul style="list-style-type: none"> • Inequity of public transfers | <ul style="list-style-type: none"> • Social inclusion of the youth |
| LONG TERM (5 Years +) | <ul style="list-style-type: none"> • Human capital | | <ul style="list-style-type: none"> • Impact of climate change |

C. Priority Constraints Deep Dives: Policy And Institutional Analysis

Constraints to Inclusive Growth

123. This section presents a detailed policy and institutional analysis of the identified binding constraints to inclusive growth. Building up on *Part II*, the following Deep Dives are conducted: (1) agriculture and natural resources; (2) taxation and informality; (3) energy; (4) land; (5) ICT; (6) high labor costs and rigidities; (7) skills and youth employment; and (8) human capital. The sequence of the Deep Dives reflects their expected impact on poverty, from short to long-term.

1.1. Agriculture and Natural Resources

124. **The weak contribution of agriculture, and the primary sector in general, to the overall economic growth is rooted in enduring policy weaknesses.** As described in *Part I*, until recently agriculture sector growth in Senegal has been limited and underscored by low and hardly evolving productivity, at the origins of which are limited access to inputs, including water management, archaic equipment and weaknesses in the entire supply chain, from storage to connectivity. Based on a number of analytical studies, including the 2013 World Bank Agriculture Public Expenditure Review (PER) conducted jointly with the Government and the 2017 Policy Note on the Groundnuts Sector, the following critical policy and institutional issues have been identified as stifling the sustainable transformation of the sector towards a more productive and commercial agriculture.

- **Administrative price policies, perceived risk of export bans and restrictions to competition, particularly in the groundnut sub-sector.** For much of the 20th century, the Government restricted direct exporting of whole groundnuts, Senegal's dominant crop, forcing their sales at administered prices to industrial processors for export as oil and cake. The Government lifted its ban on whole nut exports in 2015, leading to a sharp rise in prices paid to producers and new opportunities for some of Senegal's poorest farmers and rural entrepreneurs. A fixed export tax was then imposed in 2016 on exports which will have reduced the welfare of poor producers. The tax was successively removed as international prices dropped in 2017/18. Under the guise of industrialization, the Government is still pressured by some business groups to reestablish the export ban to allow lower prices for the domestic oil industry, and it is still subsidizing the domestic oil industry to compensate for purchasing at administered prices. On the input side, the government's research institution ISRA (*Institut Sénégalais de Recherches Agricoles*) holds a monopoly over the production of pre-base seed, and imports of groundnut seed are restricted. However, ISRA is not able to produce sufficient pre-base seed to satisfy demand. A reform of the value chain is overdue, to protect the income of poor producers, by stabilizing the exports market price regime for raw groundnuts and establishing targeted producer income support scheme for periods when international prices are low, while allowing the private sector to determine competitively the commercially viable opportunities both the inputs and downstream processing sectors.
- **Lack of focus of public expenditures on public goods and non-crop sectors and their distortive impact on the development of the private sector.** Almost half of the public expenditures in the sector are dedicated to input subsidies, with insufficient funding for R&D and training. Public subsidies in inputs markets are distortive and unpredictable, impacting the development of a sustainable and efficient agricultural input supply chain, and in particular the development of private producers of quality seeds. Improving the targeting of subsidies towards the poor, while adjusting their delivery modality to reduce their market disruption will be necessary to transition towards agricultural transformation. The livestock and forestry sectors do not receive

much funding at all, although the size and poverty reduction potential of livestock is significant at about two thirds of that of agriculture.

- **Inefficient and non-transparent public subsidies.** Public spending on agricultural subsidies is currently untargeted and suffers from efficiency and transparency weaknesses that were laid bare by various studies¹¹⁹, and have not yet been resolved. They include a concentration of some subsidies on larger producers and significant diversion of subsidies for small needy producers by intermediaries and other players. The attempts to roll out an electronic voucher platform for subsidies to ensure enhanced transparency have been defeated by inertia and resistance to the initiative because of vested interests and lack of political will to lead the reform.
- **Restrictive land policies, creating a large grey land market, and likely constraining farm productivity.** Senegal is one of a few remaining countries in Africa, where the only legally recognized land right of farmers, is occupancy, with no possibility to either inherit, rent or sell land. These transactions happen on an informal basis, and the lack of their legal recognition is likely limiting investments in farm productivity. Underlying policy and institutional issues related to land are covered in more detail in the *Land Deep Dive* later in this section.
- **Underdeveloped agricultural credit markets, hampering modernization of production systems.** Only 3 percent of Senegalese farmers have access to credit with agricultural production mainly financed through value chains or by informal lenders. Financial market failure is preventing smallholder farmers and even investors from getting appropriate access to credit to invest in their farms or firms to enable modernization and mechanization leading to increased productivity. The National Fund for Agricultural Credit (Caisse Nationale de Crédit Agricole du Senegal, CNCAS) is the main banking institution specialized in agricultural financing, which has state guarantees and is majority-owned by public funds. The financial difficulties encountered by the CNCAS, mainly due to late government payments, poor financial performance, in-kind repayment system and insufficient capitalization, create major cash flow problems and absence of long resources at low cost preventing it from adequately meeting the demand for agricultural credit. The CNCAS's exclusive access to public funds gives it an advantage that limits the emergence of any competition. The cancellation of peasant debts regularly decided by the Government undermines a culture of financial responsibility of agricultural producers (including those financed by other financial institutions) and contributes to the deterioration of the financial situation of the CNCAS. The development of an adapted and more inclusive supply of microfinance services, especially for the agricultural sector, encounters many constraints, some of which relate to the capacity of microcredit institutions to meet the challenges of professionalization (governance, performance, internal expertise, etc.). A number of other legal and regulatory constraints also persist (usage rates, limitation of ancillary activities, absence of a regulatory framework for agents, regulation of the issuance of electronic money, DFS taxation, consumer protection, etc.). New financial products, such as leasing and agricultural insurance, have recently developed for agriculture, but their rise to scale is still slow. The Warehouse receipts initiative is being developed for rice production in the Senegal River Valley, as a pilot. Finally, slow regulatory developments at the UEMOA level limit the development of mobile money, agent banking, and FinTech developments in general.

125. **Many of the policy weaknesses have deeper governance and political economy roots.** The main policy failings described above include government distortion of private sector competition, lack of enabling regulatory environment for market development, and inefficient and inequitable public expenditures. Both political economy research and extensive SCD consultations have indicated that underlying reasons for these distortions are linked to powerful vested interests in the sector. In particular,

¹¹⁹ *Traçabilité et impact des subventions agricoles*, IPAR, Octobre 2015. *Agriculture Sector PER*, GoS/WB, 2013, *Analyse d'économie politique des filières de l'arachide et du riz au Sénégal*, Commission Européenne, Rapport Final, Mai 2016.

the system of subsidies and control of agricultural prices is defended by well-connected local constituencies of larger producers and intermediaries who have long positioned themselves to benefits from the current structure of the market distortions or to capture the financial leakages associated with subsidies. The persistence of inequalities as well as the diversion and inequitable distribution of inputs subsidies are made possible by the lack of transparency as well as the powerlessness of small producers against local politicians and potentates. Indeed, among the major producers are often senior officials, local or national elected representatives, political and religious leaders without real agricultural production activities who trade their allocated seed quotas. The political weight of operators, who are the main beneficiaries of the dynamic clientelism driven by electoral cycles, cannot be neglected. A recent political economy report of the agricultural sector summarized the politically connected beneficiaries of the current policy system as shown in the table below.¹²⁰

Table 5.3.1: Beneficiaries of Current Agricultural Policies and Interests at Risk

| Category | Interest at Risk | Level of Organization | Level of Beneficiaries at Risk |
|--|---|-----------------------|--------------------------------|
| Important political and religious figures | Billions of CFA francs captured from agricultural subsidies | High | High |
| Sole suppliers of inputs and equipment | Supply monopoly | Medium | Medium |
| Suppliers of 'skimmed' groundnut seeds | Purchase by the State as quality seeds prices | High | High |
| Workers in less efficient factories and their religious fraternities | Employment and other benefits of the operation of the factories in Djourbel, Louga, Dakar | High | High |
| Rice importers | Income on imports of 600 000 T per year of white rice | Medium | Medium |

126. **To conclude, solution areas to unlock the potential of the agricultural sector towards greater productivity and competitiveness mainly refer to creating a level-playing field for the private sector and increasing the transparency and efficiency of public expenditure.** To achieve that objective, state interventions in the sector, including price controls, and various restrictions to competition will need to be revised, while proceeds from export taxes should be used in a transparent way to invest in agricultural productivity, particularly at the advantage of poor farmers. Subsidies can contribute to this goal, but only if their management is more transparent and if benefits are explicitly targeted. A first important step in this direction would be the finalization and implementation of the electronic voucher platform. Finally, the design and implementation of the overdue, politically sensitive land reform would significantly contribute to a conducive and modern legal framework in the sector, helping to align key incentives to promote investment, including for the credit markets to develop.

1.2. Taxation and Informality

127. **The informal sector occupies a considerable share on the economy and is very heterogeneous, comprising micro unproductive enterprises, small competitive firms as well as big “underground” economic units.** While it represented 43 percent of total GDP in 2000, the informal sector had reached over 50 percent fifteen years later, covering 97 percent of total economic units in the country according to the latest enterprise census (2017). The analysis of the 2013 Informal Sector Survey, representative of the small,

¹²⁰ *Analyse d'économie politique des filières de l'arachide et du riz au Sénégal*, Commission Européenne, Rapport Final, Mai 2016.

family-led informal businesses reveals that 60 percent of the sector is formed by micro, unproductive firms, while a not-so-small 30 percent is made of relatively high growing firms (although marked by low returns)¹²¹, limited by the business environment in which they operate, rather than by their characteristics. On the other hand, evidence suggests that the small family-led firms coexist with large firms, similar to formal ones in terms of volume of sales and other measures of activity. For example, one single trader is estimated to control more than a third of the imports of rice, the main food staple in the country. These large informal entrepreneurs often began as small operators with minimal education but became very wealthy and influential thanks to superior entrepreneurial ability and effort, along with assistance from ethnic and religious trading groups. Moreover, some of them are registered and well known to the authorities. Yet, they continue to significantly underreport sales and maintain fraudulent accounts. At the same time, in their family-based organization and management, they are very much like small informal firms. In light of these characteristics, these firms are better defined as *underground economy firms*, rather than informal, which is evocative of small, unproductive family units.¹²²

128. **The taxation of large informal firms is hampered by weaknesses in tax administration.** A special tax regime has been created by the Government, the *Regime Global Unique*, targeting the informal sector based on firms declared turnover, and consisting in a lump sum presumptive tax, amounting to a fraction of what formal firms have to pay under the *Regime Reel* and the *Regime Reel Simplifié*. The assumption behind these regimes that informal firms cannot contribute on par with formal ones, while being appropriate for small enterprises, allows some fairly big underground economy 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 non-compliance. Although the General Directorate of Taxes and Government Property (*Direction Générale des Impôts et des Domaines, DGID*) uses an integrated tax software (SIGTAS), it does not regularly crosscheck data with information from third parties and does not have a standard risk analysis tool to identify these cases. More importantly, tax and customs data are not regularly exchanged and compared to track the risks of non-compliance. Strengthening the compliance management function at DGID by conducting more systematic crosschecks of available administrative data and information from third parties would make enforcement of tax law more stringent. Moreover, the tax collection system is further weakened by the predominance of cash in the economy. Digitalization of such payment streams (as well as other types of payments¹²³) would not only decrease costs for the administration and limit corruption, but would also help in increasing the tax revenue base by providing traceable transactions and making the overall tax collection systems more efficient.

129. **The high number of minor low-yield taxes, as well as corresponding reporting and payment obligations, acts as a disincentive towards formality.** According to Doing Business / PwC, the number of these reporting and payment obligations in Senegal, standing at 58, is much higher than the regional average of 37 and the global average of 25 (Doing Business 2017). The patent system is generally considered a burden for the development of the private sector, as it is based on complex rules and weights heavily on companies' investment operations. A patent reform project is currently under development, which, however, requires a complex valuation of contributions on a value-added basis (Organization of Economic Cooperation and Development - OECD 2017). In the long-term it would be possible to consider replacing this system with the introduction of a simple property tax.

130. **Dealing with the informal sector has important implications in Senegal's social and political context.** The administrative authorities have long alternated between coercive measures aimed at taxing informal companies (often seen as a potential remedy for easing budgetary tensions) and an indulgence linked to the severity of the social or political consequences that would result from repressive measures against such enterprises. The owners of several large informal entities have substantial social and political

¹²¹ Classification following the methodology of Grimm and A. 2012. Ranzani Tuccio, 2017, background study to the SCD.

¹²² The informal sector in francophone Africa. Benjamin, Mbaye. AFD and the World Bank 2012.

¹²³ The types of payments include business-to-private (B2P), private-to-business (P2B), and business-to-business (B2B).

clout, as they support a large number of households and often substitute for the lack of state provision of public goods, they can create significant social disruption if forced to operate under the tax net. Moreover, many large informal firms belong to strong social and religious networks, which can muster important social and electoral influence and therefore have real political clout to resist a more uniform application of taxation and regulation.

131. **In summary, emerging solutions areas in the domain of taxation and informality refer to the need to adopt diversified measures, when dealing with a highly heterogeneous informal sector.** While specific tax regimes and tax holidays may be adapted to support the development and growth of informal micro and small enterprises, tax evasion from hidden economy firms should be tackled firmly, by unlocking the paralyzed national competition enforcement framework and strengthening the tax enforcement and tax collection systems, including through the digitalization of payment streams. On the other hand, a simplification of the tax regime and small payment obligations, such as patent, may decrease disincentives to formalize.

1.3. Access to Energy

132. **The high cost of electricity and unreliability of energy supply in Senegal are ultimately linked to enduring policy and institutional weaknesses.** As described above, the main challenge facing the sector is to add sufficient and low-cost generation capacity to meet demand (8 percent growth per year) and reduce high consumer costs. This will require addressing a number of policy issues.

- **Sector strategic planning.** The challenges Senegal faces in increasing generation capacity in line with demand are in part due to the lack of a consistent and credible generation expansion strategy. To address these issues the Government has approved in 2016 a strategic master plan for the energy sector, which sets the priorities of energy diversification and private sector participation in power generation. It will guide supply-side planning for the next 15 years, with the aim of diversifying the power generation mix towards less costly sources, including coal and natural gas, as well as renewable energies (hydropower, wind, and solar). The ability of the Government to enforce the master plan to ensure timely and cost-effective implementation of new generation plants will be critical. Equally important is to ensure a systematic process of periodic updates of the plan, with a particular focus on harnessing the country's gas resources to provide a cheaper, less-polluting alternative to current HFO generation.
- **Rural electrification strategy.** The country's rural electrification strategy 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 Senegalese Agency for Rural Electrification (*Agence Sénégalaise d'Électrification Rurale, ASER*). Off grid solar energy is still not sufficiently exploited as sustainable strategy for rural electrification. A strategic masterplan on rural electrification needs to be adopted and implemented, hopefully contributing to clarify the rural electrification strategy.
- **Sector financial arrangements.** The utility's finances have improved recently, but they are still undermined by significant production costs, high technical and commercial losses, and cross-debt as well as arrears buildup with the Government. Apart from the decrease in oil prices, SENELEC's improved financial situation is due to the commissioning of new power generation, implementation of a loss reduction program, and increased use of prepayment meters. Recent efforts at addressing internal management issues, and lower oil prices, have helped improve the internal efficiency of SENELEC and reduce technical losses. Substantial cross-debt and arrears with Government entities have been cleared at regular intervals (last in 2016), but arrears from the public entities to SENELEC have started accumulating again in 2017, including unpaid SOE, local and central

administration electricity bills, and arrears on VAT reimbursement to SENELEC. These issues call for revisiting the financial arrangements governing the sector, to ensure timely payment of all financial obligations by and to SENELEC.

133. **Some of the key underlying institutional issues behind the above policy weaknesses include the following:**

- **SENELEC corporate governance.** SENELEC's Board struggles to exercise a substantive strategic and oversight role, while the utility's CEO appointed by the President has a dominant influence on the utility strategic and operational decisions. At the same time, SENELEC operations are hampered by its dependence on both the Ministry of Energy and the Ministry of Finance in terms of procedures, particularly concerning procurement. Over the years, important vested interests have sprouted around its operations, creating serious constraints to reforms. Strengthening the role of the Board and of the regulator in overseeing the management of SENELEC would ensure sustainability of the recent progress in its performance. Subjecting the company to enhanced market scrutiny and discipline would also help, either through its tighter integration in capital markets, and/or through allowing private sector participation in its capital.
- **Sector regulation.** The sector regulator (*Commission de Regulation du Secteur d'Electricite, CRSE*) is a relatively well performing entity, and has been able, up to now, to credibly carry out its core functions. However, it does not have enough capacity and autonomy to address a full range of sector regulatory challenges, and to credibly engage all key sectors players, being in a situation of technical inferiority with respect to SENELEC and other sector players with more sophisticated capacity. Moreover, the regulatory system still does not permit the pass-through of cost to electricity tariffs, instead allowing the Government to compensate the utility for less than cost-reflective tariffs. This has not only resulted in treasury problems for SENELEC due to delays in budgetary compensations, but has also created uncertainty around political interference in tariff setting. The Government is working on updating the legal regulatory framework to address some of these challenges.
- **Sector policy coordination.** Weak 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. Various attempts at improving the interface between various players to make it fully operational and effective have been short-lived. With respect to rural energy, a review of the institutional set-up of the rural concession model and of ASER should be conducted, clarifying the financing plan of the universal electricity access.

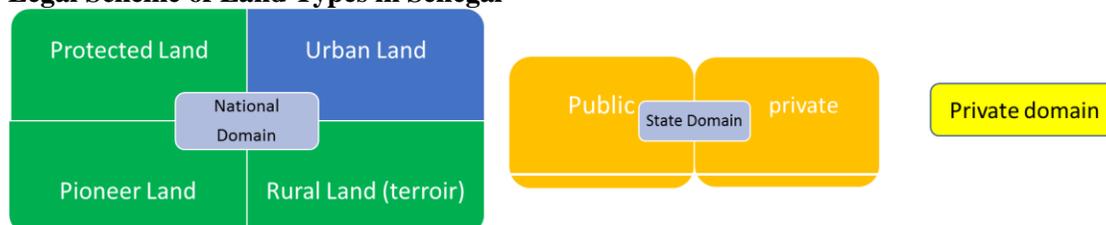
134. **Longstanding policy and institutional issues in the energy sector are tightly linked to important economic and political vested interests.** In the context of slow, opaque and fragmented decision-making affecting most aspects of sector development, important vested interests have consolidated over time around SENELEC operations. The strong popular demand for electrification has led to political interference in energy policy and pricing, and energy theft or non-payment has been a source of economic rent and political patronage.

1.4. Access to Land

135. **Land rights in Senegal are still governed by a 1964 law, innovative at the time, but outdated for several decades now.** The 1964 law introduced three categories of land (see the Figure below): the private domain of individuals, the domain of the State and the national domain. The latter category covers all unregistered land in the country, which is by far the largest category in size, and is further divided into four sub-categories. This law entrusts to the rural communities/municipalities the management of the rural land ("terroirs") of the national domain that is the vast majority of land in Senegal. The municipalities are

authorized to issue land occupancy titles, which provide a right of use that is neither transferable nor inheritable, and can only be delivered to the members of the same rural community. In rural areas, the lax implementation of the law has allowed the permanence of deep-rooted customary tenure systems. In urban areas, the law subsequently allowed urban ownership of land, but heavy administrative red tape meant that very few urban property titles were issued (around 150,000 in 2014), although the Government in the last few years has moved to improve urban land registration. As a result, the current system of rural land management is marked by a growing discrepancy between the obsolete legal framework and new local land management practices, and maintains a climate of conflict: land claims in the city, land grabbing attempts, identity conflicts around the land in the areas of contact between farmers and herders.

Legal Scheme of Land Types in Senegal



Source: World Bank Staff analysis.

136. **For two decades, the Senegalese Government has tried to reform its land policy, without any major progress so far, but with an emerging consensus.** The national domain has preserved the land of Senegal, anchoring traditional land management systems and contributing to Senegal's strong social and political stability. There is therefore an understandable prudence in changing the system. Various attempts at land reform in the past two decades (reflected in multiple successive national land commissions established since 1996) have not yet borne fruit, including the work of the last Land Reform commission, established in 2012-2013, that took a long time to produce a land policy document, which though validated by different stakeholders through extensive consultations, did not get final approval, and led again to lost momentum in the reform process.¹²⁴ However, these multiple reform initiatives have generated consensus on the need to transform the current occupancy rights of rural dwellers in real rights, while protecting pastoral, fishing and forest areas. In particular, there is a wide consensus on the need to grant farmers the inheritance of land and allow some level of controlled transferability through market transactions. The main points of blockage concern the extent of the extension of the real rights and the level of control of land management between central and LGs. There is also a consensus on the need for much more investment in land management instruments, which must underline any land management reform. For several years, various innovative tools have been implemented in the field to improve rural land rights management. In particular, many rural development projects helped to strengthen the land management capacities of some Communes by setting local land offices.¹²⁵ They remain to be documented, and could be scaled-up.

137. **Governance and political issues play an important role in hampering decisive land reform.** The current system has created high levels of corruption. Land issues are the highest category of complaint report to the National Anti-Corruption Commission (*Office National de lutte contre la Fraude et Corruption, OFNAC*). Local and central government officials can derive high rents from the power to allocate land uses. Individuals and companies having acquired land under the current grey market transactions would also face potential losses under a new legal regime. At the central level, a major

¹²⁴ This land policy document is now pending the President's approval, while the commission itself was dissolved, as its mission is considered completed. The current pre-electoral situation is widely seen unfavorable for any reform efforts to materialize.

¹²⁵ These are municipal services responsible for (i) the issuance of land use rights following streamlined procedures, including inventory of occupants, systematic field survey, mapping and local registration of land rights, supervision by a technical committee with representatives of the administration and (ii) the management of a land information system connected with the central land administration units. This innovation has the potential to pave the way for a rural cadaster, involving the DGID and Municipalities.

challenge is that the state does not know the extent of its private domain. This ignorance benefits widely people working in government land services, who can grab these resources freely, without much accountability. Finally, stronger autonomy of LGs in land management would affect the balance in the relations between national political elites and local political intermediaries, so it is likely that only a hybrid form of management between central and local authorities would be acceptable.

138. Targeted interventions that could contribute to releasing the pressures of the land constraint, while the overdue land reform is agreed upon and implemented, include measures focused on progressive regularization of the status quo and the empowerment of local land management authorities. Some examples of specific measures include the following: *(i)* gradually transforming the current occupancy rights of rural dwellers in real rights, allowing some level of controlled market transferability, while protecting pastoral, fishing and forest areas; *(ii)* investing in land management instruments by land offices, and finding the appropriate balance between local communities' management and central state oversight of land transactions; *(iii)* continuing the streamlining of urban land registration, etc.

1.5. ICT

139. The development of a dynamic digital economy in Senegal is held back by a lack of competition in the ICT sector (both in telecom and broadband), due to restrictive regulations and limited regulatory capacity to address monopolistic market structures. Until recently, only three existing telecom operators held licenses that allowed them to provide Internet services with the market being heavily skewed by the dominant position of the incumbent operator - Sonatel - which owns the largest fiber optic network in the country and is the only operator to provide ADSL Internet and 4G. The only current 4G license was not assigned competitively, discouraging new entry. The basis for the fees level is not clear and incumbents have noted that they are high relative to other countries in the region, such as Morocco, for example. According to the OECD Product Market Regulation indicators, Senegal's telecommunications regulations appear to be relatively restrictive compared to comparator countries, which is largely driven by its score on the market structure. Probably more than in any other economic sector, the increase in competition provides a potential solution to the identified binding constraint in ICT. Strengthening the capacity, autonomy and governance of ARTP, the ICT sector regulatory authority, will be key to achieve more effective enforcement of competition policies in the sector, to encourage new entries, lower prices for consumers and increase access. In parallel, it will also be important to revitalize the role of national competition enforcement framework.

140. A new Digital Strategy for Senegal is aiming to address the policy and institutional shortcomings, but implementation is slow and uneven, due to a lack of policy consistency among key public ICT actors. Drawing on international practices and the Senegal context, a new Digital Strategy pushes for stronger regulations and decisions to enable competition, which would be particularly important in the following areas: *(i)* access to essential infrastructure and services for international and domestic voice; *(ii)* SMS and data transmission services; *(iii)* conditions and obligations for operators with significant market power; *(iv)* and spectrum management, including assignment of frequencies and pricing. Achieving policy consistency among all public institutions around ICT sector management and reforms has been a challenge in the past, and this has in turn impacted the quality of the public-private dialogue in the sector as well as the speed and quality of reform implementation.

141. The institutional fragmentation and the slow progress of reforms in the ICT sector are also a function of strong vested interest. The main agencies in charge of the sector are keen on maximizing revenue extraction rather than expanding access in the context of absent rules preventing the cumulation of regulatory functions and political activism. The ability of the incumbent operator to resist reforms aiming

at limiting its monopolist status is also not negligible, in a context of weak rules on the conflict of interest and significant political influence over regulatory institutions.

1.6. Labor Market Rigidities and High Labor Costs

142. **While some efforts have been made to increase flexibility, in Senegal employment regulations are still rigid and sometimes discriminatory against women, while labor institutions remain weak.** In Senegal, relations between employees and employers are governed by the 1997 Labor Code¹²⁶, sector-wide collective agreements, some company regulations, and individual employment contracts. Under such framework, severance pay for labor in the formal sector is non-negligible and ranges from 5.4 to 16.2 weeks of wages for workers employed respectively for 1 to 10 years (and is higher than the SSA average for workers with one-year tenure), there are priority rules for redundancy that disconnect these decisions from efficiency requirements, while fixed term contracts are prohibited for permanent tasks. This rigidity of the labor market's legal framework is fairly common in civil law countries like Senegal, but countries, such as Italy and France, have been, over the past few years, reforming less employment creation-friendly aspects of those labor market framework. Besides being rigid, labor regulations are sometime discriminatory against women, further limiting their access to several occupations, particularly in the formal sector, and allowing for lower remunerations. General Ordinance No. 54-52 of 1954 prohibits women from working at night in factories, mines, quarries, or workshops. Although these provisions were originally intended to be protective in nature, their effect is discriminatory. At the same time, there is no law that requires equal pay for equal work or that prohibits discrimination.

143. **Biases in the labor inspection and dispute resolution mechanisms are also blamed for making the labor market costly and rigid.** As in other African countries, consultations with the private sector revealed that firms in Senegal complain that labor inspections are uniquely focused on the formal sector and are carried out more for rent extraction rather than substantive compliance, adding to the cost of labor. Firms also expressed reservations as to the fairness of the labor resolution system, complaining that cases were systemically awarded to employees based on firms' alleged ability to pay rather than on case merits.

144. **Reforms of the labor market rules and institutions can be modeled after similar experience in civil law countries, which have tried to reduce costs and increase flexibility while ensuring better social protection mechanisms for workers.** Reforming labor markets is always politically and socially sensitive and needs to strike the right balance between the interests of firms and employees. Senegal can however benefit from the models of other WAMEU countries, most of which have more flexible labor markets, and of those of other civil law countries in Europe that have been carrying out labor market reforms in the past few years. Gender equity should be an important lens to be adopted during the reform process, not only to eliminate discriminatory provisions but also to actively facilitate women participation in the labor market.

1.7. Skills and Youth Employment

145. **The current TVET system in Senegal serves only a small portion of the eligible cohort - mainly well-educated, urban young men.** Despite some important recent progress, still only 7 percent of students completing basic education are enrolled in TVET in 2016. While girls now outnumber boys, they remain concentrated in tertiary sectors, suggesting persisting gender segregation.¹²⁷ Furthermore, since access to TVET is based on a competitive exam, quality at entry is relatively high, implying that those

¹²⁶ - Law no 97-17 from December 1, 1997.

¹²⁷ TVET report 2015.

accepted have successfully gone through good quality basic education, which is more likely to be the case for non-poor people (see section below on human capital acquisition for the next cohort of youth).

146. **The system is plagued with numerous deficiencies, including a low supply of training and some obsolete courses.** The development of new, demand-driven programs is rare. Tertiary level training has expanded at the expense of lower skill levels and is characterized by an upsurge of private institutions in Dakar and Thies and a main focus on lower-cost training in business and administration. The lack of equipment for training poses a significant challenge to quality TVET, as does the decline of training centers for TVET teachers. Increasing regional imbalances create inequities favoring Dakar. Failure rates in certification exams are high, pointing to low internal efficiency, notably at BTS. Finally, the sector is underscored by missing mechanisms for setting and complying with standards, assessing quality indicators, delivering training, and conducting transparent accreditation and certification.

147. **The underlying policies need to be strengthened and updated, guided by a clear sector strategy and rooted in the needs of the economy.** A law approved in 2014 (*Loi d'orientation de la formation technique et professionnelle*) initiated two main TVET reforms: the competencies-based approach and the system of dual vocational training. In addition, the law called for the establishment of national commissions that would involve relevant stakeholders in the decision-making process around the programs design, and the award of degrees and diplomas. The law is yet to be adopted or implemented, with vocational training policy continuing to lack a stable framework. A lack of coordination among national stakeholders and among key donor interventions in the sector has led to duplication of efforts and piecemeal solutions. A new strategy should be developed based on the economic and industrial policies, job creation and workforce development strategies. The strategy should prioritize a demand-led approach by involving all stakeholders and aligning their engagements with national economic priorities. The Government is in the process of preparing such strategy and intends to address these shortcomings.

148. **Equally critical for youth employability prospects is tertiary education which, although recently reformed, still suffers from the slow and/or incomplete reforms implementation, resulting in pending quality, efficiency and equity problems.** In 2011, the Government prepared a comprehensive Tertiary Education Strategic Development Program (2011-2016) (TESDP), which operationalizes the government's higher education strategy and aligns the strategy with concrete reforms. The sector strategy has already established concrete measures to improve the governance of the sector, as well as the quality of the service provided and its equity. The measures include the creation of a General Directorate of Higher Education (GDHE) which will be responsible for regulating the development of tertiary education and be an expert advisory unit to the Minister of Higher Education; the creation of a quality assurance system at the national level and in each university, leading reforms by establishing goals, standards, performance indicators for programs and each specialization, faculty unit and university; and the establishment of a system to allocate scholarships according to merit and social criteria. Finally, to improve results, both in terms of quality and efficiency, a new system of performance-based contracts was put in place to allocate resources. Despite these new positive developments, some parts of the strategy implementation have experience delays, such as the operationalization of the scholarships allocation system, the reform of student ancillary services (COUD and CROUS) and the strategic development of more sustainable remunerations and pensions policies for higher education teachers.

149. **A twenty-year-old National Strategy to Promote Employment in Senegal was implemented with disappointing and skewed results, while the new strategy is still unfolding.** Launched in 1997, the National Policy for Employment (*Politique Nationale de l'emploi*) consisted in the creation of several dedicated agencies and the allocation of funds to support youth employment via project financing, but it was only partly implemented. The National Convention *Etat-Employeur* (created in 1997, then renegotiated in 2000 and 2014) is the only institutional mechanism that was moderately effective in generating opportunities for youth via internships in formal enterprises. Overall, results were rather disappointing, as only few jobs were created (well below what is required to manage emerging demographic pressures), and

few of the financed projects were actually led by youth. Besides, the beneficiaries of these opportunities were largely concentrated in Dakar. A new National Employment Strategy for 2015-2019 was subsequently formulated and focuses on job creation through a combination of large projects, specific programs, and local-level job creation in the context of decentralization. It highlights the need for greater adequacy of professional skills with labor market demands, improvements in the organization of labor markets, and a strengthening of the sector's coordination. At this stage, however, it is still too early to draw conclusions or lessons learned from its implementation.

150. A recent mapping of existing initiatives has revealed serious targeting and financing shortcomings. As revealed in 2017, a considerable number of initiatives have been launched by development partners with a focus on the agricultural sector and rural areas.¹²⁸ This comes in sharp contrast with the concentration of youth in the capital and large cities, where relevant programs remain very limited. Moreover, while two thirds of programs report using gender as one of their criteria, at least one in four requires specific qualifications, which de facto excludes most of the vulnerable youth, particularly girls. Finally, most programs rely primarily on external financing, which can jeopardize their sustainability, unless the Government effectively coordinates these programs and shapes their focus. Overall, despite a large number of interventions, relatively few young people are being covered, especially in urban areas and non-agricultural sectors.

151. Public interventions to support youth employment have so far lacked a comprehensive focus on addressing both technical and life skills among youth, while continuing to suffer from financial constraints and inadequate targeting. Supplementing training with measures aimed at supporting youth employability and access to labor markets has brought positive results in youth employment programs in many contexts. Depending on target groups' constraints, the most effective interventions combine different types of skills training with literacy interventions, technical and financial support, and skills certification, among others.¹²⁹

152. Another key policy limitation is insufficient focus on the informal sector that provides opportunities in terms of skills acquisition via traditional apprenticeships. Targeting active labor market policies in the formal sector, which employs less than 10 percent of the labor force, is a significant policy limitation. Out of the 20,440 youth who requested employment support in 2014-2015, 76 percent were oriented towards the formal sector, when clearly most of the opportunities still reside in the informal one¹³⁰. To date, there is no clear policy or strategies on how to involve the informal sector to increase youth employment. On the other hand, the informal sector offers good opportunities for skills acquisition: Almost 60 percent of workers in the informal sector receive on-the-job training,¹³¹ while only 4 percent benefitted from formal technical education. In a context where the latter remains the prerogative of a few, traditional apprenticeship seems to be an effective option for skills accumulation, particularly if coupled with more basic education.

153. In this context, the Government has established a new institutional architecture, but its rollout is still incomplete, while new challenges already arise. In 2014 the Youth Employment Promotion Agency (*Agence nationale pour la promotion de l'emploi des jeunes*, ANPEJ) was created, with the objective of rationalizing existing fragmented policies and institutions in charge of youth employment. In fact, its creation allowed for the consolidation of four agencies, thus making ANPEJ the operational arm for the National Employment Policy. In order to fulfill its mandate, ANPEJ has developed a public employment service dedicated to the provision of information and orientation services: 17 hotspots (*Espace*

¹²⁸ *Cartographie des projets sur l'emploi des jeunes au Sénégal*. Project document. The World Bank 2017.

¹²⁹ Kluyve et al (2016), Brunello and Schlotter (2011), and Kautz, Heckman, Diris, Weel and Borghans (2014).

¹³⁰ *Atelier conjoint d'échange et de partage autour de la nouvelle politique nationale de l'emploi et des mesures d'urgence en faveur de l'emploi*. Ministère de l'Emploi, Primature.

¹³¹ *Enquete Nationale du Secteur Informel*, ANSD 2013.

Emploi Jeunes – EEJ) with 36 advisors have been opened in six regions. However, the operationalization of ANPEJ is still ongoing with the available funds considered still insufficient for its effective functioning. Moreover, lack of coordination and fragmentation across multiple interventions are persisting challenges in the sector. A 2016-2017 comprehensive inventory undertaken in partnership with ANPEJ identified 57 programs implemented by the Government and/or development partners¹³². Thus, despite its objective of institutional and policy rationalization, the new architecture already faces challenges, as some line ministries have retained their own youth employment programs, and the articulation between the agency and other relevant institutions, such as the Directorate of Employment, is yet to be defined¹³³.

154. **Finally, social norms limit youth empowerment, particularly their occupational choices or access to productive inputs.** Young men and women are subject to considerable social pressures and norms. In general, and more so in rural areas, girls are pushed to marry young, dropping out of the education system and disappearing behind domestic chores, with limited time left for productive activities. Young men are encouraged to start working early, before getting married, and / or to take over the family business. To what extent these pressures and norms are also linked to the still existing (albeit weakened) caste system remains unclear. Furthermore, access to key assets, such as land, is largely determined by customary inheritance practices, as highlighted in previous sections. In Senegal, it is mainly fathers who leave inheritance to their children (72 percent of deceased fathers against only 22 percent of mothers) and who tend to favor their sons (especially for the land).¹³⁴ Traditionally, land is not shared when a head of household dies, as the family land estate is only divided when one of its members emancipates, which effectively implies that young people are unable to benefit from land autonomy until starting their own families. While the impact of land inheritance on consumption is not significant, the inheritance of other goods has a positive impact and increases the likelihood of working outside the agricultural sector for women in urban areas¹³⁵.

155. **In sum, emerging solution areas to promote youth skills development and jobs mainly refer to addressing institutional weaknesses while developing contextualized, integrated approaches to youth employment.** Both formal and informal skills development institutions should be strengthened: on the one hand, the reform of TVET should be finalized and implemented, while on the other, the capacity of informal apprenticeship to generate marketable skills should be strengthened by deepening and certifying both masters and apprentices' skills. In parallel, the institutional framework should be rationalized and clarified, identifying and empowering, both administratively and financially, the actors in charge of, respectively, the definition of the youth employment strategy and those in charge of its operationalization. Finally, a comprehensive approach to youth employment addressing both skills and non-skills constraints, to facilitate the transition in the labor market should be developed. In this sense, the high level of informality in the economy should be integrated in the approach, and used strategically.

1.8. Human Capital acquisition for the next cohort of youth

156. **Low enrollment rates in basic education have to be interpreted cautiously in Senegal in light of widespread attendance in Koranic schools, which is not reflected in official statistics and originates at least in part from a deep-rooted disconnect between the aspirations that families have for their children and what the national education system offers, particularly in rural areas.** In many regions children, predominantly boys, attend *daaras*, or Koranic schools, to learn about and memorize the Koran.

¹³² World Bank and ANPEJ (2017) Cartographie des Politiques, Programmes et Projets en Faveur de l'Emploi des Jeunes au Sénégal. Mimeo.

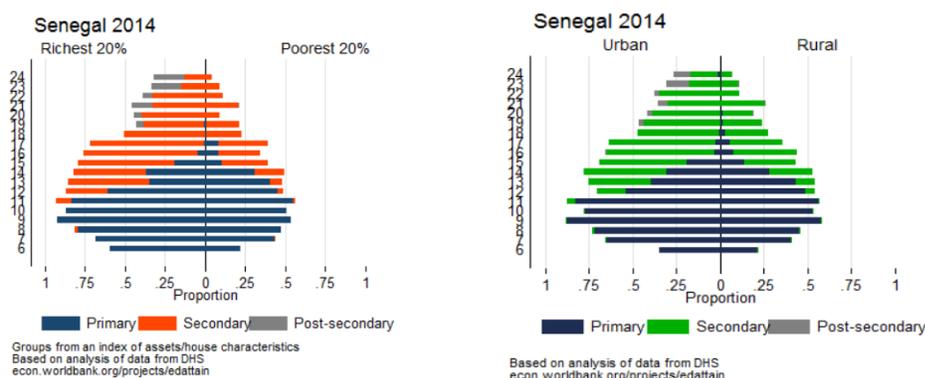
¹³³ In 2017 the Government also created a Department for Entrepreneurship (*Délégation pour l'entrepreneuriat rapide*) to support self-employed youth with the results of this initiative to early to evaluate.

¹³⁴ Young women tend to inherit less often in rural areas than in urban areas.

¹³⁵ Sénégal: Le travail productif des jeunes. Un dossier urgent – Un défi multisectoriel. The World Bank. Forthcoming.

Children generally start attending *daaras* in their preschool years, sometimes as early as 3 or 4, which does not necessarily interfere with their subsequent education in official schools. When they reach the age of six or seven, however, parents have to decide if they will continue to study the Koran in a Daara or enroll in primary school or do both in parallel. In many cases, particularly in rural areas and poor families, they opt for the first option. These children are not captured by official enrolment statistics, although they do receive an education. However, due to the lack of oversight and/or enforced standards, this education is of highly uneven quality, with children often failing to acquire basic numeracy and literacy skills (even if they may develop other skills such as mastery of the Arabic alphabet and a number of behavioral skills). Yet, the secular model of instruction in French also fails to provide quality education to all children, and is often perceived as unable to promote core religious and/or traditional values that many families and communities deem essential for their children.

Figure 5.3.2: School Enrolment by Age and Wealth Group



Source: econ.worldbank.org/projects/edattain.

157. **Lately, the Government has taken measures to diversify its supply of secular education services, while a number of *daaras* are showing interest in teaching basic numeracy and literacy skills, thus creating an opportunity for further convergence between the two systems around a shared citizenship vision.** Aiming to boost the educational demand, the Government has recently opened an impressive number of Franco-Arab schools across the country: 500 elementary schools (although some still temporary shelters), engaging about 100,000 children, 36 lower secondary and 8 higher secondary schools. The Government has also launched the Partnership for the Withdrawal and Reintegration of Street Children (PARRER), and the Support Unit to Child Protection (CAPE) in order to further enhance education opportunities for all children. On the other hand, the ‘moral leaders’ of some *daaras* have undertaken measures to modernize their education structures (opening boarding schools, revamping curricula, sponsoring *talibé* children, etc.), leading to the emergence of “*modern Koranic schools*.” In these schools, and in addition to memorizing the Koran, students follow the official curriculum in math and French, and can further pursue their education in secondary schools. A new law is currently being reviewed by the Parliament to help promote these synergies further.

158. **At the strategic policy level, most of the shortfalls of the basic education system result from inadequate funds devoted to structural investments as well as the weak implementation of past policy reforms and quality improvement plans.** Investments account for only 10 percent of the total expenditure of the education sector, suggesting that increases in the supply of education services was not accompanied by an appropriate and consistent policy to invest in infrastructures and educational equipment. The ten-year Plan for Education and Training (*Plan Décennal de l'Éducation et Formation, PDEF*) 2000-2010 clearly aimed to reduce repetition and dropout with multiple strategies designed since the mid-2000s to achieve these goals. Some progress followed with improvements in teacher quality, including higher minimum levels of entry, increased duration and higher quality of pre-service teacher training, and grants to local education authorities and schools to support improvements in learning. However, these measures have not

been adequately implemented. To palliate these deficiencies, Senegal developed a new ten-year education sector development program, i.e. the Program for Quality, Equity, and Transparency Improvements in Education (*Programme d'Amélioration de la Qualité de l'Équité et de la Transparence dans l'Éducation, PAQUET*), which was later updated and improved to cover the 2013-2025 period, but progress is yet to unfold. An evaluation of the first phase (2013-2015) identified a number of shortcomings related to lowering learning outcomes, an unfinished access agenda, teachers' ineffectiveness, and governance issues. The strategy is being updated accordingly at the time of writing in consultation with all relevant stakeholders, including development partners, civil society, the decentralized structures and communities.

159. **At the school level, the skills of teachers and the role of head masters are a serious constraint to the quality of teaching and effectiveness of education services.** In Senegal, particularly at the primary level, there is no systematic professional development system for teachers, and the quality and availability of in-service teacher training programs is not well documented. The role of school headmasters, particularly at the primary level, is often viewed as that of purely school management and operations, rather than of an instructional leadership. Yet, evidence shows that the most effective schools are led by directors who are equipped to (i) evaluate their own school performance (using various tools including school level data, teacher observations, etc.); (ii) provide feedback to teachers; (iii) assess professional development needs; and (iv) direct resources (including instructional resources) to where they are needed most.

160. **The performance of teachers somehow affects the choice that students make when entering tertiary education and result in the fact that technical subjects still remain overshadowed by social sciences.** One of the main contributing factors is the insufficient guidance offered by teachers from the Orientation Commission, which is responsible for orienting students towards the scientific baccalaureate series. The Government developed an action plan to increase orientation of students at various skill levels towards math and sciences, but it has not yet been rolled out. Reforms of the sector are ongoing and promise to address the supply limitations experienced so far, including by devoting more budgetary resources to underfunded sub-sectors and to strengthening the financing system based on priorities and main areas of development.

161. **The education system also suffers from inadequate investments in the early years (i.e. before primary school entry), despite the critical importance of this age period for life long skills acquisition.** The gross enrollment rate in preschool is only 17 percent in Senegal, below the SSA average of 21 percent and well below the SDG target of universal enrollment in at least one year of preschool by 2030. Children who do attend preschool are enrolled in a variety of different services, including preschool classrooms attached to primary schools, preschools managed by the National Agency of the Case des Tout-Petits, as well as private and community-based preschools. The National Center for Women Assistance and Training (*Centre National d'Assistance et de Formation pour la Femme, CENAF*) and the Directorate for Social and Community Development (*Direction du Développement Social et Communautaire, DDSC*), both within the Ministry of Family, also implement two preschool models via their decentralized structures, with the primary aim of supporting mothers to undertake income-generating activities while children are cared for. Fairly accurate data exist on formal preschool enrollment, but much less information is available on the extent to which parents and other caregivers engage in early stimulation (e.g. talking, singing, reading, playing with young children from birth onwards) at home, as well as on children's participation in some of the less formal early learning options (i.e. *Daraas* or community-based preschools). Thus, despite a variety of programs to promote early stimulation and early learning for young children, overall the sub-sector lacks clear policy guidance, unified information system(s) and quality assurance, especially (though not only) for children below the age of three. Importantly, the PAQUET strategy has a new and stronger focus on early childhood development, with specific commitments focused on the following: (i) preschool as a way to promote children's cognitive and socioemotional development and later success with learning; (ii) compulsory and free one year of preschool; and (iii) quality assurances related to curriculum, staff training and cross-sectoral coordination mechanisms.

162. **The health system, also key for early child development as it relates to nutrition as well as maternal, neonatal, reproductive and adolescent health, suffers from the inadequacy of policies supporting the healthcare demand side, with insufficient social protection and health insurance coverage.** Access to health services in Senegal is still limited, particularly for the poor. In fact, financial constraints are the most binding for all types of services, such as community practices, preventive care or treatment, referring to high out-of-pocket expenditure. It is indeed among the lowest income quintiles that maternal health is the weakest, while adolescent pregnancies are the most widespread, and it is in the poorest regions of Sedhiou and Kedougou that chronic malnutrition is the highest. Until recently, a health insurance system covering this segment of the population did not exist, leaving people with little choice. In 2015 the Government introduced the universal health insurance, *CMU*, targeted at informal workers and the poor, via the Social Protection CCT Program *Bourses Familiales*. These two programs put Senegal at the cutting edge of social protection and universal health insurance in SSA. Yet they are too recent to have tangible results as of yet, and coverage of the *CMU* is still very partial.

163. **Healthcare services are generally of poor quality and suffer from severe supply constraints, generating acute spatial inequalities.** Three main reasons lie behind this result. First, the system has limited capacity to manage the supply chain, ensuring an adequate stock of medication (including vaccines), their quality control, storage and distribution. Second, there is an insufficient availability of basic equipment and infrastructure, such as medical labs or equipment to provide emergency obstetric and neonatal care, with serious inequalities observed across the country. Third, medical and administrative staff suffers from inadequate skills and low motivation: Despite the recent increase in trained health personnel, their quality and the absorption in the public health system continue to pose challenges. Only 50 percent of pediatric staff (at the national level) has appropriate technical training, with lower levels in Sedhiou (below 20 percent) Ziguinchor (below 30 percent) and Dakar (just above 30 percent). In certain regions skilled personnel, such as midwives, is completely missing. Finally, the quality of interactions with medical staff upon arrival and during treatment is often deemed inappropriate and unwelcoming, particularly for medical procedures pertaining to reproductive health.

164. **More generally, one of the major constraints is linked to the sector financing, strongly skewed towards hospitals and health centers and affecting the affordability and the accessibility of the services for the poor.** To date, the country has 25 public hospitals, 101 health centers, 1344 health posts; around 5200 community health centers. While the former two are concentrated in densely populated urban areas and are generally unaffordable to the poor, the latter two represent the main entry point to the health system for the disadvantaged populations, but are severely underfunded. Private health providers are present, but are concentrated in Dakar and offer non-competitive tariffs.

165. **Overall, fragmentation and lack of coordination across the multitude of actors operating in social sectors underpin weak policy implementation.** For instance, eight different institutions and 12 agencies are involved in formulating policies for young children, with poorly defined roles and responsibilities, and weak communication and collaboration channels. This results in the overlap and duplication of service delivery and potentially inefficient use of resources. In education, responsibilities are distributed across several ministries, which can undermine a unified vision for the sector, and effective *bridges* from one cycle or system to the next (e.g. from general to technical education and vice versa). In the domain of adolescent and reproductive health, the lack of intersectoral coordination has prevented the identification and implementation of effective strategies to mitigate group-specific risks, particularly for young women.

166. **Sectorial data are often of questionable quality, and inadequate systematic monitoring and evaluations hamper planning and policy design processes.** One of the examples is the fact that census data, upon which the GER was calculated, are at odds with the current DHS data, as they fail to reflect

relatively high numbers of out of school youth.¹³⁶ In the health sector the situation is similar, if not worse, with weak administrative data, including birth and deaths records. Monitoring, evaluation, and information systems for both health and education are missing, preventing the comprehensive monitoring for various subsectors.¹³⁷ The data are fragmented and insufficient for accountability or resource allocation purposes without any information to assess institutional efficiency, effectiveness or expenditure. There is also little oversight of institutions in terms of the quality of instruction. Dissemination of information to service providers and consumers is also extremely limited, as is the use of evidence for policy making.

167. Sociocultural norms still play a critical role in low human capital acquisition in Senegal, particularly in more traditional settings, skewing significantly the behaviors of women, parents and youth. As elaborated in *Parts I and II*, gender norms affect women's choices in several respects, starting with their decision¹³⁸ to get married or to have their first child. These norms are generally exacerbated in very traditional settings and/or by high illiteracy rates. A recent study documents that in the context of polygamy, customary inheritance laws provide an incentive for women to have close pregnancies, particularly when previous children are girls.¹³⁹ Norms also affect women's and child health while pregnant: traditionally and particularly in rural areas, pregnancies are kept secret until they become evident, resulting in women often missing one or more of their pre-natal visits, increasing risks of complication¹⁴⁰. Other cultural factors include dietary taboos and early marriage. Violence against women is also a concern: A recent study reveals that as much as 60 percent of women in the country suffer from some sort of violence, be it verbal, psychological or physical¹⁴¹. Children and other vulnerable groups are also affected by violence. Finally, norms influence the extent to which young men and women can decide for themselves on a range of issues, including when to marry and have children but also in relation to the type of studies (e.g. scientific versus social sciences) and employment that are considered appropriate.

168. Finally, the multiplicity of unions with different objectives or incentives can be an important constraint to open and constructive dialogue between different actors, and frequent strikes and/or high rates of absenteeism among public servants can get in the way of the quality of service delivery in health and education. Contestations from teacher unions and tertiary education students to request better working conditions and to protest overcrowding, respectively, have significantly affected teaching and learning outcomes over the past few years at every level of the education system and still pose major challenges to the implementation of the broad reform agenda. More recently, consultations initiated by the Government with union representatives and civil society organizations have contributed to better dialogue and fewer strikes, but further efforts are needed to align the incentives and interests of various stakeholders to promote better student learning. Furthermore, strengthening the capacity of trade union actors would help them to play a more decisive role in political dialogue based on a critical analysis of the national education system. Under-sanctioned teachers' absenteeism outside of organized strikes (along with widespread absenteeism among public servants in various other sectors and at all administrative levels) further disrupts internal efficiency and contributes to low school performance. As a result, despite the fact that the total number of annual schooling hours should be around 900 hours, in practice more than one

¹³⁶ Building Human Capital in Senegal Inputs on the Education Sector for SCD Discussions - April 2017.

¹³⁷ Although the National institute for Research and Action for the Development of Education (INEADE, Institut National d'Etude et d'Action pour le Développement de l'Education) gathers data on public and registered private providers, the information is basic and used for administrative purposes only (e.g., establishments, enrollment, etc.)

¹³⁸ Decision may not be the right word in this case, norms may affect the capacity of women to decide for themselves on matter related to marriage, health, and labor market choices.

¹³⁹ Lambert et al, 2017.

¹⁴⁰ *Dossier d'investissement pour la réduction de la mortalité maternelle, néonatale, infanto juvénile et des adolescent(e)s*. Ministère de la Santé et de l'action sociale. 2017.

¹⁴¹ According to the Laboratoire Genre et société de l'Université Gaston Berger (UGB) de St.Luis, as mentioned in the study of the ministry of health *Dossier d'investissement pour la réduction de la mortalité maternelle, néonatale, infanto juvénile et des adolescent(e)s*.

third¹⁴² of this teaching time is not provided.¹⁴³ Reduced teaching hours, compounded by persistent weaknesses in terms of pedagogical practices, resulted in an increase in repetition rates by 6.2 percent in secondary school¹⁴⁴.

169. **In sum, a systemic approach is needed to improve the entire human capital accumulation process, particularly focusing on improving access and quality of early child development services and basic education.** Access and quality of education and health services is still an unfinished agenda and requires the full implementation of reforms and/or newly formulated strategies, building on the progress achieved so far. More generally, additional efforts need to be done to offer services that better respond to the needs of households, in terms of quality of the services and of the infrastructure. This may require the creation of a hybrid, locally rooted system, creating *passerelles* between formal schools and *daraas*, for instance, or between traditional/community and institutional health service providers. Under a financial point of view, this objective can be achieved by striking the right balance between physical investment and recurring costs, or revising the composition of sectorial expenses to make sure that the budgeting exercise reflects priorities as defined at the local levels and based on the needs of the population. Finally, policy coherence and rationalization of actors is warranted to reduce coordination failures and fragmentation, which are particularly acute in this domain characterized by a multiplicity of institutions.

170. **To conclude, Senegal still needs to spark the demographic transition to significantly improve its human development outcomes and reap the benefits of the demographic dividend to achieve emergence.** As clearly stated in the PSE, high fertility and demographic growth are major challenges to improve the human capital and living conditions of the population and to promote inclusive growth. Interventions to support the demographic transition should focus on removing barriers for family planning and reproductive health services (both by generating demand for these services through age- and culturally-sensitive communication and engaging community/religious leaders, on the one hand, and by improving availability and quality of these services on the other hand), combined with critical investments in women and girls' education and empowerment. With fewer dependents to support (and with adequate policies to foster human capital, employment and relevant investments to ensure that the additional working-age population can get good jobs), the bulging youth cohort would boost sustainable growth and make emergence possible.

Constraints to Distribution

171. **This sub-section includes the Deep Dives into the binding constraints identified under the Distribution pillar.** These include the distortion of food prices, and the inequality of public transfers, sequenced in this way to reflect the timeframe of their respective impacts on poverty reduction.

2.1. Distortion of Food Prices

172. **In the early 1980s, the economy was progressively liberalized, although sugar, edible oil, and flour sectors retained special protection.** As a result, in these sectors, the dominant incumbent firms have, at least until recently, benefited from substantial monopsony power and considerable economic rents. The above sectors have been characterized by a combination of limited competition in both production and trade, high rates of import protection, and price ceilings. One of the most persuasive arguments for such Government interventions is employment protection in these industries. Sugar, vegetable oil and flour milling firms are among a few major formal manufacturers left in the country, and it is feared that without

¹⁴² Examen Multidimensionnel du Sénégal, phase 2. OCDE 2017.

¹⁴³ The situation is worse for double-flow classes, which account for only 600 hours of classes on average per year (Niang F., 2015)

¹⁴⁴ *Synthèse prospective de l'évaluation de la phase 1 du programme d'amélioration de la qualité, de l'équité et de la transparence de l'éducation et de la formation.* Ministère de l'éducation nationale, 2016.

protection they could easily decay as well. However, given the large social benefits of lower food prices, compensation of the workers would achieve high social benefits.

173. **Reforms of these sectors have been complicated by the state trying to manage conflicting pressures from influential stakeholders.** Although different waves of reforms have evolved differently depending on the sector, the key factor determining their success or failure has been the interplay of powerful industry actors. In the case of sugar, vegetable oil and flour, the presence of strong interest groups with important political and social interests as well as substantial economic rents further undermined reform efforts. These conflicting pressures have resulted in incoherent policies, with high and non-transparent protection of producers combined with price controls to benefit consumers, the balance between which has been shifting erratically, ratcheting government interventions in price setting and politicizing economic policy.

174. **Going forward, gradually lowering the level of protection accorded to incumbent firms in these sectors, in the form of customs duties and *de facto* monopsony, would allow more equitable social outcomes and a more efficient use of resources.** Up to date consumers continue to subsidize both the few jobs created in the sectors and profit margins of the business owners. Lowering the level of protection is the best way to bring consumer prices down (as was demonstrated by partial liberalization of the flour industry) substantially obviating the need for price controls, which are difficult to administer and set at appropriate levels. Furthermore, discretionary and non-transparent customs practices, which allow for manipulation around the level of protection through variations in import valuations rather than announced changes in statutory regulations, should be eliminated to maintain a level playing field and avoid corruption. Removing subsidies and privileged access to land and water to the sugar growers relative to other users, notably horticultural producers, would boost the economic efficiency of agriculture.

2.2. Inequality of Public Transfers

175. **As a share of the national budget, social assistance expenditures¹⁴⁵, which have the higher impact in reducing poverty, have hardly changed since 2011.** Despite increased focus of the Government in this area, they represented only 0.7 percent of the national budget in 2015. The most important conditional cash transfer (CCT) program in Senegal, *Programme National de Bourses de Sécurité Familiale* (PNBSF), launched in 2014 to strengthen livelihoods of vulnerable families¹⁴⁶, accounted for only 0.6 percent of total government expenditures, although increasing to 0.9 in 2016. *Cantine Scolaire*, the national school feeding program, and the subsidised contribution to the CMU launched in 2015, both account for 0.03 percent of total expenditure and 0.01 percent of GDP. If social insurance, disaster management funds and youth employment programs are added to include all social protection in its broader definition, its share of GDP reaches over 3 percent, but the majority of it is represented by social insurance, which mostly benefits the non-poor¹⁴⁷. Total subsidies represent 2 percent of public spending and 0.6 percent of GDP. The biggest of them are demand-side agriculture subsidies, which account for two thirds of total subsidies and are directed primarily at farmers' purchases of seeds, fertilizers, and agricultural equipment. Another important subsidy focuses on the supply side of the electricity sector and constitutes the share of the total costs of SENELEC not covered by revenues due to the regulated tariff structure.¹⁴⁸

¹⁴⁵ As explained in the previous section on binding constraints, social assistance here only includes the national CCT program, the school feeding program and subsidies to the universal health insurance.

¹⁴⁶ The CCT program provides vulnerable families with 100,000 FCFA (close to US\$170) on a condition that they keep their children in school; hence the conditionality is aimed at strengthening households' human capital, while parallel productivity-enhancing activities aim at increasing the earning capacity of the poor.

¹⁴⁷ Social Protection Public Expenditure review. The World Bank 2017.

¹⁴⁸ The amount of this compensation is determined by international oil prices and the differential between the cost of electricity production including a reasonable mark-up and its regulated price. In the CEQ exercise conducted in Senegal, data from 2013 was used, to show what the fiscal impact of such subsidy is when oil prices are high.

176. **Public budgeting lacks a focus on equitable impact of expenditure.** The Medium-Term Sector Expenditure framework (Cadre de Dépenses Sectoriel à Moyen Terme, CDSMT) was previously used for all sectors, as a multi-year planning tool with a time horizon of three years. That instrument does not explicitly analyse the equity impact of expenditure choices, in particular of subsidies and social transfers. More recently, the system has evolved towards the use of program-budgets, with the objective to implement a result-based management approach (Gestion Axée sur les résultats, GAR). At the technical level, evidence-based decision-making is weakened by low capacity and inadequate information management systems. To date, the Government disposes of very few impact evaluations for their social programs, although progress is underway with the ongoing and planned evaluations of the PNB and the CMU initiatives. More generally, an information system to record administrative data in a standardized and comparable way is missing in several key ministries, contributing to the fragmentation of authority, low institutional capacity and weak coordination. While planning units are present in all ministries, their capacity varies dramatically, both in terms of skills and number of staff employed, harming central planning functions across sectors.

177. **Institutional coordination and organizational fragmentation hinder effective budgeting for social protection.** Social protection is the most fragmented sector with a total of 37 programs executed by 9 ministries and 12 agencies. The institutions in charge suffer from some institutional instability and changes of ministerial tutelage are frequent. Despite the establishment of the *délégation générale de la protection sociale et de la solidarité nationale* under the direct supervision of the President, the number of programs remains high, while the budgeting exercise is conducted at the level of the various ministries who often lack a unified vision for the sector.

178. **Going forward, the new result based management approach could be instrumental to improve the equity of the system.** The result-based approach offers the opportunity to introduce equity targets as part of the performance targets associated with each expenditure program. This should go hand in hand with the establishment of a central monitoring and evaluation system, as well as the strengthening of the administrative capacity for planning and budgeting at the central and local levels, which currently result in inefficiencies, with important differences between executed and planned expenditure, for instance, and additional costs for the users. In particular, the planning disconnect between the central and decentralized levels leave local authorities without adequate responsibilities, jeopardizing the bottom-up identification of priorities.

Constraints to Sustainability

179. **Finally, this sub-section covers the Deep Dives of the sustainability binding constraints,** which include the management of oil and gas, youth social inclusion and climate change.

3.1. Oil & Gas

180. **Given the uncertainty as to the size and timing of the economic windfall from oil and gas exploration, as well as the inherent volatility of hydrocarbon prices, adopting cautious revenues management rules would allow to calibrate and smooth the flow of extractives revenues to be spent as to mitigate macroeconomic risks.** A critical instability risk associated with the uncertain and volatile nature of future revenues derives from the possibility of advance financing of the resources flow. This kind of borrowing can easily lead to excessive borrowing and sharp fiscal adjustments, when expected revenues fail to materialize, and public expenditures are incompressible, such as in the recent cases of Ghana and Mozambique. Another critical instrument to shield the economy from instability is an oil & gas volatility fund, which would allow to smooth the fluctuations of commodity prices and the profile of extraction of the resources to stabilize the flow of resources being spend through the annual budget cycle.

181. **On the expenditure side, the capacity of the Government to spend the oil and gas proceeds productively will be critical, particularly using the resources effectively to address pressing gaps in human and physical capital.** On the expenditure side, the most important consideration is to ensure the productivity of public spending. Many countries have found it difficult to avoid increasing recurrent expenditures or financing new large projects, while the existing needs of the population remain underserved. A clear prioritization of investment versus recurrent expenditures, and the ability to select and implement highly productive projects that increase the country's long-term human and physical capital will be key. In case expected resources are significant compared to the economy, it will be necessary to manage indirect macroeconomic effects of large spending, including soaring inflation and upward pressures on the exchange rate, both of which can have considerable negative impact on the welfare and employment opportunities of the poorest segments of society.

182. **Managing governance, social, and environmental risks will also be critical.** The concentrated nature of the flow of extractive resources creates significant new opportunities for diversion, which, if not kept under control, can quickly infect the whole governance fabric of the society, imposing considerable economic and social costs. Strengthening the independence, mandate and transparency of national oversight institutions prior to the exploitation of resources can mitigate those risks, as can the commitment to external oversight mechanisms, such as EITI, of which Senegal is already a member. Open and candid communication with the population of the expected benefits of new resources is also important to manage expectations about any subsequent welfare improvements to avoid widespread social recriminations. This is particularly important, as extractive industries are capital intensive and therefore tend to create very few direct jobs. Resources boom can also create large regional migration flows that can potentially exacerbate social tensions. Environmental risks are equally important and can have a direct impact on the livelihoods of local communities, warranting appropriate legislation and monitoring capacity to be in place.

183. **To mitigate the risks related to oil and gas an ambitious menu of complementary measures, including building a strong institutional framework to facilitate transparency and efficiency in the use of funds.** Specific measure would include, but would not be limited to: (i) adopting cautious revenues management rules to calibrate and smooth the flow of extractives revenues to be spent, while committing to a strong fiscal anchor and limiting the possibility of advance borrowing of the resources flow; (ii) prioritizing the use of the resources for well-managed investment in human and physical capital, and sequencing the spending based on the country's absorptive capacity; (iii) strengthening the independence, mandate and transparency of national oversight institutions, prior to the exploitation of resources, and committing to external oversight mechanisms; (iv) pursuing open and candid communication with the population and engagement with civil society organizations.

3.2. Social Inclusion of the Youth

184. **Exclusion from the formal education system increases the risks of social marginalization, especially when compounded by weakened family ties and limited economic opportunities.** The main common feature among the high number of out-of-school children is loosened family ties. 78.6 percent among them have never been into formal schools. This group of children are either assigned to *daaras* and may become *talibé*¹⁴⁹ (begging children), or have escaped *daaras* and have become street children. In both cases, evidence suggests that the ties with their families have been weakened or broken.¹⁵⁰ Most of these children remain illiterate due to the lack of bridges to bring them back into the education system, and live of small informal substance activities.

185. **Social inclusion has very blurred traits in Senegal, resulting in heterogenous set of policies and initiatives.** The Government does not seem to have a coherent and comprehensive approach to address

¹⁴⁹ Talibé actually means "learner" and is not a pejorative term as such.

¹⁵⁰ Etude Nationale sur les Enfants et les jeunes Hors du Système Educatif au Sénégal. USAID 2017.

social exclusion in the country. Therefore, single initiatives have emerged and address, *ex-post*, specific forms of vulnerabilities, such as handicaps, addictive or antisocial behavior, gender discriminations etc. These initiatives are scattered across ministries and have limited coverage, mainly concentrated in Dakar. More generally, at the national level the concept of social exclusion is associated with extreme poverty, and is therefore dealt with through programs such as the *Program National de Bourses de Sécurité Familiales*, covering more than 20 percent of the population across the territory. At the community level, on the other hand, a dynamic flora of semi-formal grass-roots associations spread across the country are at the origins of a wide range of initiatives to reduce vulnerability to social exclusion. They generally identify the vulnerable based on their poverty or (lack of) education, and provide trainings and mentoring. However, these initiatives suffer from very limited coverage and operate in disconnection with national policies. The use of community base mechanisms to define, identify and address social exclusion seem very promising, as they seem to be the best placed to reach out to youth at risk, potentially serving as *passerelle* to more formalized organizations. As such, they deserve to be better understood and possibly strengthened.

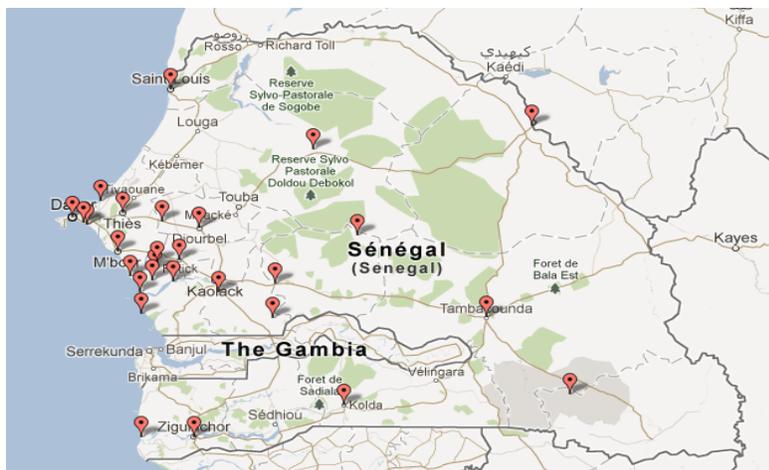
186. The adoption of integrated approaches could provide fruitful solutions to address the risk of youth social exclusion. Key to these approaches would be second chance education programs for marginalized youth, with a focus on crosscutting life skills aiming at improving socialization and citizenships values, self-esteem and the capacity to build a life plan and implement it. Policies aiming at improving the employability of youth at-risk would offer an important complement. The use of community-based mechanisms to define, identify and address social exclusion seem promising. As such, they deserve to be better understood and possibly strengthened.

3.3. Climate Change

187. Climate change threatens past and future progress in poverty reduction and requires a comprehensive policy and financing package. As illustrated in *Part II*, simulations reveal that climate change could have a large effect on extreme poverty, depending on the adopted scenario: By 2030, between 59,000 and 606,000 people in the optimistic scenario and between 119,000 and 1,367,000 people in the pessimistic scenario could be in poverty because of the climate change. These impacts will be mainly channeled through agriculture, health (particularly waterborne diseases) and coastal flooding. In light of these transmission channels of the impacts of climate change, a multi-sectorial approach is needed in helping the country mitigate and adapt to climate change. Appropriate resources should support the implementation of this approach.

188. The distribution of climate change adaptation projects is geographically concentrated, and not necessarily targeted to the most vulnerable areas. An analysis of projects implemented at the national level for adaptation identifies significant divergencies as to the extent of different sectors benefitting from the Government support. Agriculture and ecosystems (marine and terrestrial) benefited the most with 16 and 15 projects, respectively. Water projects follow with seven in total, five of which focused on floods and one on coastal adaptation. On the other hand, only few adaptation projects are focused on other key sectors, such as sanitation or social protection (three and two, respectively). The implementation is also very geographically concentrated in the coastal zones and regions of Dakar, Thiès and Diourbel (Map 5.3.1). This concentration of projects does not reflect the geographic distribution of vulnerability to climate change, as identified in previous studies.

Map 5.3.1: Distribution of Climate Change Adaptation Programs and Projects in Senegal



Source: CILSS report (2013).

189. **At a national level, the institutional, operational, and financial frameworks for climate change adaptation and mitigation remain weak and inconsistent with the challenges of development programs.** The country's overall response to the effects of climate change is not commensurate with its high vulnerability and the sensitivity of the population and relevant supporting sectors to climate change. Senegal's policies for adaptation includes the country's National Adaptation Programme of Action (NAPA) (2006), which identifies priority sectors and projects. It highlights the importance of regional and international cooperation and the mainstreaming of climate change efforts into all relevant national ministries, institutions, and policies. Senegal submitted their Intended Nationally Determined Contribution (INDC) in 2015 which establishes a set of mitigation and adaption priorities for the country for 2030. Despite these nationally supported climate policies, the country's policy environment remains underscored by inadequate financial and technical means and a lack of effective coordination to be successfully implemented. the mitigation side, although there are several funding mechanisms and instruments (both Government and donor funded), there is no comprehensive strategy to avoid fragmentation and to ensure a coherent interplay of different mechanisms. The Government's approach to disaster response and, more generally, disaster risk management, is characterized by a multitude of specialized institutions / agencies, each focused on a specific type of risk and / or a target population. Overall, there is insufficient coordination between different interventions, which could result in a loss of effectiveness and suboptimal coverage of affected populations. These frameworks remain weak due to the lack of dedicated budgets and qualified human resources to plan, coordinate and ensure the implementation of climate change adaptation and mitigation policy.

190. **The absence of data and modelling tools for climate change impacts hamper effective policy planning.** Where they exist, ex-ante financial allocations for dealing with disasters are not based on quantification of potential losses. It would be important to conduct a rigorous analysis of the post-disaster budget allocation and its implementation to try to gain a better understanding of the financial needs of the country's disaster response. This analysis would be a first step towards developing a more proactive and forward-looking strategy for disaster risk finance, which would improve financial planning by clearly defining rules for allocation and early mobilization of funds.

191. **At the sectorial level, adaptation policies addressing the vulnerability of the agricultural and fisheries sector should include strengthening of the supply chain around food production and distribution, trade policies and investments in robust fish stocks.** Well-functioning markets, institutional support (such as trade agreements) and sound transport system can help Senegal cope with production shocks. Better technologies, more climate-resistant crop varieties (productive, early-maturing and drought-resistant varieties adapted to climate change) and livestock breeds, secure tenure rights, smart subsidies, and access to long-term finance can also help tackle future food security challenges. Moreover,

investing in sustainable fisheries, coupled with the efforts to ensure ecologically healthier coastal/marine environment is necessary to make fish stocks robust to climate change shocks.

192. **Policies addressing potential health impacts of the climate change should focus on social protection, financial inclusion, but also infrastructure development and poverty reduction policies more broadly.** Economic development, poverty reduction, community-based institutions and better infrastructure could compensate for many of the negative projected climate-related trends. The full implementation of the Universal Health Coverage via the CMU initiative would contribute greatly to climate change adaptation, once fully deployed— and monitoring and surveillance systems (both in the health and environmental sectors) will be critical to deal with emerging health issues. To help poor households cope with these shocks and avoid the irreversible impacts on children’s development and education, other tools can be mobilized and developed, such as financial products to save and borrow, and social safety nets. In 2017, to mitigate the impact of climate related shocks on poor households (lack of rain during the agricultural season), the government, through the SE-CNSA, started using the tools of the safety nets system to support affected households (targeting through the unique registry, transferring cash instead of food, using the operational set up of the CCT at local levels, and using the payment provider). Setting up a sustainable financing strategy for such interventions is critical to build the resilience of the poorest to climate change.

193. **Disaster risk management policies are also critical.** The Government has taken steps to advance disaster risk management (DRM), particularly around flood risk following the 2009 floods. In 2012, Senegal established the Ministry for Restructuring and Managing Flood Zones to oversee flood management and prevention and in 2013, the National Strategy for Economic and Social development was published, with a focus on risk and disaster prevention and management. Currently, the Ten-Year Flood Management Program (2012–2022) includes a sustainable flood management project and the National Office of Sanitation’s projects to build a drainage network. Future areas of support should include risk-sensitive land use regulation, policies to accelerate the development of more resilient infrastructure, improvement of housing quality, particularly in vulnerable urban areas and formal land tenure, more affordable electricity access, financial inclusion, and early warning and evacuation system and protocols.

194. **Going forward, an integrated multi-sectoral approach will need to be adopted, starting with the definition of a national strategy to deal with climate change and disaster risks.** Potential solution areas to address these risks include the following: (i) specific disaster risk mitigation and climate change adaptation policies in all affected sectors, such as those already planned in the domain of the adaptive social protection, agriculture, coastal risk management; (ii) a national strategy for disaster risk management, coupled with strengthening of the institutional, operational, and financial frameworks for adaptation and risk reduction; (iii) the production of data and estimates of potential climate change and disaster impacts, as a contribution to improved development planning and ex-ante financial allocations.

Tackling the effects of climate change on Senegal’s economy holistically can contribute to a faster rate of poverty reduction and more inclusive growth. For instance, from a natural resource and agricultural perspective, the two key areas of intersection are: (i) addressing food security through climate resilient sustainable food production practices and (ii) diversifying the rural economy through growing industries that rely on a healthy environment and sustainable natural resources management. This will require a holistic approach that considers ecological and economic linkages to the rural economy, including forestry and fisheries, coupled with improving access to and coverage of social safety nets. On the energy side, the promotion of a more diverse mix of renewable sources of energy can decrease the likelihood of energy shocks on industrial productivity, as well as building resilience measures for energy sources and the poor. There are likely to be other opportunities in resilient infrastructure development, particularly transport, which should also be explored.

D. Consolidated Constraints and Cross-Cutting Issues

195. The preceding in-depth analysis of selected binding constraints has allowed for their further consolidation into key priority areas, as illustrated in the Figure below.

Summary of Consolidated Priority Constraint Areas



Source: World Bank staff.

196. In particular, the constraints related to inclusive growth and distribution can be clustered into **FOUR** main higher order priority areas:

1. Common to constraints in *Agriculture, Taxation and Informality, Food Prices* and *ICT* is the lack of a level playing field for the private sector, underscored by excessive state intervention, lack of supportive market regulations, the weak functionality of Senegal's antitrust framework, the skewed implementation and arbitrary interpretation of tax and customs obligations. This context not only provokes anti-competitive practices in the markets critical for the poor, such as agriculture and food production, and in key high potential growth sectors, such as ICT, but also underpins the survival of a whole rentier segment of the private sector that undermines the confidence of investors and competitive market players.
2. The constraints related to *Human Capital, Youth Employment and Skills, and Inequity of Public Transfers* are all linked to shortfalls in the efficiency and equity of public social expenditures and policies, characterized by regressive programs and subsidies as well as weak implementation of social sector reforms related to life-long skills acquisition. Combined these constraints prevent Senegal from reaping the benefits of its emerging demographic dividend and from fostering wide social and economic inclusion.
3. Long-standing constraints in *Energy and Land* relate to the accessibility and affordability of key productive assets critical for sustaining and accelerating high growth rates.
4. Finally, the rigidity and high cost in the formal labor market weakens the enabling macroeconomic foundations of the accelerated economic growth and public investment.

197. **The Deep Dives have also brought to light TWO critical underlying themes that revealed their importance across multiple areas.** Two main underlying institutional constraints lying at the heart of Senegal's development paradox have systematically emerged throughout the in-depth analysis:

- *First*, the consolidation of diverse and interlocking *vested interests* in the political space has arguably worked to undermine the design and implementation of structural reforms, equitable service delivery, and thriving private sector by fragmenting the public policy space into a myriad of public institutions, which make cohesive policy formulation problematic and effectively resist or dilute reform implementation.
- *Second*, deep-rooted *social norms and practices* affecting young people, women, children, and other vulnerable groups directly or indirectly shape behavior expectations and interact with formal institutions (such as formal laws) and market failures to create a restrictive environment, impairing the capacity of some members of society to accumulate human capital, pursue economic opportunities and, ultimately, effectively decide what is best for their lives.

198. **Tackling the underlying political economy constraints requires an ambitious governance agenda aimed at shifting incentives and promoting accountability.** A recent World Bank report¹⁵¹ suggests that addressing higher order political economy constraints requires strengthening citizen's political engagement - defined as the participation of citizens in selecting and sanctioning the leaders - together with greater transparency - defined as citizens' access to publicly available information about the actions of those in government and the consequences of these actions. Applying this framework to Senegal's specific institutional environment would lead to a higher-level agenda of institutional change articulated around three main axes:

- i. *Strengthening an institutional culture of information sharing.* Efforts to enhance the production of and public access to information, including important budget transparency measures, are needed to optimize the engagement of civil society and the media in contesting public policies and to counteract the incentives of vested interests, while favoring evidence-based decision-making. They can include introducing right to information legislation and institutional modalities, leveraging information technology to facilitate information production and dissemination, introducing e-governance systems for process tracking, etc.
- ii. *Enhancing the political independence of the civil service and public regulatory institutions.* In the context of Senegal, more transparency in the public sphere will require a depoliticization of the civil service and stricter rules on the conflict of interest for key regulatory institutions. This would allow the civil service to play a neutral role in the provision of information and analysis, while boosting the confidence of the private sector about the fairness of the state regulatory decisions.
- iii. *Reinforcing the division of power between state institutions, while strengthening the role/voice of civil society participation to promote more inclusion.* Citizens in Senegal do not face many constraints to political participation, but the centralization of power in the executive branch at the expense of the legislative and judiciary branches and of LGs, makes genuine political participation less meaningful. Thereupon, re-balancing power between the branches and levels of government could open space for stronger citizens' political participation, better bridging citizens and administration around service delivery. Furthermore, civil society organizations, including producers or community based entities, could play a more important role to promote the development of socio-economic opportunities/right for their members, included marginalized groups.

¹⁵¹ *Making Politics Work for Development: Harnessing Transparency and Citizen Engagement.* Khemani, Stuti; Dal Bó, Ernesto; Ferraz, Claudio; Finan, Frederico Shimizu; Stephenson Johnson, Corinne Louise; Odugbemi, Adesinaola Michael; Thapa, Dikshya; Abrahams, Scott David. 2016. Washington, D.C.: World Bank Group.

199. **Governments and civil society practitioners across the globe strive to implement policies and projects to change deleterious social norms and catalyze improvements in peoples' lives, especially for women and girls.** Restrictive norms persist either because of history or power: that is, either because social inertia has trapped current behavior in a stable state that benefits no one, or because certain individuals benefit from norms that hurt others.¹⁵² If social inertia is the cause, then collectively coordinated change in beliefs is the solution. If power is the cause, then a wide set of actors need to get engaged and exert influence over powerful people for the norm to be questioned and ultimately changed.

200. **The Social Network research suggests that changing inhibitory norms requires providing information about their impairing consequences, while creating safe spaces for community members to together question them, expand personal capacities and aspirations, and reimagine existing relationships.** Research demonstrates that the acceptance of changing norms by local elites as well as the proximity to neighboring communities that have embraced the change increase the likelihood of individual and community acceptance.¹⁵³ Thus, focusing interventions at the local level and targeting local elites (“influential norm leaders”) are important strategies for diffusing international norms. Successful projects work with girls, women, and men in their families and in their communities at large and promote deliberative discussions in undermining and recasting expectations about what is typical and appropriate. Interventions that fail to include the entire social network in a deliberative way would not achieve durable change in those social expectations - possibly increasing, rather than reducing, harmful consequences. Senegal could also explore ways to leverage the high participation of women in parliament (more than 40 percent of seats) to encourage changes in some of the harmful cultural norms.

E. Data Constraints and Knowledge Gaps

201. **This SCD has been informed by national and international primary sources as well as secondary information whenever required, however some data gaps exist, which have precluded the deepening of the analysis in several domains.** This SCD was based on existing and new evidence produced on the basis of available statistical information. Despite recent improvements of the national statistical systems, data gaps are still present and binding. First, recent statistics on poverty based on the household consumption data are missing (the latest official survey dates to 2011), generating the need to base the poverty analysis of the most recent period on simulations and on non-monetary indicators. A new national poverty survey is under preparation and will be produced in 2018, with data available for use in 2019. Second, employment and job creation, particularly of the recent years, when they were associated with high growth rates, could have been analyzed more in-depth. While quarterly labor force surveys have existed since 2016, the series is too short to be meaningfully used to investigate the linkages between (or possible decoupling of) growth and job creation. Third, sectorial administrative data have inherent weaknesses, which not only affect public policy planning, monitoring and evaluation, but also limited the SCD team in analyzing recent growth trends and their correlation with, for instance, the agricultural sector performance, which is key for poverty reduction. Finally, while it was possible to adopt a gender angle in several aspects, such as employment, access to services and climate change impacts, gender disaggregated data do not exist for all the sectors and domains covered in this SCD. **In conclusion, the production of a data gap diagnostic as a follow up to this SCD may help identify in a systematic way the critical indicators and data that are still missing.**

¹⁵² *Social Norms and Girls' Well-Being: Linking Theory and Practice*. Vaitla, Bapu, Alice Taylor, Julia Van Horn, and Ben Cislighi. 2017 Washington, D.C.: Data2X.

¹⁵³ *When Norms Collide: Local Responses to Activism against Female Genital Mutilation and Early Marriage*, Karisa Cloward (New York: Oxford University Press, 2016).

CONCLUSION

202. **Following decades of modest economic performance, in the past few years Senegal has managed to achieve a turnaround in growth, stepping on a path of incipient structural transformation, underpinned by stronger international competitiveness and emerging demographic transition.** Despite a celebrated legacy of political and social stability, access to the Atlantic Ocean from the westernmost part of Africa's Sahel, and sizeable educated elite, Senegal has historically found itself trapped in a low-growth, high-poverty equilibrium with annual per capita GDP hardly increasing since independence and monetary poverty stagnating around 47 percent. As a small net importer, relying heavily on remittances and foreign aid, the country has been always vulnerable in the face of external shocks (both on the national economy and household levels) and has been constrained by weak productivity of both labor and capital, and growing informality. However, in the past three years, marked by favorable external environment and low global commodities prices, Senegal demonstrated pronounced advancements in its global competitiveness, reflective of past structural reforms and public investment, which resulted in impressive growth rates above 6 percent. Despite limited creation of good quality jobs, poverty is estimated to have dropped by 4 to 7 percentage points since 2011. The good performance of agriculture, commerce and construction has raised income for the many poor that work in these sectors. In addition, better access to basic services and infrastructure has consolidated improvements in the living conditions of the population.

203. **However, to achieve poverty eradication by 2030, growth needs to be stronger and more inclusive.** Simulations indicate that annual real growth in mean consumption for the bottom 40 percent should be at least of 5.2 percent for Senegal to eradicate poverty by 2030, as measured by the international poverty line (US\$ 1.90 / day). Such performance would require an acceleration of the GDP growth rate, as well as a reduction in inequality with the bottom forty growing faster than the average. However, inequality has remains persistently constant in Senegal, even in periods of high growth. This lack of inclusion needs to be addressed and finds its origins in the uneven distribution of human capital and in the insufficient progress in accessing basic services, particularly in poor areas Young people and women are particularly affected by these non-monetary inequalities, limiting the country's potential to collectively accumulate important dividends of its incipient demographic transition.

204. **Based on this Diagnostic, the SCD has applied an analytical prioritization framework to dissect key constraint areas that are blocking the achievement of the World Bank's Twin goals as well as the long-term vision of an emerging equitable economy in Senegal.** These areas have been concisely summarized, as FOUR key structural constraints to the valorization of human and economic resources, THREE sustainability constraints and TWO crosscutting institutional bottlenecks. Key structural constraints refer to (i) the lack of a level playing field restraining the development of a vibrant private sector, particularly in terms of weak competitiveness and uneven taxation enforcement; (ii) the difficult access to key inputs, including land and energy, burdening the business environment and individual entrepreneurship; (iii) the inequitable and inefficient use of public social spending, affecting life-long skills accumulation with important consequences on the functioning of the labor market, and reducing the poverty reducing impact of fiscal policy; and (iv) the rigidity and high costs of labor, that affects the long-term economic growth potential and formal job creation capacity. Sustainability constraints refer to systemic risks threatening the viability of Senegal's development model and include the management of newly discovered oil and gas resources; the impact of climate change on livelihoods and poverty, and the threat to social cohesion generated by the risk of social exclusion of the youth, linked to their inadequate skills and limited economic opportunities. Addressing these constraints is further complicated by two crosscutting institutional and cultural characteristics, namely the corporatist and clientelistic political system and restrictive social norms that render reforms and changes in the *status quo* more problematic.

205. **Building on both constraints and the solution areas emerging from the 4-3-2 analysis, the SCD charts three main pathways to poverty reduction and shared prosperity in Senegal:**

i. *Boosting Competitiveness:* Achieving high rates of private sector-led economic growth and curbing poverty, particularly in youth-rich urban areas, would require consolidating the recent structural turn-around in the economy and strengthening the country's global competitiveness, particularly in labor-intensive and productive economic sectors. This should be underpinned by supportive fiscal and monetary frameworks and enabling business environment, as well as structural reforms in key economic sectors. The latter would ensure increased and equitable availability of productive inputs, such as land, and improved critical infrastructure, including energy and ICT. The development of soft and technical skills to equip the youth to fully participate in the growth process will be equally critical to reinforce social cohesion, accompany the urbanization process and harness the emerging demographic dividend.

ii. *Enhancing Equity and Resilience:* Another important avenue for pro-poor growth and poverty reduction lies in unlocking the economic potential of non-extractive natural resources, including agriculture and livestock, which are still employing most of the country's poor, while enhancing the ability of the population in rural areas to cope with shocks through appropriate government support. This will imply engaging in or accelerating reforms in some key sub-sectors, such as groundnuts, while starting to modernize land tenure system. Stimulating agricultural productivity and environmentally resilient production should go hand-in-hand with improved access to basic services to increase the rural poor's human capital base, particularly for women, and accompany structural transformation. Considering the high exposure to risk of the poor, disproportionately affected by both covariate and idiosyncratic shocks, the composition and efficiency of social expenditure should be shaped in the direction of improving planning and budgeting of pro-poor services and strengthening well targeted, high-impact social assistance interventions.

iii. *Managing Risks Associated with Natural Resource Discoveries and Climate Change:* In order to successfully achieve its stated objectives, Senegal would need to adopt adequate risk management measures focused on its nascent oil and gas sector and climate change impacts. In order to avoid the 'resource curse' and the risk of undermining the competitiveness of labor-intensive exports the authorities would need to ensure transparent and sustainable management of extractive industries, develop forward and backward linkages, and use oil and gas revenues to support labor-intensive sectors and poverty-reducing public interventions. At the same time, in light of the considerable impacts of climate change on the livelihoods of the poor, their capacity to manage weather and disaster related shocks, as well as face other consequences generated by climate change, such as decreased agricultural production, volatile prices, and health hazards, should be strengthened through improved climate mitigation and adaptation strategies, investment in natural capital, as well as expanded and better-targeted social protection measures, particularly focused on vulnerable groups, such as women.

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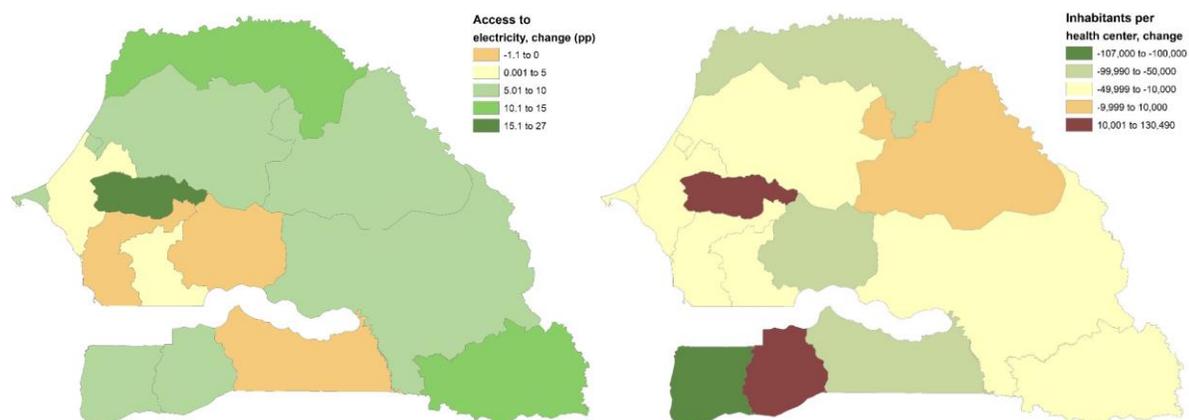
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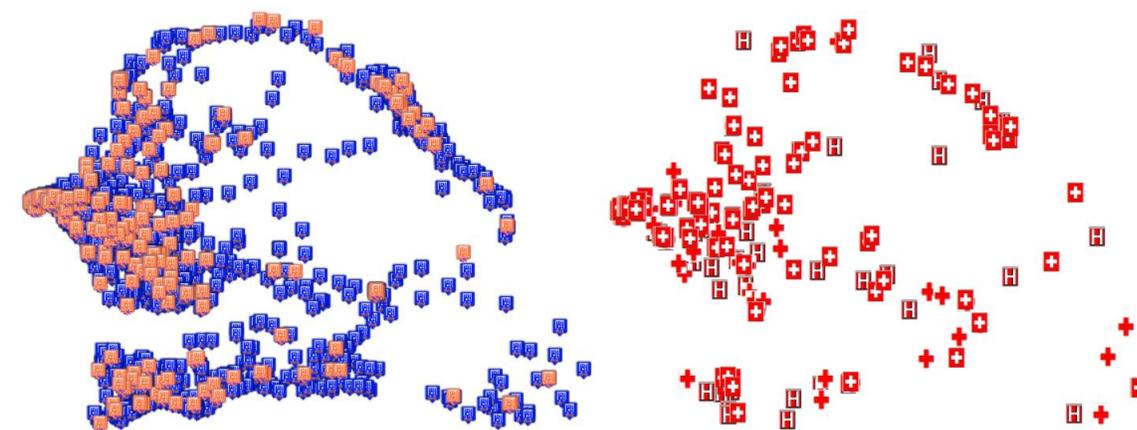
ANNEXES

ANNEX 1. Regional Disparities in Access to Basic Services and Infrastructure

Map 2: Growth Rates of Access to Electricity (left) and Change in the Number of Inhabitants per Health Centers (right), 2011-2016, by Region



Map 3: Distribution of Educational and Health Facilities in Senegal, 2015



Source: GeoSSB.

ANNEX 2. Macro-fiscal Overview

| Senegal: Key Macroeconomic Indicators, 2000-2016 | | | | | | | | | | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| | Est. | | | | | | | | | | | | | | | | |
| (Annual percentage change, unless otherwise indicated) | | | | | | | | | | | | | | | | | |
| National income and prices | | | | | | | | | | | | | | | | | |
| GDP at constant prices | 3.2 | 4.6 | 0.7 | 6.7 | 5.9 | 5.6 | 2.5 | 4.9 | 3.7 | 2.4 | 4.2 | 1.8 | 4.4 | 3.5 | 4.3 | 6.5 | 6.7 |
| Consumer prices | | | | | | | | | | | | | | | | | |
| Annual average | 0.7 | 3.0 | 2.3 | 0.0 | 0.5 | 1.7 | 2.1 | 5.9 | 5.8 | -1.1 | 1.8 | 3.4 | 1.4 | 0.7 | -1.1 | 0.1 | 0.9 |
| End of period | 1.3 | 3.9 | 1.5 | -1.4 | 1.7 | 1.4 | 3.9 | 6.2 | 4.3 | -2.2 | 2.2 | 2.7 | 1.1 | -0.1 | -0.8 | 0.4 | 2.1 |
| External sector | | | | | | | | | | | | | | | | | |
| Export, f.o.b (CFA francs) | 1.6 | 5.4 | 1.1 | -1.7 | 9.2 | 4.4 | 0.1 | -3.7 | 23.0 | -15.2 | 14.6 | 7.1 | 13.4 | 0.1 | 3.5 | 13.4 | -0.8 |
| Import, f.o.b (CFA francs) | 12.6 | 10.0 | 6.8 | 7.4 | 9.8 | 15.6 | 9.0 | 19.5 | 25.8 | -20.4 | 10.8 | 8.9 | 18.6 | 0.8 | -1.1 | 3.3 | -4.3 |
| Current account balance incl. grants (% of GDP) | -6.6 | -4.6 | -5.9 | -6.2 | -6.1 | -7.8 | -9.4 | -11.8 | -14.3 | -8.7 | -9.9 | -6.1 | -10.8 | -10.9 | -8.9 | -7.4 | -5.3 |
| Terms of trade ("-" = deterioration) | -3.9 | 4.2 | 0.2 | -3.2 | -3.1 | -2.4 | 10.3 | -2.9 | 12.2 | -1.0 | -1.6 | 5.6 | -1.9 | -5.3 | 1.8 | 7.9 | -2.8 |
| Nominal effective exchange rate | -5.1 | 1.2 | 2.4 | 5.2 | 2.2 | -0.3 | 0.2 | 1.9 | 2.9 | -0.2 | | 1.4 | -2.3 | 4.1 | 2.5 | -3.9 | 2.0 |
| Percent of GDP, unless otherwise indicated) | | | | | | | | | | | | | | | | | |
| Government financial operations | | | | | | | | | | | | | | | | | |
| Revenue | 18.1 | 18.0 | 19.1 | 18.2 | 18.3 | 19.2 | 19.9 | 21.1 | 19.4 | 18.7 | 19.6 | 20.2 | 20.4 | 20.1 | 24.8 | 25.1 | 26.8 |
| Grants | 2.1 | 1.8 | 1.8 | 2.0 | 2.1 | 1.6 | 1.5 | 2.6 | 2.4 | 3.0 | 2.3 | 2.2 | 2.9 | 2.6 | 3.3 | 2.9 | 2.8 |
| Total expenditure | 20.0 | 22.4 | 21.0 | 21.7 | 23.3 | 24.1 | 27.5 | 27.6 | 26.6 | 27.1 | 26.9 | 29.0 | 29.2 | 28.2 | 29.8 | 29.9 | 31.0 |
| Net lending/borrowing (Overall balance) | | | | | | | | | | | | | | | | | |
| Excluding grants | -2.0 | -4.3 | -1.9 | -3.3 | -5.2 | -4.6 | -7.3 | -6.2 | -7.0 | -8.1 | -7.3 | -8.9 | -8.7 | -8.0 | -8.5 | -7.7 | -7.0 |
| Including grants | 0.1 | -2.5 | -0.1 | -1.3 | -3.1 | -3.0 | -5.8 | -3.7 | -4.6 | -5.1 | -4.9 | -6.7 | -5.9 | -5.5 | -5.0 | -4.8 | -4.2 |
| Primary fiscal balance | | -1.6 | 1.0 | -0.5 | -1.8 | -2.3 | -5.2 | -3.3 | -4.2 | -4.7 | -4.1 | -5.2 | -4.4 | -3.9 | -3.3 | -2.8 | -2.4 |
| Total public debt | | | | 55.0 | 47.5 | 45.7 | 22.1 | 24.5 | 25.1 | 32.1 | 33.1 | 40.0 | 43.4 | 47.1 | 54.2 | 56.9 | 60.6 |
| Domestic public debt 1/ | 8.7 | | | 3.9 | 3.5 | 3.3 | 4.3 | 6.6 | 5.3 | 8.1 | 7.0 | 11.3 | 12.4 | 14.4 | 13.9 | 15.8 | 14.6 |
| External public debt | 69.3 | 67.3 | 66.1 | 51.1 | 44.0 | 42.4 | 17.8 | 17.9 | 19.8 | 24.0 | 26.1 | 28.8 | 31.0 | 32.7 | 40.3 | 41.1 | 46.0 |
| External public debt service | 12.5 | 9.0 | 9.2 | | | | | | | | | | | | | | |
| Percent of exports | | | | 8.3 | 7.4 | 5.6 | 4.2 | 3.4 | 2.8 | 3.8 | 4.2 | 14.0 | 9.4 | 16.0 | 7.4 | 11.0 | 11.1 |
| Percent of government revenue | 20.7 | 15.3 | 14.8 | 12.3 | 10.9 | 7.9 | 5.4 | 4.2 | 3.8 | 4.8 | 4.8 | 17.2 | 9.6 | 9.2 | 10.4 | 15.7 | 13.6 |
| Memo | | | | | | | | | | | | | | | | | |
| Real GDP (USD millions) | 4590.2 | 4662.5 | 4935.8 | 6314.7 | 7355.1 | 7780.7 | 8042.0 | 9207.3 | 10217.0 | 9924.3 | 9857.0 | 10528.3 | 10160.2 | 10865.2 | 11325.0 | 10081.0 | 10702.3 |
| Nominal GDP (USD millions) | 4679.6 | 4877.6 | 5333.9 | 6859.0 | 8031.3 | 8707.0 | 9358.7 | 11284.6 | 13375.8 | 12771.7 | 12914.1 | 14352.0 | 14194.1 | 14806.5 | 15284.7 | 13610.0 | 16073.6 |

ANNEX 3. Senegal SCD Engagement with Stakeholders and Consultations

On top of drawing from the available analysis and evidence, this SCD sought to consider the views of a wide range of stakeholders to identify and prioritize key development challenges that Senegal faces to accelerate its progress in achieving the WBG twin goals. In light of this, the analysis has been conducted in close consultation with national and local authorities, private sector, civil society, and academia.

Engagement Format

The engagement included face-to-face meetings in the form of plenary workshops, roundtable discussions, focus group discussions, and individual interviews.

Engagement Participants and Key Consultations

The following consultations have been organized to inform this SCD document.

General consultations:

- **Central Government:** The Directorate of Planning and Economic Policies (*Direction Générale de la Planification et des Politiques Économiques, DGPPE*) of the Ministry of Economy, Finance and Planning (MEFP), Operational Office for Monitoring the Plan for an Emerging Senegal (*Bureau Opérationnel de Suivi du Plan Sénégal Emergent, BOS*) of the Minister
- **Civil Society:** Forum Civile, and other organizations
- **Academia:** representatives of Research and Training Center for Economic and Social Development (*Centre de Recherche et de Formation pour le Développement Économique et Social, CREFDES*), Research Center focused on Agricultural and Rural Policies (*Initiative Prospective Agricole et Rural, IPAR*), and African Institute of Basic Research (*Institut Fondamental d'Afrique Noire, IFAN*)
- **Development partners:** EU, IMF, USAID, Embassies of the United Kingdom, Germany, Netherlands and other key donors and development partners

Thematic consultations conducted by various WBG thematic groups formed specifically for the purposes of the SCD preparation:

- **Central Government:** On top of general consultations, three thematic focus group discussions were conducted with various DGPPE teams focused on the following topics:
 - Vested interests and corporatism
 - Sector-specific policies (mining and agriculture)
 - Informality and sociocultural norms
- **LGs** organized by the Connectivity Group:
 - Mayors of five periurban communes of Dakar (Guian Rail Nord et Sud, Thiaroye Gare, Tivaouane Diacksao et Diamaguene Sicap Mbao)
 - Presidents of five Unions of Women's Promotion Groups
 - President of the Organization for the Coordination of Vacation Activities (ODCAV) of Pikine district together with the Sports and Cultural Associations of the five municipalities
 - President of the Association of the Disabled (Association des Handicapés)
 - President of the Association of the elderly (Association des personnes du 3ème âge)

- Invited residents of communes
- **Private sector**, organized by the Private Sector Development Group:
 - Five big multinational companies (DP World, Eiffage Concessions, Dangote Cement, ISC / Indorama, Total)
 - Four banking & finance companies (BICIS, Microcred, Teranga Capital, AFIG Funds)
 - Three energy companies (Black Rhino, Tobene, Contour Global)
 - Three telecom companies (Expresso, WARI, Sonatel / Orange)
 - Five FMCG and others (Zena Exotic, Laiterie du Berger, Azalai Hotels Group, Société de Cultures Légumières, SENEGINDIA SARL, SIMPA)
 - Three SMEs / start-ups (Wutiko, OuiCarry, Etounature)
- **Stakeholders for rural development**, organized by the Rural Development Group (including government, academia, donors, private sector and civil society)
- **Beneficiaries of social protection project**, organized by the Vulnerability Group (including women and youth)
- **Youth**, organized in collaboration with the youth project (focus on jobs)
- **Governance** stakeholders, organized by Governance Group
- **Trade Unions**, organized by the Human Development Group