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Francophone Africa's Jewel

The Experience of Doing Business in Senegal

Neuma Grobbelaar
and Kaemete Tsotetsi

Series editor: Neuma Grobbelaar

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About the Author

Hany Besada was a researcher at the South African Institute of International Affairs working on the Business in Africa Research project from June 2004 to December 2006. He is now based as the senior researcher on fragile states at The Centre for International Governance Innovation (CIGI) in Waterloo, Canada.

About the SAIIA Business in Africa Project

This is the ninth country case study in a comprehensive survey of business conditions prevailing in Africa, conducted by SAIIA's Business in Africa project. The report forms part of a series of country and sectoral studies undertaken with a view to extrapolating specific policy recommendations for African governments on how to create a more supportive business environment in Africa.

The New Partnership for Africa's Development (Nepad) initiative emphasises the critical importance of the private sector in the continent's economic development. South Africa's expanding track record as a significant and, above all, a fellow African investor is a notable indicator of local business confidence in the future of the continent. This is also paving the way for the private sector to play a stronger role in the continent's development.

Although it is generally assumed that South African investors are less averse than others to taking risks, in view of their knowledge of, and proximity to, the African market in terms of appropriate technology and products, the SAIIA Business in Africa project aims to verify whether this is indeed the case. Moreover, the research identifies critical areas in which reform is essential if Africa's private sector is to contribute to growth and sustainable development.

Neuma Grobbelaar, the Director of Studies at SAIIA, who was assisted by Hany Besada, the Business in Africa researcher, heads the Business in Africa project.

The following reports have been published by the project thus far:

Games D, *A Preliminary Survey: The Experience of South African Firms Doing Business in Africa*, Business in Africa Report 1, SAIIA, 2003.

Grobbelaar N, *Every Continent Needs an America: The Experience of South African Firms Doing Business in Mozambique*, Business in Africa Report 2, SAIIA, 2004.

Games D, *An Oil Giant Reforms: The Experience of South African Firms Doing Business in Nigeria*, Business in Africa Report 3, SAIIA, 2004.

Besada H, *Glimpse of Hope in West Africa: The Experience of South African Firms Doing Business in Ghana*, Business in Africa Report 4, SAIIA, 2005.

Grobbelaar N & K Tsotetsi, *Africa's First Welfare State: The Experience of South African Firms Doing Business in Botswana*, Business in Africa Report 5, SAIIA, 2005.

Sayagues M, *Timbuktu's Golden Legacy: The Experience of South African Firms Doing Business in Mali*, Business in Africa Report 6, SAIIA, 2005.

Besada H, *Meeting the Sphinx: The Experience of South African Firms Doing Business in Egypt*, Business in Africa Report 7, SAIIA, 2006.

Games D, *A Nation in Turmoil: The Experience of South African Firms Doing Business in Zimbabwe*, Business in Africa Report 8, SAIIA 2007

Hudson J, *East Africa's Hub: The Experience of South African Firms Doing Business in Kenya*, Business in Africa Report 9, SAIIA, 2007.

The research done for *Francophone Africa's Jewel* was started in 2005 and completed in 2007.

Methodology and Rationale

This report is based on a series of interviews conducted in Senegal during October 2005 to elicit and analyse information on South African-based companies and subsidiaries operating in Senegal. For this part of the research, nine companies were interviewed, and invaluable data were collected. The survey covered a wide range of South African business interests, and involved the sectors of construction, energy, multimedia communication, franchising, aviation, mining and brewing.

Research material was also gathered from other interviews held in Senegal, principally with representatives of other international companies, Senegalese research institutes, multinational organisations such as the International Monetary Fund (IMF), the UN Information Centre, the World Bank (WB), the European Union (EU), the International Development Research Centre, the Japanese Agency for Development, the West African Bank for Development, Senegal's Investment Promotion and Major Projects Agency (APIX), the US Agency for International Development (USAID), the Dakar Chamber of Commerce and Agriculture and the Professional Syndicate for Industries and Mines in Senegal. Members of Senegalese government ministries were also consulted. For this specific part of the research, 28 interviews were arranged to enable the researcher to obtain a broader perspective on the business and investment climate in Senegal.

Key data were obtained from a wide range of other sources, including the Asia Africa Investment and Technology Promotions Centre, the African Development Bank (ADB), the Organisation for Economic Co-operation and Development (OECD), the United Nations Development Programme (UNDP), the Paris Club, the Canadian Department of Foreign Affairs and International Trade (CDFA/IT), the United Nations

Conference on Trade and Development (UNCTAD), the Central Bank of West Africa, the Federation of International Association (FIA), the South African Department of Foreign Affairs (DFA), the South African Department of Trade and Industry (DTI), the US Department of Commerce, the US Foreign Commercial Service, the US Department of State, the Heritage Foundation, the Africa–Asia Business Forum, UK Trade and Investment and the World Trade Organisation (WTO).

Although much international research has been published on Senegal, very little of it has been directed towards prospective international investors and companies wanting to extend their African operations into West Africa by way of Senegal. This study attempts to close the gap between perceived and real business constraints by offering a clear analysis of the business environment in Senegal in the field of foreign direct investment (FDI).

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Executive Summary

Senegal has a well-established democracy, and is one of the most, if not *the* most stable country in the politically insecure francophone West African region. The country is also recognised as having the best macroeconomic profile of the eight West African Economic and Monetary Union (WAEMU) member states.

It has enjoyed an inflation rate of less than 2% since 1997, a budget deficit of 0.2% in 2003–2004, and has no debt arrears. Senegal attributes most of its economic growth rate, which has averaged 5% over the past eight years, to a steady increase in both domestic demand and trade and investment. Since 2002, the country has also reformed its investment policy drastically, which has helped attract FDI, in both strategic and non-strategic industries, into the country.

Bilateral relations between South Africa and Senegal have improved progressively since diplomatic relations were established in May 1994. The Senegalese embassy was re-established in Pretoria in 2001. The deepening of relations between the two countries in recent years is based on common political and economic beliefs, and on visions for the future that apply not only to South Africa and Senegal but also to Africa as a whole. Senegal and South Africa are among the countries offering the strongest support to the ideal of an African Renaissance (despite differing modalities of achieving this ideal) and were among the first signatories to the New Partnership for Africa's Development (Nepad).

One of the major factors that inhibited the expansion of South African economic engagement with Senegal in the past was the entrenched French influence in that country. However, the Senegalese government and private sector appear anxious to rid themselves, at least in part, of the domination the French have exercised over their economy (and Senegal's political and military activities) for so many years. Recently, investors from South Korea, Japan, Canada and Germany have overcome the language and cultural barriers in Senegal, and now compete strongly with French investors in the country. South Africa's belief that Senegal is becoming an important business partner in Francophone West Africa is shown by the agreements that have already been ratified in the areas of Bilateral Air Services and the Promotion and Reciprocal Protection of Investments. The two countries have also begun talks on establishing a free trade agreement (FTA).

However, the potential for expansion of trade and investment between the two states is also associated with some risks. Some of the main findings of the field research in Senegal canvassing South African companies and subsidiaries operating in Senegal on their experience of doing business reflect these concerns.

- South African companies (small, medium and large corporations) in Senegal are involved in a wide variety of sectors. However, in terms of the gross amount of investment and profit returns, the ***mining and energy sectors*** are by far the largest and most lucrative. There is heavy financial commitment from South African companies in these fields. Multimedia communications, franchising and services sectors have also attracted substantial South African investment in the last few years.
- Almost all the South African firms and their subsidiaries with interests in Senegal have confirmed their intention of maintaining their Senegalese operations in the medium to long term. They are increasingly confident of the ***government's ability to maintain political stability and***

accelerate economic growth. The current administration is viewed favourably by most South African investors, who credit it with much of the macroeconomic reform that has been accomplished in recent years.

- On the negative side, ***lack of disposable income*** constitutes an important constraint on FDI and trade. With an average per capita income of just $722 in 2005, most Senegalese have little money to spare. As a result, a large number of South African investors find their products competing against inferior versions from Asia that are substantially cheaper than theirs. This is particularly the case with consumer and durable items.
- Although levels of ***corruption*** in Senegal remain low in comparison with those of other countries in the region, many South African investors mentioned corruption as an obstacle to doing business in this country. Despite regulations, laws, penalties and government anti-corruption task forces that are aimed at eradicating bribery and influence-peddling, corruption in government departments and the private sector continues.
- ***Rigid labour laws*** represent one of the most serious business constraints faced by many South African firms. Many of the latter have complained of the difficulty they experience in dismissing employees, for malfeasance or other reasons. Often these employees are awarded monetary compensation (and even reinstatement to their posts) by state-run courts, after which they can sue their former employers. Although some of these decisions have been overturned on appeal, the process is often both lengthy and costly.
- A large number of South African investors repeatedly complained of the country's ***regulatory system***, citing a

number of instances. Although Senegal possesses an adequate regulatory and legal framework, the government's enforcement of intellectual property rights remains weak or (in some cases) non-existent. The Senegalese authorities have been described as lax when it comes to seizing counterfeit and pirated imported goods. A related complaint is that most South African companies are not satisfied with the currently inconsistent application of customs procedures, and the slow and obscure processes that guide the implementation of judicial and tax regulations.

- South African investors, like others from foreign countries, have found it ***problematic*** and time-consuming ***to buy land*** or to make concessions to individuals who claim rights over land they wish to purchase. Although an official land registration and property title system exists, the use of these instruments is inconsistent outside the urban centres of Dakar and Port Louis.
- One of the biggest obstacles facing South African firms, especially small and medium-sized businesses, is the ***difficulty of raising capital*** from the state-owned banks in Senegal. The local financial system cannot support the capital needed for even medium-sized investment plans. Often, investors are required to acquire the necessary funds for the start-up of a project by means that do not call upon the local financial system.
- Some South African investors described Senegal's ***slow and weak legal system*** as an obstacle to doing business in the country. They often face countless obstructions when trying to enforce contracts through the court system. This point was supported by the assessment of the country's financial sector by a joint WB–IMF team in 2004. The report found that the

judicial system lacks both sufficient technical capacity to handle financial matters, and the expertise required to intervene in cases relating to financial transactions between two parties. In addition, it may take a judge months to come to a decision about a dispute.

- On the positive side, Senegal has ***one of the most attractive investment codes*** in the region. Among the advantages it offers to South African investors are: 100% foreign ownership; no legal discrimination against, and equal treatment for, foreign investors; no restrictions on the transfer or repatriation of capital and income earned, or investments financed with convertible foreign exchange; exemptions from income tax, duties and other taxes; government protection of property rights and investments from expropriations and nationalisation; tax holidays and tax-free export processing zones. There are also various other forms of incentive.
- The country's ***dynamic economy*** was cited as one of the most important reasons that South African investors have chosen to invest in Senegal. Unlike other states in the region, Senegal has consistently recorded a real GDP growth rate of over 5% since 1995. It maintains a very important tertiary sector, which provides over 60% of GDP, 55% of jobs and 37% of exports. It has a well-diversified economy that holds immense potential for foreign investors in the mining, agriculture, energy, telecommunications, banking, retail and franchising sectors.
- Senegal's ***membership of Banque Centrale des Etats de l'Afrique de l'Ouest — BCEAO*** **(also known in english as The Central Bank of West African States)** **and** ***Union Economique et Monétaire Ouest Africaine*** **— UEMOA (also known in english as the West African Economic and Monetary Union — WAEMU)** has enabled it to maintain an inflation rate of less

than 2% since 1997. The country also has a fixed and stable exchange rate backed by the French treasury, which has linked the CFA franc to the euro.

- Equally important, South African investors regard Senegal as the last credible gateway to Francophone West Africa, given the ***country's political stability and democratic institutions***. These have been maintained since the country gained independence in 1960, despite the volatility of the region. It has become the favoured destination for foreign investors, including South Africans, who would like to use Senegal not only to establish a foothold in the region but also to base their West African operations there.

Introduction

Senegal's capital and principal port, Dakar, which is situated at the westernmost point of Africa, is poised to become the gateway to Francophone West Africa for investors from other countries. This former French colony is regarded as the most successful economy in the region. It is also notable for its commitment to the rule of law and for upholding democratic institutions.

The country's lack of mineral resources has enabled it to remain an oasis of peace, in contrast to its neighbouring states, where rich deposits of diamonds have fuelled continual conflict.

Senegal's wide range of investment incentives — political stability, secular democracy, market orientation, a skilled labour force and relatively good infrastructure — are cited by many of those interviewed as the main reasons why South Africans have chosen to open operations there. Other attractions are the country's implementation of macroeconomic reforms and structural adjustment programmes since 1994, and its proximity to Europe.

Consequently, South African companies are slowly beginning to take advantage of the investment opportunities to be found in the country. With the acquisition of the Kanoumering permit, Randgold has been conducting exploratory surveys in the Sabodala Belt. Other notable investments in the mining sector included the award by the state-owned *Société des Mines de Fer du Senegal Oriental* (MIFERSO) to Kumba Resources of the rights to develop the iron ore deposits in the Faleme region of south-eastern Senegal. However, in April 2006 the company was forced to seek legal recourse to defend its interests, following a decision by the local development agency in Senegal to give the exploration rights to the Mittal Group.

In multimedia, Multichoice, which has been operating since 2001, currently has some 400 subscribers, most of whom are English-speaking expatriates. In the services sector, following its inaugural flight in 1998, South African Airways has slowly become one of the most important international airlines to use Dakar airport. The company currently operates three flights a week from Dakar to Johannesburg, and daily flights from Johannesburg to Dakar. It also offers a weekly service from JFK in New York to Dakar. In the franchising sector, both Nandos and Steers opened outlets in Senegal in March 2004. Each of these fast food chains has two restaurants in Dakar. In the brewing industry, SAB Miller has entered into a merger with the Castle group, which controls over 90% of the beer market in the country.

As far as energy is concerned, in July 2001 Eskom, through Eskom Enterprises, its wholly owned commercial wing, signed a contract valued at over R700 million in Mali, undertaking to supply electricity to Senegal. Energy Africa, which has been operating in Senegal since 2003, is one of the most recent South African entrants to the country. Initially, the firm, with the state-owned company Petrosen, acquired a licence to provide power to St Louis. By late 2004, Energy Africa held a 60% share in the concession, with Sana owning 30% and Petrosen the remaining 10%. Lastly, in the construction sector, Hodevco is planning to build a hotel for a Senegalese client in Dakar. Another company, BEKA, recently won a bid to install 1 000 street lights in and around Dakar. Work on this project started in late 2006.

Trade between the two countries is also expanding. Senegal is South Africa's fifth-largest partner in West Africa, after

Nigeria, Ghana, Côte d'Ivoire and Mali. South Africa enjoys a substantial trade surplus with Senegal, despite an increase in Senegalese exports to South Africa since 2000. Both countries expect that the ratification of a free trade agreement (FTA) between them will boost trade and investment over the coming years.

Socio-Economic Overview of Senegal

Senegal's early history and colonial occupation

Senegal's early history and colonial occupation dates back to the 9th century with the settlement of the Tukolor tribe in the Senegal River Valley. Conversion to Islam followed in the 11th century. In the 14th century modern-day Senegal was part of the Mali Empire which broke up two hundred years later.

Although what is now Senegal was located on a network of trade routes across West Africa and extending to the Sahara and beyond, its exposure to European trade began only in 1444, when Portuguese explorers established trading posts along the coast and on the river Senegal. They founded the trading ports of Rufisque and Goree (which eventually became important slave and shipping transit posts), and others such as Portudal and Joal. As competition between the European powers for a trading advantage in Africa intensified, the Dutch and after them the French loosened the hold on Senegal enjoyed by the Portuguese. The French built a factory at N'dar in 1659, which later expanded to become the town of Saint Louis. The French occupation of Goree in 1677 was made possible by the decline of Dutch influence in the country. The profitable trade in gold, slaves and gum was transferred to French hands.

Although European traders had established various settlements, posts and ports, these were restricted to the coastal area and the banks of the Senegal and Casamance rivers. In the interior of the country, the Serer of Saloum and Siné established independent kingdoms. With the eventual spread of Islam to these kingdoms, the Tukulor Muslims established a theocratic confederacy in Fouta Toro in 1776.

From 1854–1865, Captain Louis Faidherbe was the governor of Senegal. He used his powers to extend French influence up the Senegal and along the Casamance rivers in the South to the Cayor and Walo states. In 1895, Senegal was made a French colony, with its capital at Saint Louis. It became part of French West Africa, and from 1902 had its headquarters at Dakar.[1]

At the outbreak of World War II in 1939, Senegal aligned itself with the Vichy regime until 1942, when it joined the Free French. With the rest of French West Africa, the country was integrated into the greater French Union. In 1946, all Senegalese were granted French citizenship. Political life in Senegal was led by its two deputies in the French national assembly. These were Léopold Sédar Senghor, whose support came primarily from the rural areas of the interior, and Lamine Gueye, whose political strength centred on the coastal cities. In 1948, the former founded the Senegalese Democratic Bloc, which was the dominant political force in the country throughout most of the 1950s.

During the years of colonial rule by a French administration, Senegal acquired democratic secular principles and a legislative system that supported the rule of law. A variety of political forces emerged during the 1950s, among them a strong trade union movement, various Islamic sects and parties espousing Marxism.[2] In 1956, a national assembly was set up in the country. Two years later, Léopold Sédar Senghor, now one of Senegal's most widely respected academics and poets, having won the support of Islamic leaders, socialists and representatives of foreign and local business interests, founded

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[1] Infoplease Encyclopedia, 2005

[2] *Senegal — History and Politics*, SA's Institute for Security Studies, 2005.

the *Union Progressiste Senegalaise* (UPS). A government ban on the activities of the Marxist *Parti Africain de L'independence* helped the UPS to gain even more popularity with the electorate.

In November 1958, Senegal became a self-governing state within the French empire of West Africa, in line with the assimilation policy that France had adopted.[3] In April 1959, Senegal entered into a federation with Soudan (now Mali). On 20 June, 1960, the former declared its independence from France. However, its federation with Soudan proved short-lived, owing to disagreements between the leaders of the two countries on a number of issues. Senegal seceded, and became a separate independent country on 20 June 1960.

Senegal after independence

On 5 September 1960, Senegal was proclaimed a republic. Léopold Sédar Senghor, the leader of the UPS, became its first president.

Governance in Senegal was conducted on (somewhat disorganised) democratic principles. A more systematic approach developed over time.[4] In 1963, a referendum was held to give the office of the presidency greater powers. Later that year, the UPS won a decisive victory in the national assembly elections. Serious rioting erupted in Dakar after disagreements broke out in the national assembly between the UPS and opposition parties. A number of opposition parties were outlawed, while others were absorbed into the UPS. By 1966 this had effectively created a one-party government. In

[3] Senegal, Europa World Online, 2005

[4] *Senegal — History and Politics, op. cit.*

1968, following civil unrest and mass demonstrations by representatives of the trade union movement and the education sector, Senghor's government gave in to their demands for educational reforms, and made numerous concessions to blue-collar workers.

The 1970s marked a turning point in Senegal's political history. President Senghor restored the post of prime minister. As the sole candidate in the country's 1973 presidential elections, Senghor was re-elected for another seven-year term. He appointed a young provincial administrator, Abdou Diouf, to the office of prime minister in 1976. The president continued his government's political reforms by amending the country's constitution to make way for the registration of two more political parties. Aside from the UPS, which was renamed the *Parti Socialiste* (PS), the newly legalised parties were the *Parti Africain de l'Independence* (PAI) and the *Parti Democratique Senegalise* (PDS).

Senghor remained in office until 1980, when, in an unprecedented move for an African leader, he voluntarily stepped down, handing over the presidency to his hand-picked successor, Abdou Diouf.[5] As the country's leader, Diouf amended the constitution further to allow an unlimited number of political parties, and declared a general amnesty for political dissidents under the banner of national reconciliation. Under Diouf's administration, democratic practices in Senegal were consolidated in general. However, his government met a variety of challenges, including dealing with pressure from opposition parties, making constitutional concessions, coping with unrest after elections,[6] and addressing the intractable

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[5] *Senegal*, UK Trade & Investment, 2005

[6] *Senegal — History and Politics, op. cit.*

issue of separatism in the Casamance region in the south of the country.

Box 1: The Casamance Conflict (1982–2005)

The Casamance conflict has been West Africa's most persistent and long-lasting civil war. Although it did not cause deaths on the same scale as other conflicts in the region, it resulted in great suffering for thousands of people in both the Casamance region and the neighbouring states of Guinea-Bissau and The Gambia. Humanitarian groups estimate that up to 5 000 people were killed during two decades of fighting, while more than 60 000 were displaced internally. Tens of thousands sought refuge in Guinea-Bissau and The Gambia.[7]

Regional resentment was prevalent in the Casamance region before the country gained independence in 1960. The country's first president, Léopold Senghor, sought to accommodate the demands from Casamance by giving their regional leaders posts in his government. The economic austerity measures of the 1970s, however, made it harder for the government to create public jobs. At the same time, severe drought caused more and more of the Wolof and other northerners to migrate to the fertile countryside of Casamance. This demographic pressure, combined with the introduction of an agrarian reform law that undermined traditional land rights, aggravated local resentment against the administration in Dakar.[8]

The relative isolation of Casamance from the rest of the country also contributed to rising dissatisfaction. The region is physically separated from the rest of the country, by The Gambia and Guinea-Bissau. In addition, the demographic composition of Casamance is socially and ethnically different from that of the rest of Senegal. Close to two-thirds of its inhabitants are from the Diola tribe, while the Wolof, Senegal's principal ethnic group, makes up only 5% of the population.

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[7] *Peace pact raises hope in Senegal*, Africa Renewal, 19, 1, April 2005

[8] *Ibid.*

Box 1: The Casamance Conflict (1982–2005) (continued)

All of these factors resulted in growing hostility towards the Diouf administration. In 1982, rebels in the province began to demand that the government grant independence to the Casamance region. Rebel soldiers belonging to the Movement of Democratic Forces in the Casamance (MFDC) used Guinea-Bissau, Senegal's southern neighbour, to launch offensive attacks against government troops in Casamance.

Fighting intensified in 1990 when Atika, the armed wing of the MFDC, began systematic attacks on Senegalese patrols and army camps. In retaliation, the army deployed large-scale forces to sweep the area. In the late 1990s, the conflict took a turn for the worse when anti-tank and anti-personnel mines were used. These landmines had serious consequences for the local population and for agriculture.[9]

Hundreds of health clinics and schools were closed, while more than 230 villages were abandoned. The conflict led to the reduction of agricultural production by 50%, while more than 15 000 workers in the region's tourism industry were laid off.

The internal talks between the government and the separatists, held in Banjul during June and July 1999, marked a historic watershed that offered hope of an end to the conflict in this region.[10] The Casamance peace settlement process was given added impetus by a change of regime in Guinea-Bissau (whose previous government was suspected of supporting the rebels through diplomatic and military means). By December 1999, both parties had agreed to an immediate ceasefire, and in March 2001, the Senegalese government signed a peace accord with the MFDC in Casamance.

However, the conditions of the accord were not implemented, as the MFDC subsequently underwent several splits and leadership changes. On 30 December 2004, another peace agreement was signed by both the Senegalese government and the MFDC, effectively ending the country's 22-year civil war.

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9 *Movement of Democratic Forces in the Casamance*, Global Security, 2005

10 *Ibid.*

Because the various political parties in opposition were not able to unify against the PS, the latter dominated the country's politics for most of the 1980s.

In March 1991, the national assembly passed a number of constitutional amendments allowing members of opposition parties to participate in government.

The amendments to the constitution also introduced changes to the electoral code. The president's period in office was limited to two consecutive seven-year terms; presidential elections would entail no more than two rounds of voting; and the successful candidate was required to win by an absolute majority of votes cast, while winning the support of at least one-quarter of the country's registered voters. Legislative elections would continue to take place at five-yearly intervals but would no longer coincide with presidential elections. The age at which people became eligible to vote was reduced from 21 to 18 years. Reforms to the judiciary, which were also among the amendments, included the abolition of the Supreme Court. Its functions were distributed among the Council of State, the Constitutional Court and the Court of Higher Appeal.

In August 1998, much to the dismay of the opposition, the national assembly voted to amend the constitution to remove the clauses requiring that the president be elected by a quarter of all registered voters and restricting the president to two terms in office. In March 1999, an alliance made up of the PIT, AJ-PADS, PDS and the LD-MPT nominated Abdoulaye Wade, the founder of the PDS who had resigned from the national assembly in mid-1998, as their joint candidate for the 2000 presidential elections. In April, the PDS accused the government of manipulating the voters' register in advance of these elections. Much to the surprise of the opposition, the government admitted that these allegations were true, and offered to reconstitute and update the registration lists with the assistance of the opposition parties.

Despite early concerns that they would be marred by violence, the presidential elections held in February/March 2000 were largely peaceful. Diouf failed to secure an absolute majority and a second round of voting was required between Diouf and Wade. Wade won 58.5% of the total ballots cast in the second round and Diouf and the PS had to concede victory to Wade, who became the new president. The event marked Senegal's second peaceful transfer of power, and its first transition from one political party to another.[11]

President Wade announced several constitutional changes that included the transfer of some presidential powers to the prime minister, the elimination of the senate, the upper house of the legislature and the reduction of the presidential mandate from seven to five years, renewable only once.

Following several postponements, a constitutional referendum was held on 7 January 2001. Ninety-four per cent of voters expressed their support for the new constitution and support for the PSD-led coalition was consolidated in the April 2001 legislative when it took 89 of Senegal National Assembly's 120 seats, while the PS managed to win only 10 seats.

Wade's support was again affirmed in elections held on 25 February 2007 when he was re-elected by accruing 55.9% of the votes.

[11] *Senegal*, U.S Department of State, 2005.

Box 2: Political Structure

The president of the Republic of Senegal is elected, for a term of five years, by universal direct suffrage. The mandate to which that president is elected can be renewed only once. The president appoints the head of government and the prime minister, who in turn appoints the government's Council of Ministers. In the event of a resignation or a forced removal of the prime minister, the entire Council of Ministers must resign.

The National Assembly is the sole holder of legislative power in Senegal. Comprised of 120 members elected for five years by universal adult suffrage, the National Assembly is the sole body that authorises a declaration of war and votes on the national budget. In the event of resignation of the prime minister, serving deputies shall be stripped of their mandate. Unless it is authorised by the bureau of the National Assembly, deputies enjoy complete immunity from criminal prosecution.

The country's judiciary enjoys independence of both the executive and legislative authorities. It consists of the Court of Final Appeal, the Constitutional Council, the Revenue Court, the Council of State, Courts and Tribunals. The Constitutional Council is made up of five members, consisting of a president, vice-president and three independent judges. Members of the Court are appointed by the president of the Republic to serve for a mandate of six years (which may not be renewed) with partial renewals occurring every two years.

Economic overview

During the first decade following the country's independence from France in 1960, Senegal's average annual growth rate was put at 3%. By the 1970s, it had fallen to just over 1%, owing to global economic shocks, among them the establishment of a floating exchange rate in 1973; the end of the Bretton Woods Gold Exchange Standard; the two oil crises of 1973 and 1979; and the sharp drop in commodity prices after 1975.

Domestically, the 1970s were characterised by a series of devastating droughts, particularly in 1971, 1973, 1977, 1978 and 1980, which severely affected the country's economic stability during this period. Senegal's fluctuating growth rates were accompanied by a quasi-stagnation of imports. From 1971–1980, imports fell at an annual rate of 0.27%.

With the exception of 1972, Senegal continued to record a deficit in its balance of payments current account from 1960 onwards, primarily because of the deficit in its trade balance. However, the deficit would have been far larger had the country not received positive net unilateral transfers (the most important source of which was foreign aid). From 1975 onwards, debt service payments brought about an increase in the deficit, which in turn resulted in a further deterioration of Senegal's overall external position because it was accompanied by low rates of economic growth.

In contrast to the expansion in the components of aggregate supply, the components of aggregate demand developed a highly irregular pattern. After the foreign demand for Senegalese goods decreased on average in the 1960s because of the abundance of exported groundnut products (more than 50% of total exports) and the progressive substitution of crude and refined oil for exports of whole groundnuts in shells, from 1971 onwards the volume of exports followed fluctuations in the GDP, despite the growing significance of non-agricultural items such as fish products, phosphates, fertilisers and petroleum-related goods.[12]

Whereas export fluctuations were a major cause of the economic depression that Senegal experienced during the drought years of the 1970s, private consumption dropped only

[12] *World Economic Outlook*, October 1985

sporadically during this period. Between 1962 and 1979, consumption grew at 3.27%. This led to two developments. Firstly, it helped sustain the national economy in the face of continuous droughts, unfavourable external trade arrangements and the volatility in price of agricultural exports. Secondly, it contributed to a reduction in household savings as a source of national savings, leading to a further increase in external public sector debt. As a result, the public sector's investment programmes, such as those for Dakar-marine, the country's national sugar company, and CSS (*La Compangnie Senegalaise Sucriere*), which had been intended to foster economic growth, effectively led to a massive rise in foreign debt during the mid-1960s to the late 1970s, which was exacerbated by an expansion in public sector investments. The government began to find itself in serious financial difficulties, even after the Paris Club, the IMF and the World Bank had allowed generous foreign debt rescheduling terms.

From 1960–1975, Senegal experienced two changes in the international economic environment. The first was the decline of French government services in the country in the years following independence. The other was the loss of its West African market, as more newly independent states in the region began to set up protectionist trade barriers to conserve their fragile agricultural sectors. Both led to a loss in profitability for Senegal's industrial sector, which had been established in the late 1940s.

This situation was further aggravated by the country's continued importation of capital goods. Despite government's efforts, prices for these products rose to record levels from 1970–1979, owing to rising inflation in the countries from which Senegal imported these goods, especially in OECD states.[13]

[13] *Ibid*.

Although Senegal's use of the CFA franc helped to cushion some of the pressure, the prices of these products continued to be held hostage by global exchange rate fluctuations. The country's gross capital investment dropped consistently throughout the 1970s.

The ratio between expenditure on imports and foreign exchange reserves continued to be uneven throughout the 1970s, primarily because demand for the country's non-agricultural exports, most notably petroleum products, phosphates and fish products, grew at slower rates than demand for manufactured goods. Furthermore, non-agricultural export growth was insufficient to compensate for the macroeconomic effect of the persistent droughts, which affected agricultural crops such as groundnuts and, and hence the production of nuts and their derivatives.

In an attempt to reduce government deficits, the negative trade balance and high rates of inflation, the government began a long-term structural adjustment programme under the guidance of the IMF, the World Bank and bilateral donors in 1979. Simultaneously, the IMF provided a short-term stabilisation loan to help meet Senegal's balance of payments needs. An agreement was drawn up between the IMF and Senegal that provided loan agreements each year from 1979–1982. During the early 1980s the country began to engage with both the World Bank and the IMF's structural adjustment facilities. These came with strict conditions focused on promoting policies designed to bring about increased private-sector economic activity, which would create jobs; sustained economic growth; a relaxation of government regulation; and changes in tax and pricing structures.

However, the government's uneven implementation of the stabilisation programmes failed to produce the economic benefits that were first envisioned by the Senegalese authorities. In 1986, faced with continued economic stagnation and rising national debt, Senegal was forced to seek further financial support from the IMF. It signed a Structural Adjustment Facility (SAF) loan agreement that year, and undertook a number of Enhanced Structural Adjustment Facilities (ESAF).

Both the SAF and ESAF offered Senegal loans at 0.5% interest, with a payback period of 10 years. However, they also carried a more arduous set of conditions than the government was able to enforce, because the money was to be disbursed over a three-year period. Although in 1987 the IMF judged that some progress was being made towards liberalising the economy, reducing the size of the deficits and limiting credit expansion, it also noted that the country was continuing to experience high inflation rates, large debt burdens and slow economic growth. Consequently, in an attempt to address these problems in line with the SAF programme, the government pushed through a series of measures, which included the privatisation of inefficient state-owned enterprises; incentive and pricing policies for the private sector; the diversification and expansion of agricultural production; the pursuit of more prudent fiscal, external debt management, credit and wage policies; and the implementation of adequate public investment.

Although some macroeconomic indicators, such as fiscal deficit and inflation, improved over the course of the programme, the country's economy, especially the agricultural sector, continued to be plagued by poor harvests and low rainfall levels.

In 1991, however, the Senegalese authorities suspended the adjustment programme prior to the 1993 legislative and presidential elections. As a result, the budget deficit was considerably greater after the elections had taken place. The international financial institutions (IFIs), including the IMF, refused to resume their financial assistance to Senegal, insisting that the government prove its ability to apply the necessary reforms as a condition for the resumption of assistance.[14]

In an attempt to restore its relations with the IMF, the Senegalese government implemented new budgetary measures designed to reduce expenditure and raise revenues.

The exchange rate policy was one of the remaining major stumbling blocks to liberalisation of the economy at the time. Both the World Bank and the IMF argued that the CFA franc was overvalued and needed to change. They saw this as a way to improve the terms of trade for agricultural products by making them more competitive. Although the Senegalese authorities were initially adamant in refusing to change the exchange rate, they finally agreed, with other West African states, to devalue the currency as a condition for receiving further ESAF loans. Following the devaluation of the CFA franc in January 1994, the currency's value dropped by half. The aim of the devaluation of the currency was to discourage the use of hard currency reserves to buy products that could be grown or manufactured domestically, and to encourage new investment, particularly in the export sectors of the economy. However, the prices of all imported items skyrocketed, and inflation reached 32%. This resulted in countrywide demonstrations and violent protests against the government's decision. In response, the authorities imposed temporary price controls to stem the tide of inflation.

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[14] International Monetary Fund, *Long-Term Perspective for Development of Sub-Saharan Africa*, March 1990.

Following the initial economic and social shock of the devaluation, the economy began to recover and stabilise. The country was helped to do this partly by debt rescheduling, and partly by receiving more than $1.5 billion in financial aid from the World Bank and the Paris Club. The economy began to reap the benefits of the devaluation. The real GDP growth rate increased from –0.2% in 1993 to 5.6% in 1996, and gross savings as a percentage of GDP had increased from 9.8% to 14.5% by 1997.[15] In addition, inflation rates declined from 33.2% in 1994 to around 2.5% in 1997, while external public debt as a percentage of GDP declined from 80.9% to 68.2% over the same period.[16] Meanwhile, investment as a percentage of GDP increased from 13.7% to 16.5% by 1997, and the fiscal deficit as a percentage of GDP decreased to –1.1% by 1997, down from –5.7% three years earlier.[17] The service sector contributed 50% of the growth in GDP, whereas that of the primary sector was limited to about 20% per year.[18]

In light of the improving macroeconomic conditions in the country, the government started to pursue more ambitious structural reform policies. These included the liberalisation of labour legislation, external trade and prices, as a means to eliminate impediments to private sector activity. It also took steps towards privatising and restructuring inefficient state-owned enterprises to make resource allocation more efficient and reduce the financial burden they imposed on the overstretched government budget. The Senegalese authorities also moved to reform the agricultural sector by encouraging

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[15] Country Strategic Plan 1998-2006, USAID/Senegal.

[16] *Ibid.*

[17] International Bank for Reconstruction and Development/Ministry of Finance, Government of Senegal, 1998.

[18] *Ibid.*

greater diversification and increased production of primary cash crops with the help of market mechanisms and the private sector.

The government continued to maintain a stable macroeconomic framework.[19] Tax revenue rose to 627.3 billion CFA franc in 2002, up from 576.8 billion[20] the previous year. In 2002, the budget deficit further declined to 1.6% of the GDP, as a result of an increase in tax receipts (9.8%) and a 1.9% drop in government expenditure. The monetary conditions in 2002 were marked by an increase of 109.9 billion CFA franc in net foreign assets and a decline in domestic credit (said to result from the state's withdrawal from the banking system).[21]

However, adverse climatic conditions once again led to a decline in the agricultural production by 2002. This led to a slow growth rate of just 1.1% by the end of the year. Nevertheless, due partly to the implementation of efficient macroeconomic policies and the country's ability to absorb adverse external shocks following the economic crisis of 2002, the economy rebounded with three consecutive years of high growth. In 2003, the economy grew by an impressive 6.7%, by 5.6% in 2004, by 5.5% in 2005 and 4.9% in 2006.[22]

Senegal's apparent ability to absorb external shocks and adverse climatic conditions was largely due to two developments. Firstly, the country was eligible for the Highly Indebted Poor Countries (HIPC) Initiative in April 2004, and was

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[19] Follow-up on the Millennium Development Goals, UN Steering Committee, May 2003.

[20] This was equivalent to $865,910,220 in 2002 (In 2002, the exchange rate was $1:748 CFA franc.

[21] Follow-up on the Millennium Development Goals, *op. cit.*

[22] Senegal Country Profile Overview Trade Issues, Federation of International Trade Association (FITA), 2005.

acknowledged by international donors for its good macroeconomic performance and the steps taken in restructuring and liberalising its economy over the past decade. Secondly, the country had taken significant steps in reducing the public sector's importance in the economy as well as restructuring the fiscal and monetary regimes.[23]

Box 3: External Debt

In June 2000, Senegal became eligible for the Highly Indebted Poor Countries initiative[24] for debt reduction. This came at a crucial time during the country's economic liberalisation phase as new levels of external debts were recorded, owing to increased public spending over the next couple of years. By 2002, the country's foreign debt stock represented 64.6% of GDP while public foreign debt, in terms of state revenue percentage grew to 17.6% in 2002, up from 16.2% the previous year. The bulk of this debt, which amounted to 1 428 billion CFA franc, was owed to multilateral creditors, especially the World Bank and IMF. In 2002, the country recorded debt service of 116.4 billion CFA franc, of which 81 billion CFA franc was principal loans with the remaining 35.4 billion CFA franc in accumulated interest.

[23] However, the IMF estimates a much more limited growth rate of only 3.3% for 2006. This latter development is because of the sharp increase in the price of oil. See 2006 Article IV Consultation with Senegal, Public Info Notice No 07/45, IMF, 12 April 2007.

[24] The HIPC Initiative is a comprehensive approach to debt reduction for heavily indebted poor countries pursuing IMF- and World Bank-supported adjustment and reform programmes.

Box 3: External Debt (continued)

On 14 April 2004, Senegal reached the HIPC decision point[25] following successful completion of the implementation of several structural and macroeconomic policies. It became the 12th country to reach this point. The country undertook concrete steps in four key areas, qualifying for debt relief under the enhanced framework. These included the following:

i) Preparation of a full Poverty Reduction Strategy Programme through a participatory process, and concurrent improvements in the poverty database and poverty-monitoring capacity.
ii) Maintenance of a stable macroeconomic environment, as evidenced by a satisfactory performance under the programmes supported by the IMF's Poverty Reduction Growth Facility, as well as compliance with specific macroeconomic targets.
iii) Implementation of measures in social services, tax administration, and the energy sector; and steps to reduce the state's role in production and improve the business climate.
iv) Implementation of measures in social services, tax administration, and the energy sector; and steps to reduce the state's role in production and improve the business climate.
v) Achievement of key social objectives, particularly in the health and education sectors.

Consequently, the country was granted debt relief under the enhanced HIPC Initiative – a total of $850 million in nominal terms. The World Bank is expected to grant around $163.8 million in debt service reductions between 2000 and 2010. Simultaneously, the Paris Club creditor countries agreed to cancel $94 million in net present value terms worth of debt owed by Senegal as part of the Enhanced HIPC Initiative. Most members also agreed to offer additional debt relief to the country on a bilateral basis.

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[25] The HIPC decision point is reached once a country has established a track record of reform and sound policies through IMF and World Bank-supported programmes. Usually these entail a Poverty Reduction and Growth Facility Programme.

Box 3: External Debt (continued)

This was designed to help the country reduce its stock of debt owed to the Paris Club by a further $336 million in net present value terms.

Reaching its completion point with relatively low levels of external debts in comparison to other developing countries in the region, the country is expected to maintain sustainable external debts over the medium to long term. It is expected that the country's external public debt as a percentage of GDP will decrease to 36.2% by 2008, down from 54.5% in 2003.

In addition, the country has also qualified under the recent G8 debt reduction initiative.

Source: World Bank, IMF, and Paris Club, 2004

Nonetheless, the challenges faced by government in improving social, economic and institutional conditions even further are vast and complex. In order to reduce poverty and unemployment, the economy must be further modernised, decentralised and diversified. The country's unemployment rate is currently put at around 40%, while 45% of the population continue to live in poverty.[26] The government is encouraged not to build large infrastructure projects, but rather, a network of small to medium-sized enterprises, especially outside Dakar and other principal towns, to help ease congestion and overstretched resources. It is also essential for government to continue to attract FDI as a way to bring a much-needed transfer of technology and expertise as well as to spur job creation.

[26] FITA & Senegal PRSP, Annex IV, p.65, World Bank, 2005

Table 1: Senegal: Social Indicators					
	MDGs in 2015	***PRSP Refe rence 2001***	***PRSP Projec-tions 2005***	***PRSP 2010***	***PRSP 2015***
Reduction in extreme poverty and hunger					
Population living below the poverty line (%)	27	54	45	35	25
Prevalence of underweight children (%)	10	19	15	5	3
Universal primary education					
Net primary enrolment (%)	100	70	80	95	98
Gender equality					
Ratio of girls to boys in primary and secondary education	1.0	0.88	0.90	1.00	1.00
Youth literacy ratios (young women to men)	1.0	0.57	0.64	0.77	0.93
Child mortality					
Under 5 mortality (per 1 000)	32	98	85	75	50
Infant mortality (per 1 000 live births)	20	60	50	40	30
Improvement in maternal health					
Maternal mortality (per 100 000 births)	127.50	510	410	300	200
Births attended by skilled staff (% of total births)	90	44	60	75	90
Prevalence of HIV, malaria, other diseases					
Prevalence of HIV/AIDS (%)		1.4	1-2	1-2	1-2
Morbidity due to malaria (%)		25	10	5	1

Table 1: Senegal: Social Indicators (continued)					
	MDGs in 2015	***PRSP Refe rence 2001***	***PRSP Projec-tions 2005***	***PRSP 2010***	***PRSP 2015***
Environmental sustainability					
Access to improved water (% urban population)		93	100	100	100
Access to improved water (% rural population)		83	95	100	100
Source: Senegal PRSP, Annex IV, p.65, World Bank, 2005					

The agricultural sector needs to be modernised and non-agricultural activities developed, especially in rural areas, as a way of absorbing workers who are expected to lose their jobs as a result of greater reliance on more progressive farming methods. Lastly, the government has been encouraged to put the Senegalese financial system at the service of domestic production. This step is expected to spur exports and lead to increased local production of non-agricultural products, in this way reducing the need for imports, especially of semi-processed products.

Economic sectors

Primary sector

Senegal's primary sector, which comprises fishing, livestock farming, forestry and agriculture, contributed roughly 17% to the country's GDP in 2003. In the course of that year that sector grew by 19.8% and fishing products became the country's largest source of exports, driving groundnuts into second place. Today the primary sector is an important component of the economy, and employs around two-thirds of the country's workforce. Agriculture, which dominates this sector, is essentially directed towards groundnut production (occupying 42% of Senegal's arable land and providing jobs for about 70% of the active rural population). Millet, sorghum, maize, cotton and *niebe* (local beans) are also cultivated.[27] Today, the agricultural sector is mostly devoted to subsistence farming, with farmers growing a mixture of grain and cash crops, mainly for domestic consumption, on small plots of land. Political factors tend to inhibit the full growth potential of this sector. For example, the best region for rice cultivation is along the Mauritanian border, but owing to disputes between the Senegalese and Mauritanian governments, this advantage cannot be fully exploited.[28] Again, for many years during the separatist rebellion, agricultural production in the Casamance region fell below its potential capacity, despite the fertility of the arable land.

In 2003, agricultural output grew by 36.3%, owing to an excellent winter rainy season. (The figure for 2002 was -32.2%.)[29] However, the country's rainfall declined again in 2004. There are additional threats to the country's harvests: locusts, caterpillars and grasshoppers have reduced agricultural production in the north of the country and in other neighbouring countries such as Niger. However, a relatively rapid response from the authorities (who made 5 billion CFA franc, or $9.4 million available in the 2004 budget), combined with international aid, helped to contain the damage done.[30] In 2003, exports of groundnuts, the country's second-largest

[27] Follow-up on the Millennium Development Goals, *op. cit.*

[28] Ministry of Finance, Government of Senegal, 2000.

[29] African Economic Outlook, AfDB/OECD, 2005.

[30] Senegal's Ministry of Agriculture, 2004.

export, reached $63 million. After reinforced seed capital was supplied to subsistence farmers, cultivation and yields improved. As a result groundnut production increased by 30% between 2004 and 2005. However, cotton production declined by 9%, whereas cereal production fell by 21%, owing to a reduction in cultivation of these crops.

Several problems continue to plague the country's agricultural sector. These include inadequate land laws, which hinder the transferability of land and lack of clarity on traditional land rights; soil impoverishment; and insufficient diversity of agricultural production.

In May 2004, Senegal's parliament passed an agriculture, farming and forestry law, which aims to promote entrepreneurship in the primary sector. Its specific goals are to promote diversification of crops; support mechanisms that protect farmers against the risk of losses; strengthen their technical capabilities; improve the social and legal position of farmers; and make family tenure of smallholdings more secure. However, it remains to be seen what budgetary and legal resources the government is prepared to commit to the implementation of this law.

In June 2002, the government signed and ratified a four-year fishing agreement with the EU, which provides substantial catch opportunities for EU ships in return for cash payments to the country. As noted above, by 2003 fishing had replaced groundnuts as Senegal's leading source of exports. Earnings from fish exports reached $298.1 million that year. However, the industry continues to face stiff competition from more efficient Asian competitors, who are gradually taking over Senegal's share of the French market. The country's industrial fishing operations are hampered by high operational, maintenance and logistical costs, as most spare parts for vessels and factory machinery have to be imported.

On 12 January 2005, President Wade initiated sweeping land reforms which also dealt with fisheries issues. However, few steps have been taken to provide concessions for small-scale fishermen, or quotas for industrial production.

Approximately 20% of the country is under forestation. However, the use of wood for fuel, and the recurrent droughts the country has suffered in recent years have significantly depleted forests. Those in the western parts of the country have been particularly badly affected.

Table 2: Senegal Production, Area Under Cultivation, and Yields of Principal Crops, 1996/97–2003/04, selected years (production in thousands of metric tons; area in thousands of hectares)

	1995/96	*1997/98*	*1999/00*	*2001/02*	*2003/04*
Export crops					
Groundnuts					
Production	827.1	544.8	820.4	943.8	444.8
Area	881.3	788.1	824.4	984.1	524.8
Cotton (Unginned)					
Production	31.4	40.3	14.0	34.2	54.9
Area	35.0	53.8	21.4	31.5	46.2
Millet and sorghum					
Production	794.1	544.8	822.4	610.4	818.2
Area	1,039.3	975.7	1,237.6	975.5	1,065.8

Table 2: Senegal Production, Area Under Cultivation, and Yields of Principal Crops, 1996/97–2003/04, selected years (production in thousands of metric tons; area in thousands of hectares) (continued)					
	1995/96	***1997/98***	***1999/00***	***2001/02***	***2003/04***
Maize					
Production	106.5	60.3	66.1	106.4	400.9
Area	97.9	62.2	70.4	88.4	175.6
Rice (paddy)					
Production	155.2	173.7	239.8	243.9	231.8
Area	69.0	74.7	95.9	87.9	87.8
Sugarcane					
Production	68.0	85.0			
Area	6.5	7.4			
Cowpeas					
Production	41.9	193	55.8	31.7	52.8
Area	97.4	126.7	160.5	90.7	148.5
Manioc					
Production	55.5	46.6	42.1	138.2	181.7
Area	17.5	19.9	16.3	27.8	36.1
Source: Senegal Ministry of Agriculture, 2004.					

Secondary sector

In 2003, when the country's secondary sector accounted for around 23% of GDP, it employed around 12% of the workforce. More than 30% of exports were manufactured products. That year (2003) the sector expanded by 6.4%, and the industrial index grew at 11.4% over the first three quarters of 2004. This was attributable to the dynamism of construction materials (+24.5%), food processing (+26.3%) and phosphoric acid production (+15.5%).[31] Light industry, which is principally based on agricultural products, dominates this sub-sector. Food processing, primarily of groundnuts, is the most important, followed by the textile industry, which is based on cotton ginning, and produces mainly for domestic consumption.[32] Another notable industrial activity concerns the production of chemicals.

The textile industry is facing stiff competition, both from less expensive Asian products, and from second-hand clothes imported from Europe. However, the ending of the Multi-Fibre Agreements on 1 January 2005 should assist in restricting the inflow of cheap Asian textiles into the domestic market.

There are few heavy industries in Senegal. Most of them are located near or in Dakar. Examples are a chemicals and fertiliser plant that uses Senegalese phosphates and imported sulphur, and an oil refinery at Dakar-Mbao. State support of industry is insignificant outside the construction and energy sectors. However, industrial production is strongly subsidised, and protected by government tariffs.

Table 3: Senegal: Indices of Industrial Production, 1999–2003 (1999=100)

	Weight (%)	*1999*	*2000*	*2001*	*2002*	*2003*
Mining	5.6	100.0	106.4	88.1	98.0	126.3
Of which: phosphates	4.2	100.0	100.2	93.0	93.6	120.3

31 African Economic Outlook, AfDB/OECD, 2005.

32 Senegal-Country Profiles, Institute for Security Studies, 2005.

Table 3: Senegal: Indices of Industrial Production, 1999–2003 (1999=100) (continued)						
	Weight (%)	***1999***	***2000***	***2001***	***2002***	***2003***
Food production	36.4	100.0	91.9	90.3	97.3	104.5
Of which: fish canning	5.1	100.0	91.9	90.3	97.3	104.5
Oil mills	3.6	100.0	110.5	103.2	112.3	87.4
Sugar and confectionery	12.6	100.0	49.4	64.1	80.5	83.6
Textiles, clothing and leather	2.4	100.0	107.4	120.3	61.0	86.2
Textiles	2.2	100.0	106.1	117.7	61.5	92.4
Other	0.2	100.0	123.8	148.2	56.3	17.6
Wood products	0.2	100.0	100.8	94.9	132.7	113.9
Paper	1.9	100.0	104.9	96.7	149.8	112.7
Chemical industries	27.1	100.0	88.0	106.5	156.0	145.7
Of which: refined petroleum	0.8	100.0	92.5	94.4	103.5	135.8
Fertilisers	16.3	100.0	98.9	120.3	186.6	163.6
Plastic and rubber materials	1.6	10.0	97.5	91.4	132.6	153.2
Construction materials	7.6	100.0	129.5	148.1	162.7	171.7
Machinery and equipment	3.7	100.0	54.1	55.7	90.2	92.7
Electricity and water	13.9	100.0	104.0	118.1	114.9	135.7
Electricity	9.5	100.0	96.8	117.1	115.6	144.7
Water	4.4	100.0	119.6	120.2	113.5	116.2
General index	100.0	100.0	95.3	102.5	120.3	125.2
Source: Senegal Ministry of Trade and Industry, 2004						

Although the country is one of the most industrialised in West Africa, its competitiveness remains poor. This is largely attributable to a small domestic market; low consumption and an inability to afford more durable and therefore expensive products; insufficient industrial capacity; lack of expertise and technological skills, especially in heavy industry; high production costs; and a problematic business environment. Although the government's policies of privatisation, commercial openness, and liberalisation during the past decade were intended to increase the country's industrial capacity and bring about growth in the sector, these positive steps have been undermined by various domestic limitations. Among these are the country's underdeveloped consumer market, low local and foreign investment, and high production costs. Recently, government undertook feasibility studies to find ways to engage the country's citizens in public investment projects.

Senegal's third major foreign exchange earner, phosphate, contributed about $230 million to the state's coffers in 2003 and 2004. Although the sector accounts for only 1% of GDP, it contributes around 16% to total exports. The country has attempted to strengthen this sector by incorporating the activities of downstream processing operations (producing phosphoric acid and fertiliser) with those of upstream activities (phosphate rock mining). These efforts led to expansion plans, partly supported by a $298 000 USAID grant, for the chemical industries of Senegal.[33] The country also has good-quality, large-scale iron ore deposits. Reserves are estimated at 800 million tonnes (mt) of high-grade iron ore and MIFERSO,

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[33] Senegal Country Commercial Guide, Industry Canada, 2003.

Senegal's parastatal iron ore mining company, estimates that annual output could reach 12 mt in time.[34]

In addition, the country has unexploited deposits of diamonds and minerals, and also marble and peat. While there are no reliable estimates on the size of the diamond deposits, geologists have estimated that the country has reserves of around 800 000 mt of marble and 52 000 mt of peat. Lastly, three gold mining companies, including AGEM of Canada and Randgold of South Africa, returned to the country in 2001 to perform preliminary explorations. The Sabadola mine in the eastern part of the country has a proven reserve of 13 mt.

Table 4: Production of Principal Mineral and Industrial Products, 1996-2003 (selected years)

	Unit	*1996*	*1998*	*2000*	*2002*	*2003*
Lime phosphates	'000 of tons	1,377	1,482	1,838	1,549	1,499
Aluminium phosphates	'000 of tons	40	21	0	0	0
Attapulgite	'000 of tons	79	122	149	138	195
Salt	'000 of tons	98	138	124	172	235
Sugar (cubes)	'000 of tons	68	42	36	20	23
Tobacco products	'000 of tons	1,425	1,816	2,195	2,245	2,218
Groundnut oil (unrefined)	'000 of tons	91	50	133	98	39
Refined vegetable oil	'000 of tons	84	103	76	79	76

[34] *Ibid.*

Table 4: Production of Principal Mineral and Industrial Products, 1996-2003 (selected years) (continued)						
	Unit	*1996*	*1998*	*2000*	*2002*	*2003*
Tuna (canned)	'000 of tons	20	19	12	11	7
Shoes	Millions of pairs	1	1	1		
Cotton yarn	Tons	1,452	1,107	635		
Soap	'000 of tons	38	39	43	35	33
Paints and varnishes	'000 of tons	3	3	5	4	6
Cement	'000 of tons	811	847	1,341	1,653	1,694
Metal cans	Millions	129	148	127	185	182
Electricity	Millions of kilowatt-hours	1,110	1,304	1,365	1,557	1,856
Source: www.imf.org/external/pubs/ft/scr/2005/cr05155.pdf						

Tertiary sector

In 2003, the tertiary sector recorded a growth rate of 4.4%. This trend continued into the first three-quarters of 2004, when services registered a growth rate of 20%. In the transport sub-sector, the port of Dakar reaped substantial benefits from the redirected traffic of goods following the eruption of political violence in Côte d'Ivoire (formerly West Africa's trading centre). Senegal has a well-developed, though costly, port facility; and an international airport serving 28 international airlines, which serves as a regional hub. It also boasts advanced telecommunications infrastructure, which includes a fibre optics backbone and cellular phone penetration that reaches 10% of the population.[35]

The telecommunications industry recorded healthy growth in 2003, growing by 29.3%. Currently, Sonatel, the country's major operator in this field, dominates the market. In 1997, the company was privatised when it was bought by France Cables Radio, a subsidiary of France Telecom. There are two cellular telephone services: Sentel, 75% of which is owned by Millicom International Cellular; and Alizé, which belongs to Sonatel. A third cellular operator is expected to start operating in the Senegalese market in the near future, although no date has been provided.

An independent regulator for the telecommunications sub-sector was established in 2002. The following year, Sonatel lost its monopoly over the international and domestic call network when the bids of other fixed network carriers began to come in.

A number of private enterprises are preparing to offer consumers very small aperture terminals (VSAT), despite the relatively high costs associated with this service. The main reasons they are doing so concern Sonatel's restriction of VSAT technology to data-only networks, and its demanding heavy licensing fees. Sonatel is currently a partner in the SAT3-WASC-SAFE submarine fibre-optic cable network, which became operational in 2002. The cable system aims to connect the African continent to the global submarine fibre-optic network, and is expected to improve connectivity in Africa over the next decade. Senegal is one of 11 African landing-points for the network.

[35] US Department of State, 2005.

Since the January 1994 devaluation of the CFA franc, revenue from tourism, which is the country's fourth-largest foreign exchange earner, has picked up, reaching around $120 million in 2003. The following year, around 400 000 tourists visited the country. Currently, the state tourism agency is promoting foreign investment, both in the development of further tourist facilities and in advertising Senegal in Europe and North America as a prime tourist destination. The country continues to be a highly desirable place to visit, given its attractive beaches, mild climate and excellent sport fishing. Many tourists, especially African Americans, are also drawn to the country by the historically iconic slave trading post of Goree Island, off the coast of Dakar.

Macroeconomic environment

Fiscal policy

Senegal complied with seven of the eight convergence criteria of the West African Economic and Monetary Union (WAEMU) in 2003. In particular, the level of public debt as a proportion of GDP was 63.3%, considerably below the WAEMU average of 70%.[36] During the same year, the country continued to maintain the highest tax burden among WAEMU states, at 18.6%. Senegal also failed to meet the stringent criterion of maintaining a balanced current account, excluding grants, over the past few years. The current account deficit reached 8.6% of GDP, well above the average of 5%, in 2003.[37]

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[36] Central Bank of West African States & WAEMU, 2004.

[37] *Ibid.*

Table 5: Current Account (percentage of GDP)							
	1996	*2001*	*2002*	*2003*	*2004*	*2005*	*2006**
Trade balance	-5.8	-9.3	-10.3	-11.1	-11.0	-12.1	-11.9
Export of goods (f.o.b)	20.6	22.0	21.8	20.5	21.0	20.1	19.5
Imports of goods (f.o.b)	-26.4	-31.3	-32.2	-31.6	-32.0	-32.1	-31.3

* Projected

Source: IMF Country Report No.05/155, IMF, 2005.

During 2003, the country's overall budgetary deficit, including grants, climbed to 1.4% of total GDP, 0.1% higher than the previous year's. This was largely due to gradually rising spending on healthcare, infrastructure and education, in line with Senegal's commitments to achieve the poverty reduction strategy paper (PRSP)[38] goals. The Senegalese government also expected that increased social spending would alleviate pressures on the economy following the poor harvests of 2002. In August 2003, the state initiated an emergency agricultural aid programme to provide some financial assistance for farmers, whose crops and stock had been severely affected by the drought.

In 2004, in line with the PRSP's stipulations, the authorities drafted a budget that took into consideration the growth in demand for capital spending while maintaining budgetary discipline. The 2004 budget was implemented without major difficulties. Capital spending increased slightly (to 10%) during

[38] It is a strategy driven by both the IMF and the World Bank in response to the growing debt crisis in developing countries. The PRSP places stringent conditions for debt relief for heavily indebted countries. Senegal was among these countries and provided concrete steps on how it would spend money that the international donor community was willing to forgive in debt services to reduce poverty.

that year, because the expenses related to the structural reform programme, initially scheduled for 2003, were carried over to the following year; and owing to a higher wage bill. The latter was partly a result of an ongoing recruitment programme for 15 000 public service workers between 2003 and 2005. Both of these were expected to lead to an overall budget deficit (including grants) of 2.9%.[39] In the event, the overall deficit for 2004 was 2.4%.

Towards the end of the first quarter of that year, the government collected half of its expected annual income, which is largely derived from taxes and is anticipated in the national budget. During that period corporate tax revenues rose by 28%, despite the government's initial concern that its introduction of a universal company tax would reduce revenues. However, the broadening of the fiscal base helped alleviate the pressure from the lowering of the tax rate to 30%, down from 33% previously.

Nevertheless, the government maintained its cautious approach to public spending. By mid-2004, the government had used only 38% of the capital expenditure scheduled in the budget. The Senegalese authorities disbursed approximately 3 billion CFA franc, or $5.7 million, to combat the threat posed to the country's agricultural sector by a locust invasion, and a further 2 billion CFA franc to strengthen an agricultural disaster fund that could provide relief for similar crises in the future. These additional expenses were largely covered by the 31.5 billion CFA franc obtained from the HIPC Initiative in 2004.

In February 2004, following the country's adherence to most of the HIPC Initiative's performance indicators, its tight fiscal discipline and its completion of the first review of the three-year poverty reduction and growth facility (PRGF), Senegal obtained the second instalment of $5.2 million. In June that year, the second review was cancelled, owing to a lack of progress made towards the privatisation of SONACOS, the

[39] African Economic Outlook, AfDB/OECD, 2005.

country's groundnut marketing company. In December 2004, the government succeeded in selling this company to Advens.

Table 6: Senegal: Government Financial Operations, 1996–2003, selected years (in % of GDP)

	1996	1998	2000	2002	2003
Total revenue and grants	20.2	19.4	19.6	20.9	21.4
Revenue	16.1	16.5	17.6	19.1	19.3
Tax revenue	15.1	15.7	16.8	18.1	18.2
Non-tax revenue	1.0	0.8	0.8	1.0	1.2
Grants	4.2	2.9	2.0	1.8	2.1
Total expenditure and net lending	20.3	19.7	19.3	21.0	22.8
Current expenditure	12.8	11.1	12.9	13.8	14.2
Wage and salaries	6.6	5.8	5.5	5.7	5.5
Interest due	2.3	1.2	1.4	1.1	1.2
Transfers and subsidies	1.3	1.5	2.9		3.8
Goods and services	2.5	2.6	3.0		3.8
Net lending	-0.2	1.6	0.4	0.1	0.1
Overall fiscal balance (including grants)	-0.1	-3.2	-1.7	-1.9	-3.5
Overall fiscal balance (excluding grants)	-4.2	-3.2	-1.7	-1.9	-3.5
Gross domestic product (in billions of CFA francs)	2,451.6	2,796.5	3,192.0	3,472.7	3,725.4
Source: http://www.imf.org/external/pubs/ft/scr/2005/cr05155.pdf					

Despite the country's good fiscal performance over the three years prior to the time of writing, a number of structural weaknesses persist in the public finance sector. The Poverty Reduction Strategy Programme's sectoral budgetary allocation remains inadequate, even though increases in spending powers in priority sectors have been allocated in recent budgets. The government is expected to draw up separate working plans for each sector, especially with regard to public investment, in forthcoming budgets. However, analysts also anticipate that the government will face mounting difficulties in carrying out its public spending programme, especially investment budgets. These constraints will be exacerbated if implementation involves funding from external sources.

Monetary policy

The West African Economic and Monetary Union, of which Senegal is a member, has its own independent central bank, *Banque Centrale des Etats de l'Afrique de l'Ouest* (BCEAO), founded a decade ago. The BCEAO is responsible for the issuance of the *Communauté Financiére Africaine* (CFA franc), Francophone Africa's local currency. Since the CFA franc has a guaranteed exchange rate, it carries a guarantee of convertibility from the French Treasury (by virtue of its being pegged to the euro). The West African Monetary Zone has benefited from the strong support of its eight member states (Mali, Burkina Faso, Niger, Senegal, Guinea-Bissau, Benin, Togo and Côte d'Ivoire), and from the prudent monetary policies of the BCEAO. This has resulted in low inflation in many of these countries, including Senegal, which recorded a 2% rate from 2000–2001. It has also helped to maintain the CFA franc at a stable value in comparison with other currencies in many developing countries, and has rendered members of the monetary zone less vulnerable to the kinds of external shock and liquidity pressure that brought about the Asian financial crisis in 1997–1998. Another advantage is that it has reduced the uncertainty of one variable (the exchange rate) for domestic agents. As a result, Standard & Poors view the credit standing of the zone as greater than the sum of the credit of the member states collectively.[40]

The pegging of the CFA franc, initially to the French franc and then the euro, has not only helped to contain inflation, but also pushed the BCEAO into adopting the rates policies that were established by the European Central Bank. By March 2004, the BCEAO's resale agreement rates had dropped to 4% from 4.5%, while the discount and special purchase rates had fallen 0.5% to 4.5%. Following healthy growth of the euro and good harvests in 2003 and 2004, consumer prices stabilised in those years.

A strong rise in international oil prices, coupled with weakness of the dollar against the euro, helped WAEMU to avoid a sharp increase in the price index in 2004. During that year, the transport index grew by only 2.6% over the previous year. However, developments such as the continual increases in global oil prices and the dollar-euro parity are expected to have a negative effect on the price index and inflation rates over the next two years. Between September 2003 and September 2004, domestic credit rose by 3.4%. Seven per cent of this increase was attributed to the state of the economy.

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[40] Central Bank of West African States & WAEMU, 2004.

Table 7: Senegal: Interest Rate Indicators, 1996–2003 (in % per year)								
	1996	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
Interest rates								
Deposit[41]	5.0	4.5	5.0	5.0	5.0	5.0	5.0	5.0
Rediscount rate	6.5	6.0	6.3	5.8	6.5	6.5	6.5	5.5
Money market (BCEAO)	5.0	4.5	45.0	5.0	5.0	5.0	5.0	5.0
Money market (Paris)	3.3	3.4	3.4	2.5	5.2	3.9	2.9	2.3
GDP deflator	0.9	1.7	4.0	1.0	3.3	0.0	2.7	0.7
Memorandum items:								
Deposits-GDP deflator	4.1	2.8	1.0	3.9	1.6	4.9	2.2	4.3
Deposits	-1.5	-1.5	-1.3	-0.8	-1.6	-1.6	-1.6	-0.6
Money market interest rates	5.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Source: IMF, International Financial Statistics, 2004.								

Trade policy

Senegal's trade policy has been substantially liberalised over the past decade. The government has successfully eliminated the bottlenecks and restrictions on exports and imports, and the country's tariff relaxation is regarded as ambitious even within the context of WAEMU. The West African Union (WAMU) has been incorporated with the economic integration

[41] Minimum rate on accounts above CFAF 2,000,000 for more than one year through 1992; thereafter, rote applied to deposits on money market.

component of WAEMU as a step towards closer harmonisation of the trade, monetary and fiscal policies of member states. In 2002, Senegal introduced a Common External Tariff (CET), which helped to reduce the simple average of customs duties to 14.7% that year, as against 37% in 1994. Later in 2002, the country adopted WAEMU's CET, which exacts customs duties on three major categories of imports. These are: 20% on final consumer goods; 10% on intermediate items and inputs; and 5% on staple products (including raw materials, capital items and specific inputs. On the other hand, no customs duties are levied on essential goods. In addition to the CET, Senegal and the other members of WAEMU also apply permanent supplementary duties (PCSs). These consist of a solidarity levy of 2% on imports from countries that are not members of WAEMU; and another of 0.5% for imports from members of the Economic Community of West African States (ECOWAS).[42] Both ECOWAS and WAEMU receive revenues from PCS and RS (the French *Redevance Statutique*, a licensing fee) on an annual basis. It is generally believed that the supplementary duties will be eliminated within two years.

Senegal has also introduced a special import tax (TCI), designed to protect domestically grown agricultural products and trade mills that belong to the state-owned SONACOS, which was scheduled for privatisation at the time of writing. The TCI imposes a 10% tax on wheat flour and on refined vegetable oil. However, mixtures of oil comprising more than 60% groundnut oil, and crude oil intended for refining are exempted from TCI.

Senegal has also applied temporary surcharges on agricultural imports originating outside the WAEMU. These include goods such as millet and sorghum, onions, potatoes

[42] Senegal Trade Policy, World Trade Organisation, 2003.

and cigarettes. The government has explained that it has introduced these surcharges to protect local farmers against external competitors. However, it has warned that it intends to remove the surcharges as soon as it feels confident that local industry is strong enough to face competition from abroad. By 2003 the application of the supplementary duties, Most Favoured Nations (MFN) customs duties and import surcharges increased the simple average of import duties to 14.7%.

Currently, except for items covered by WAEMU's transitional preferential tariff regime, traditional woodcrafts and local consumer items produced in the ECOWAS region, all other imports of goods of any origin face MFN customs duties. Local products have been exempt from MFN customs duties since 1996, while industrial items have been exempted since December 2000. During the course of 2006, the certification of enterprises will become the responsibility of national rather than regional authorities, following a decision taken in 2003 by WAEMU, to help ease the origin criterion for imported industrial items.

Senegal also imposes VAT at a fixed rate of 18% on all imports entering the country except those exempted by WAEMU member states. An excise duty of 15% is paid on refined oil, although (as mentioned earlier) oil containing more than 60% of groundnut is exempt.

Not much has changed in terms of Senegal's trade structure since the last review conducted by the WTO in 1994. Around 70% of the country's exports continue to be primary items, which include groundnut oil, fisheries and horticultural products, groundnuts and cotton. The EU remains the country's dominant trading partner, with France absorbing the lion's share of Senegal's exports.

Table 8: Senegal: Merchandise Exports, 1996–2003 (values in billions of CFA francs)								
	1996	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
Groundnut products	40.9	29.3	31.0	38.7	59.6	73.2	48.2	25.3
Groundnut oil	33.0	24.8	25.3	33.0	47.7	57.4	37.1	21.7
Groundnut cake	7.6	3.9	4.6	4.7	11.0	14.4	10.2	3.5
Seeds	0.3	0.6	1.0	1.0	0.9	1.4	0.9	0.0
Phosphates	19.2	18.7	13.9	21.0	14.7	13.7	12.2	5.3
Fish	146.2	162.9	168.9	179.8	162.4	175.8	173.9	157.3
Fresh fish	25.2	27.6	25.1	23.1	31.0	26.3	29.1	34.4
Frozen fish	98.3	111.4	112.9	139.4	118.4	136.4	131.1	109.2
Canned fish	22.7	23.9	30.9	17.2	13.0	13.1	13.7	13.7
Cotton	9.6	11.0	13.0	3.7	4.4	5.9	9.7	12.4
Salt	3.4	5.7	5.7	4.6	5.0	6.5	7.2	6.8
Fertiliser	17.0	24.7	23.0	14.3	9.5	15.9	17.5	22.8
Phosphoric acid	41.4	41.8	47.7	45.5	47.5	56.2	91.7	69.3
Petroleum products	10.2	12.7	9.8	13.6	28.5	16.5	23.4	33.5
Other	174.3	189.2	207.7	255.7	298.0	303.1	295.7	333.8
Re-exports	43.2	32.1	61.0	67.9	68.5	68.5	63.9	64.0
Total exports	505.4	528.0	581.6	644.8	697.9	735.3	743.3	730.5
Source: Federation of International Trade Associations, Senegal Country Profile, 2005.								

Even though the country does not produce hydrocarbons, Senegal refines large amounts of crude oil, and distributes oil to both the domestic market and to neighbouring states. One of the country's major exports is chemicals, which constitute approximately 12% of its total exports. The importance of this industry is largely attributable to Senegal's relatively rich deposits of phosphates, which are processed into phosphoric acid and fertilisers that are eventually exported to Asia, mainly India.

One of the country's most important categories of imports is food products, which account for approximately 30% of the total. Among the most common are wheat; food preparations; sugar; milk and cream; and rice. All of these are consumed mainly in the urban areas, whereas sorghum and millet provide the staple food of the rural population. The country also imports almost all of its telecommunications machinery, transport and office equipment, mainly from Asia and Europe.

Table 9: Senegal: Merchandise Imports, 1996–2003 (values in billions of CFA francs)

	1996	*1997*	*1998*	*1999*
Food products				
Rice	89.6	69.9	83.1	101.4
Wheat	25.0	26.6	28.4	21.7
Other	66.1	71.9	95.3	97.9
Beverages and tobacco	7.6	8.7	7.9	7.8
Petroleum				
Crude oil	52.1	73.7	60.8	76.5
Refined oil	38.1	37.7	31.0	51.9
Other consumer goods	96.1	109.0	108.0	116.0
Capital goods	98.5	112.2	126.5	149.7
Intermediate goods	212.8	217.5	267.2	291.9
Change in warehouse stocks	30.1	35.0	37.3	37.8
Total imports, c.i.f	734.8	780.0	858.6	962.7
Freight and insurance	88.2	93.6	103.0	117.4
Total imports, f.o.b	646.6	686.4	755.5	845.3

Table 9: Senegal: Merchandise Imports, 1996–2003 (values in billions of CFA francs) (continued)				
	2000	***2001***	***2002***	***2003***
Food products				
Rice	94.9	103.9	130.4	126.4
Wheat	26.4	29.1	30.3	28.5
Other	95.0	130.5	147.6	173.6
Beverages and tobacco	20.0	23.2	27.0	32.9
Petroleum				
Crude oil	138.4	144.9	114.3	158.9
Refined oil	104.2	87.6	83.6	71.8
Other consumer goods	112.5	132.1	137.8	169.0
Capital goods	166.8	177.6	226.8	210.0
Intermediate goods	281.2	306.9	323.0	361.5
Change in warehouse stocks	37.8	38.3	38.3	21.2
Total imports, c.i.f	1,081.3	1,189.7	1,268.3	1,363.1
Freight and insurance	129.8	142.6	150.4	1626
Total imports, f.o.b	951.6	1,047.1	1,117.9	1,200.5
Source: Federation of International Trade Associations, Senegal Country Profile, 2005.				

The country continually records a negative trade balance. This is slightly offset by transfers of earnings by the 2 million-strong Senegalese diaspora to their families in Senegal, and by the country's exports of services, mainly related to transport. The growth in exports has so far failed to alleviate the pressures created by the expanding trade deficit, which rose to approximately $8.2 billion in 2005.

The country's trade policy has been geared towards implementation of the common trade policy of WAEMU. However, because trade liberalisation has not been achieved within the Union, Senegal's ability to rectify its trade deficit through the promotion of its exports within the region remains inhibited. Currently, only one-third of trade between WAEMU members is duty-free. The reasons are largely the inefficient bureaucracy of the union and various obstacles, including high tariffs, to trade between Senegal and its immediate neighbours. The underdeveloped state of the industrial sectors of other WAEMU member countries, the low level of disposal income, and their continued reliance on agriculture constrain the expansion of trade in non-agricultural products between Senegal and other countries in the ECOWAS region.

Another barrier to interregional trade is the lack of good transport links between Senegal and its neighbours. The country's trade with other WAEMU member states makes up less than 20% of its total trade. Mali accounts for approximately 8.5% and Côte d'Ivoire for about 3% of this figure. Political instability in Côte d'Ivoire, Mauritania and Togo, and recent political violence in Sierra Leone, The Gambia and Guinea-Bissau have not only impeded trade between states in the region, but have also slowed down economic activity.

Table 10: Senegal: Direction of Foreign Trade, 1996–2003

	1996	*1997*	*1998*	*1999*
	(In per cent of total exports)			
Industrialised countries	**42.1**	**45.0**	**43.0**	**48.6**
France	19.0	23.8	18.7	17.9
Germany	0.9	1.6	0.6	1.0
Italy	8.3	4.1	6.3	13.0
Japan	1.5	1.2	0.9	2.9
Netherlands	2.0	2.3	4.4	0.6
Spain	4.7	4.3	5.0	5.5
United Kingdom	0.9	1.0	0.3	1.3
United States	0.2	0.2	0.4	0.2
Other countries	4.6	6.5	6.4	6.1
Developing countries	**58.0**	**55.0**	**57.0**	**51.4**
Africa	**25.6**	**26.0**	**27.4**	**25.8**
Cameroon	*2.5*	*1.8*	*1.8*	*1.7*

Table 10: Senegal: Direction of Foreign Trade, 1996–2003 (continued)				
	1996	*1997*	*1998*	*1999*
Côte d'Ivoire	*2.5*	*4.2*	*3.9*	*3.6*
Mali	*6.6*	*5.5*	*5.3*	*5.2*
Mauritania	*2.0*	*2.1*	*2.6*	*3.5*
Nigeria	*1.0*	*0.4*	*0.7*	*0.2*
Other countries	*10.9*	*12.0*	*13.2*	*11.6*
Asia	**19.3**	**18.3**	**20.2**	**18.0**
Eastern Europe	**0.0**	**0.0**	**0.0**	**0.4**
Middle East	**2.3**	**0.6**	**0.5**	**0.5**
Western Hemisphere	**1.6**	**0.4**	**0.7**	**0.0**
Other countries	**9.1**	**9.7**	**8.1**	**6.6**
Total exports	**100.0**	**100.0**	**100.0**	**100.0**
	(In per cent of total imports)			
Industrialised countries	**64.5**	**63.1**	**66.9**	**64.1**
France	29.6	30.7	32.5	30.2
Germany	6.4	3.7	4.4	4.3
Italy	3.5	3.4	3.7	5.9
Japan	3.1	3.0	3.3	3.4
Netherlands	3.2	2.7	2.8	2.5
Spain	4.3	4.4	3.7	4.0
United Kingdom	2.0	1.8	2.1	2.1
United States	5.3	4.8	5.6	4.1
Other countries	7.2	8.5	8.9	7.7
Developing countries	**35.5**	**36.9**	**33.1**	**35.9**
Africa	**11.1**	**13.6**	**12.1**	**13.8**
Cameroon	*0.5*	*0.7*	*0.5*	*0.5*
Côte d'Ivoire	*2.8*	*2.6*	*2.6*	*3.1*
Gabon	*1.2*	*0.1*	*0.9*	*0.1*
Nigeria	*5.3*	*7.2*	*6.0*	*7.1*
Other countries	*1.3*	*2.9*	*2.2*	*3.0*
Asia	**16.6**	**14.4**	**13.8**	**16.0**
Eastern Europe	**1.7**	**3.2**	**3.1**	**3.2**
Middle East	**1.7**	**2.4**	**0.6**	**0.7**
Western Hemisphere	**4.5**	**3.3**	**3.4**	**2.2**
Other countries	**0.0**	**0.0**	**0.0**	**0.1**
Total imports	**100.0**	**100.0**	**100.0**	**100.0**

Table 10: Senegal: Direction of Foreign Trade, 1996–2003 (continued)				
	2000	*2001*	*2002*	*2003*
	(In per cent of total exports)			
Industrialised countries	**49.3**	**43.5**	**35.3**	**32.6**
France	18.4	16.8	13.0	12.2
Germany	1.5	0.9	0.9	0.5
Italy	11.0	6.0	4.4	8.5
Japan	1.2	0.0	0.1	0.6
Netherlands	2.5	2.7	1.6	0.9
Spain	6.3	4.0	3.2	5.0
United Kingdom	1.2	1.3	1.2	0.2
United States	0.5	0.3	0.3	0.7
Other countries	6.6	1.6	10.7	4.0
Developing countries	**50.7**	**56.5**	**64.7**	**67.4**
Africa	**28.2**	**29.9**	**32.7**	**37.3**
Cameroon	*1.3*	*1.2*	*0.8*	*0.9*
Côte d'Ivoire	*2.1*	*3.3*	*3.5*	*5.4*
Mali	*6.2*	*6.9*	*8.9*	*9.5*
Mauritania	*2.6*	*3.9*	*3.1*	*2.6*
Nigeria	*0.6*	*0.7*	*0.5*	*0.2*
Other countries	*15.5*	*14.0*	*16.1*	*18.8*
Asia	**14.5**	**13.8**	**22.1**	**15.9**
Eastern Europe	**0.1**	**0.1**	**0.1**	**0.0**
Middle East	**0.5**	**0.3**	**0.1**	**0.3**
Western Hemisphere	**0.5**	**0.2**	**0.1**	**0.1**
Other countries	**6.9**	**12.2**	**9.7**	**13.8**
Total exports	**100.0**	**100.0**	**100.0**	**100.0**
	(In per cent of total imports)			
Industrialised countries	**59.8**	**60.3**	**60.5**	**53.6**
France	29.0	27.8	25.6	24.9
Germany	3.7	4.8	5.4	3.4
Italy	3.3	4.0	4.5	3.6
Japan	2.7	2.7	2.6	2.2
Netherlands	3.2	3.3	3.1	2.9
Spain	3.6	4.3	4.0	4.3
United Kingdom	2.1	1.4	1.3	1.5
United States	3.9	4.2	5.4	3.6
Other countries	8.2	8.0	8.6	7.2

Table 10: Senegal: Direction of Foreign Trade, 1996–2003 (continued)

	2000	*2001*	*2002*	*2003*
Developing countries	**40.2**	**39.6**	**39.5**	**46.3**
Africa	**20.8**	**17.4**	**16.3**	**20.3**
Cameroon	*0.5*	*0.4*	*0.4*	*0.4*
Côte d'Ivoire	*2.8*	*2.9*	*2.8*	*3.6*
Gabon	*0.3*	*0.2*	*0.3*	*0.2*
Nigeria	*13.9*	*9.8*	*8.7*	*12.2*
Other countries	*3.3*	*4.2*	*4.0*	*4.2*
Asia	**14.5**	**14.6**	**14.5**	**14.3**
Eastern Europe	**2.5**	**3.1**	**3.2**	**4.1**
Middle East	**0.7**	**1.8**	**2.2**	**2.3**
Western Hemisphere	**1.7**	**2.6**	**3.3**	**5.0**
Other countries	**0.0**	**0.0**	**0.0**	**0.1**
Total imports	**100.0**	**100.0**	**100.0**	**100.0**

Source: IMF, International Financial Statistics, Direction of Trade Statistics.

Against the backdrop of persistent political instability in the region, particularly previously in Côte d'Ivoire, the Senegalese authorities have begun to look elsewhere in Africa for markets for their products. Disruptions in trade among ECOWAS states have not benefited Senegal in the past. Therefore, to avoid becoming too dependent on the volatile West African region, Senegal's government is looking to expand its trade and investment links with other regions and countries. Taking into consideration the stiff competition local producers face from low-priced goods imported from East Asia, and the higher tariffs imposed on agricultural imports in Europe and North America, the Senegalese authorities have identified South Africa as an alternative destination for their country's exports. In return, South Africa offers Senegal opportunities to import good-quality, yet reasonably priced products.

Trade and Business Linkages between South Africa and Senegal

Because of its economic size, South Africa is increasingly viewed as the ideal trading partner in Africa for many African states. The three main advantages it offers are its relative proximity (in comparison with other trading partners further afield), its relatively sophisticated industries and market, and its large consumer base (over 44 million). The South African administration is also interested in developing bilateral relations with other states on the continent, especially in West Africa, a region that has not attracted much of South Africa's trade and investments in the past.

For the South African government, Senegal offers one of the most lucrative markets in West Africa. Although the country's economy has performed only moderately since the 1960s (that is, since it gained independence), economically it remains one of the most developed states in the region. In a part of Africa that is plagued by civil conflict, corruption and mismanagement, Senegal offers an opportunity for South Africa to promote its products in West Africa, a region almost exclusively under the sway of the French.

Trade between the two countries is slowly expanding. Currently, Senegal is South Africa's fourth-largest partner in West Africa (preceded by Nigeria, Ghana and Côte d'Ivoire). On a global scale, Senegal is ranked 60th out of 176 countries as a recipient of South African exports.

Table 11: Senegal's ranking as a trading partner of South Africa amongst key West African states (R '000), 2006				
Country	***Exports***	***Imports***	***Trade balance***	***Rank***
Nigeria	4,0001,100	9,285,923	13,287,023	1
Ghana	1,736,876	81,731	1.818,607	2
Côte d'Ivoire	321,131	122.604	443,735	3
Senegal	351,002	6,013	375,015	4
Mali	319,717	4,799	324,516	5
Source: www.thedti.gov.za				

In 2006, South Africa's exports to Senegal were valued at R351.002 million, as compared with R90.1 million in 2000.[43] These exports comprised mineral products, plastics and rubber, machinery and machinery appliances, vegetable products, wood, base metals, prepared foodstuffs, vehicles and chemicals.

On the other hand, South African imports from Senegal amounted to R6.013 million in 2006, a significant increase over R0.8 million in 2001.[44] The goods imported were raw hides, footwear, stones, plastics, textiles, wood, charcoal, vegetable products, chemicals and light machinery.

[43] South African Department of Trade & Industry, 2005.

[44] *Ibid.*

Table 12: South Africa's exports to and imports from Senegal (Rand '000)				
Year	*Exports*	*Imports*	*Trade Balance*	*Size of surplus %*
1992	898	563	335	61
1993	2,476	2,222	254	53
1994	5,263	2,911	2,352	64
1995	30,346	5,691	24,655	84
1996	20,553	1,896	18,657	92
1997	12,286	2,773	9,513	82
1998	38,643	2,875	35,768	93
1999	71,870	3,464	68,406	95
2000	90,178	4,287	85,891	95
2001	162,853	819	162,034	99
2002	230,311	1,757	228,554	99
2003	223,979	3,025	220,954	99
2004	211,436	5,053	206,383	98
2005	278,355	2,035	276,320	99
2006	351,002	6,013	344,989	98
Source: South African Department of Trade and Industry, 2007.				

However, both countries realise that the volume of trade between them is relatively low, given the huge potential in both markets. Recently, both governments have taken steps to boost bilateral trade. An agreement on the establishment of a joint commission on bilateral co-operation was signed in 2004 as well as several agreements on air services and air freighting; civil aviation security; maritime transport and science and technology. Discussions are under way on the need for a bilateral trade agreement.

Investment

The main investment-related elements of the Senegalese PRSP include creating a business climate in Senegal that attracts FDI and expanding the range of investment opportunities by privatising inefficient state-owned enterprises and promoting major public works, such as Dakar's new international airport.

Since 1996, the country has taken concrete steps towards privatising large enterprises owned by the government. By 2003, 12 of these, including the national fixed telecommunications operator and the national airline, had been sold. The government is now finalising plans to privatise SONACOS, a state enterprise that processes groundnuts, as well as SENELEC, the national power company, after years of negotiations and several failed attempts to do so. When this survey was carried out over 32 enterprises, mainly in the tourism and agricultural sectors, were awaiting privatisation.

In theory, all sectors of the national economy are open to foreign investors, although access to mining, telecommunications and petroleum is subject to sectoral codes and the intricacies of government bureaucracy. Senegal has taken unprecedented steps in recent years to grant national treatment to foreign companies. It has finalised investment treaties and agreements for this purpose with 10 countries, situated both within and outside the ECOWAS region.

While the Senegalese government is eager to attract FDI, administrative regulations and high costs undermine investor confidence. Nevertheless, the state has promulgated a new investment code with a view to improving the business environment and boosting private investment. According to the National Agency for the Promotion of Investment and Major Public Works (APIX), the new code introduces major innovations, which include:

- protection against nationalisation, expropriation or requisition;
- availability of currencies;

- guarantees for the transfer of capital and remuneration;
- access to raw materials;
- equal conditions of treatment;
- economic and competitive freedom for companies;
- exemption from customs duties for three years;
- cancellation of VAT for three years;
- a system of tax credit for investment amounting to 40% of the fixed asset investment over a period of five years, levelled off, for each exercise, at 50% of the taxable income for new companies, and at 25% for extensions;
- extension of the code to strategic sectors (teleservices, industrial areas, cyber-villages, malls, etc.);
- removal of the ceiling on the amount of investment planned for services;
- promotion of labour-intensive operations and provision of incentives for job creation in locations outside the capital;
- delimitation between the investment and the operation stages, which allows the investor to enjoy the benefits of exploration for five years, and allows the administration to collect all the information relating to carrying out the approved programme and launching activities;
- CFCE exemption of five and eight years respectively if at least 200 jobs are created, or if 90% of jobs are provided outside Dakar; and
- removal of the previously set minimum amount of personal funds required.

In addition, the investment code allows up to 100% foreign ownership in most sectors (except electricity, water and telecommunications). The code also provides criteria of eligibility for investment incentives (the amount of the potential investment; the firm's size and type of operation; and the location of the project). More specifically, an investment must be of at least 5,000,000 CFA franc ($6,600) and create a minimum of three jobs to earn the incentive package.[45] Foreign investors engaging with strategic sectors of the economy, which include cultural activities, tourism, animal breeding, and manufacturing, trading complexes, agriculture, mineral exploration and mining, fishing and banking, are eligible for investment code advantages. The government's 'Common Regime', exempts small and medium-sized enterprises owned by foreign investors both from paying duties on imports of goods not produced locally, and from direct and indirect taxes, for two years.

Investors who use local resources for at least 65% of their total inputs within a fiscal year are exonerated from paying Minimum Personal Income Tax and the Business Licence Tax.[46] Depending on the location of the envisaged enterprise (that is, whether it is based in Dakar or not), foreign investors are exempted from paying a lump sum payroll tax of three per cent for 5–12 years. There are other exemptions on duties, income tax and other taxes, which are phased out during the first three years of operation.

APIX, the National Agency for the Promotion of Investment and Major Public Works, has already been mentioned. It was established by the Senegalese authorities in July 2000 to simplify the administrative procedures that investors are required to follow when setting up enterprises in the country. APIX is the agency responsible for granting approval for new investments and allocating tax benefits, and is intended to function as a 'one-stop shop' where foreign investors can

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[45] APIX, 2005.

[46] *Ibid.*

complete the administrative formalities required to launch their businesses in Senegal with relative ease and rapidity.

The government has also taken steps to amend the free export enterprise regime, reducing corporate tax to 15% from the usual 35%. However, in order to take advantage of this regime, foreign investors are required to invest in either the industrial or agricultural sector, and to have an export potential of at least 80% of turnover. Although these measures have made Senegal a relatively attractive investment destination for foreign investors, their effectiveness has come under critical scrutiny in recent years. The World Bank and IMF have claimed that the number and range of incentives for foreign investors has created a more complex, less transparent economic climate; deprived Senegal of income necessary to the national budget; and encouraged bureaucratic corruption.

Nevertheless, Senegal is widely seen as a promising investment option in Francophone West Africa. It has an attractive investment code, a relatively diverse industrial sector and is politically stable. Consequently, investment in Senegal has grown at a relatively high rate over the past few years, and the anticipated privatisation of major state-owned enterprises have led to favourable forecasts for the next five years. Foreign investors, including South Africans, are slowly beginning to take advantage of the opportunities and incentives Senegal offers.

In 2004, the country attracted approximately $70 million in FDI, compared with $52 million the previous year. France is by far the largest investor in the country, accounting for over 25% of all formal enterprises in Senegal. Approximately 235 subsidiaries of French firms are involved in almost every sector of the economy. Other countries with large investments in Senegal include Germany, Switzerland, Japan, South Korea, Lebanon, Taiwan, India, Canada, the US and China.

Table 13: Senegal FDI flows, 2002–2005 (millions of dollars)							
FDI inflows				*FDI outflows*			
2002	*2003*	*2004*	*2005*	*2002*	*2003*	*2004*	*2005*
78	52	77	54*	34	3	13	30*

* Estimate
Source: *2005 World Investment Report*, UNCTAD, 2005 and *2006 World Investment Report*, UNCTAD, 2006.

South Africa is a marginal foreign investor in Senegal, especially when compared with the large volume of European investment (especially from France). However, there is much scope for South Africa to become a more active contractor and supplier in a wide range of sectors. Both the DTI and the South African mission in Dakar have identified areas in which South Africans have superior experience and a competitive advantage over other foreign investors that are currently operating in Senegal. These sectors include mining; water reticulation; telecommunications; road, railway and housing construction; agriculture/agro-processing; general retailing of consumer goods; chemicals and energy.

In an effort to explore these opportunities and deepen economic relations between the two countries, Trade and Investment South Africa (TISA) invited representatives of APIX to visit South Africa in March 2002. This was an initiative of the South African mission in Dakar and the South African Department of Foreign Affairs. This visit was deemed successful: the APIX delegation met several investors and members of trade and investment bodies in KwaZulu-Natal and Gauteng. Shortly afterwards, the Senegalese Minister of Transport visited, leading a delegation comprising the heads of the various Senegalese transport agencies. They visited Cape Town, Pretoria and Johannesburg, where they were made aware of the considerable expertise South African companies possess in transport construction and infrastructure. Subsequently, Minister Sakho signed a Letter of Intent with South Africa's former Minister of Transport, Mr Dullah Omar, to initiate co-operation between Senegal and South Africa in the area of transport.

In May 2002, a business delegation under the aegis of the South African Department of Public Enterprises and TISA visited Senegal. The delegation consisted of some 30 representatives of businesses in a wide range of sectors. In November 2004, South African Minister of Foreign Affairs, Nkosasana Dlamini-Zuma, paid an official visit to Senegal to discuss bilateral economic relations.

Both governments ratified a Bilateral Air Services Agreement in August 1996. In June 1998, South Africa and Senegal signed a Promotion and Reciprocal Protection of Investments Agreement. A Merchant Shipping Agreement has also been signed recently. On both sides, the government authorities support stronger trade and investment links. They also share the broad political vision encapsulated in the Nepad initiative, despite differences in attaining this goal, and are regarded as important contributors to the vision of an African renaissance in their respective regions.

Senegalese officials have blamed the low volume of South African investment in the past on the inability of South Africans to confront either the fierce economic competition they face from Senegal's traditional partner, France, or to surmount the language barrier. South Africans continue to be reluctant to take chances in investing in unfamiliar parts of Francophone West Africa. However, many of the other foreign investors who have poured large volumes of investment into Senegal in recent years have not come from France or Western Europe. China, India, Lebanon, Spain and Canada have become some of Senegal's principal foreign entrants since 2000.

South African sectoral direct investment

Although the bulk of South African investment in the country at present remains in the mining sector, principally gold, the Senegalese government would like to encourage South African investors to enter other sectors, especially outside the industrialised areas, to take advantage of the tax breaks and incentives that are already being enjoyed by French and other foreign investors.

Mining

In the mining sector, South African companies are slowly becoming prominent in the market. With the acquisition of the Kanoumering permit, Randgold has been conducting explorations in Senegal's Sabodala Belt. The company first began operating in the country in 1995. However, within three years it had withdrawn because of the difficulties it encountered in dealing with government bureaucracy in attempting to obtain new mining concessions. The company returned to Senegal in 2001 after it had entered into partnership with *Campaign Senegalese de Transports Transatlantiques* to obtain new mining concessions in the eastern part of the country. The company's current portfolio for the country has a number of gold-bearing targets. Randgold is seeking to expand its exploration at the Kanoumering site. To date, the company has invested over $6.6 million in exploration and drilling activities, and is aiming to expand its existing portfolio by acquiring three more concessional permits that span approximately 1 200 square kilometres. It also planned to apply for another three concessions covering a total of 825 square kilometres, towards the end of 2006.

The *Société des Mines de Fer du Senegal Oriental* (MIFERSO) has been awarded permission by government to develop the iron ore deposits of the Faleme region in south-eastern Senegal. The mine will produce 12 million tonnes of marketable products annually: 6 million tonnes of lump ore and an equivalent weight of sinterfeed, to be sent to Bargny ore port on the Atlantic coast (25 km from Dakar) by rail, about 740 km from the Faleme mine. On 7 July 2004, MIFERSO signed a preliminary agreement with Kumba Resources, appointing the latter the mining operator for the project. In 2005, Kumba concluded its due diligence geological study of the site and began feasibility studies based on drilling. At the time of writing, Kumba Resources had invested approximately €2 million, and anticipated that a further $390 million would be required in the coming years. However, in March 2006 Kumba announced that deposits allocated to the global steelmaker, Mittal Group, are situated on the same property in the south-eastern part of the country to which Kumba holds rights. It began consultations with the Senegalese authorities to try and resolve the matter but, in April, it had been necessary to take legal steps to defend its rights in the area from a hostile takeover by Mittal Group. The matter is currently subject to international arbitration in the Netherlands.

Construction

South African enterprises are new entrants to Senegal's construction sector. Hodevco, a construction company based in Cape Town, plans to develop a hotel for a Senegalese client in Dakar. The design phase was to be handled in Cape Town before building operations began in Dakar in March 2006. In the meantime, the client commissioned the bulk earthworks required to prepare the site for construction. Another company, BEKA, won a bid to install streetlights in Dakar, starting towards the end of 2006. Details of the project had not been released at the time of writing.

Brewing

South African companies have yet to establish a firm footing in the Senegalese brewing sector. SAB Miller has entered into a merger with the Castle group, which became the first international brewing company in West Africa following its acquisition of the state-owned SOBOA 15 years ago. In terms of the merger, the Castle group has agreed to provide SAB Miller with 20% of its profits in Francophone Africa, including its operations in Senegal, in exchange for SAB Miller's handing over 38% of its profits from its interests in Anglophone Africa to the Castle group.

Following the merger with the Castle group, SAB Miller is investing around 1 billion CFA francs per year in its brewing plant in Dakar. SAB Miller imports over 80% of its raw materials, such as malt and sugar, from various outside sources, including South Africa. The company expects to record a healthy 8% increase in its profit margin over the next year. Although the company plans to maintain its existing plant in Dakar, it hopes to add a storage facility, to be built on the outskirts of the capital, within the next year.

Franchising

The number of South African companies in the franchising sector is small but growing. In October and March 2004, both Nandos and Steers opened for business in Senegal. Currently, there are two Nandos and two Steers restaurants, all of them in Dakar. Both companies had plans to open one more store each in Dakar during the course of 2006. Having made investments of over $1.5 million per site, Steers and Nandos have both recorded good profit margins since the start of their operations, even though ordinary Senegalese have relatively scant disposable income. They report a growing appetite for fast food, especially among young people. In addition, both chains attract large numbers of expatriates seeking some variety in their diet. In terms of market share, both restaurant chains regard themselves as strongly placed in an increasingly competitive market.

Multimedia communications

Although competition in the multimedia communications sector is fierce, South African companies are slowly making their presence felt. The only significant South African investor at present is Multichoice, which has been operating in Senegal since 2001. The company currently has some 400 subscribers, most of whom are English-speaking expatriates. Its services cater for the needs of this select group, which are not met by local firms because most of the population don't speak or understand English. The French multimedia giant Canal+, which monopolises French television broadcasts throughout Francophone West Africa, has signed an agreement with Multichoice to share broadcast rights across Africa.

Services

South African companies are slowly positioning themselves in the Senegalese service sector. Following its inaugural flight in 1998, South African Airways (SAA) has become one of the most important international airlines to schedule Dakar on its flight routes. Initially, SAA used Lagos as a stopover point on its

Johannesburg–New York route, as part of a joint venture with Nigeria Airways. Following SAA's unilateral cancellation of this arrangement in March 2003, the company substituted Dakar for Lagos. The company currently operates three flights a week from Dakar to Johannesburg, and daily flights from Johannesburg to Dakar. In addition, it also maintains a weekly service from JFK in New York to Dakar, which provides the only (and much needed) non-stop air service between Senegal and North America. SAA has a market share of over 50% for the Dakar–Johannesburg route. Its main rivals are Kenya Airways and Air France.

Energy

South African power utility companies are slowly becoming essential suppliers of energy to Senegal. In July 2001, Eskom, through its wholly owned commercial wing, Eskom Enterprises, signed a 15-year operation and maintenance contract valued at over R700 million in Mali for the new Manantali hydro station and the associated high voltage transmission system. The 200 MW power station supplies electricity not only to Mali but also to Mauritania and Senegal.

The other large South African firm doing business in Senegal's energy sector is Energy Africa. It is one of the most recent South African investors in the country, having entered in 2003. Initially, the company acquired the St Louis licence in partnership with the state-owned enterprise Petrosen. By late 2004, it had acquired a 60% share in the concessional agreement (with 30% held by Sana and the remaining 10% by Petrose). The licence covers the northern stretch of the country that shares a border with Mauritania. Although operations are at the exploration stage, the company plans to start drilling for oil by 2008. Currently, Energy Africa and its local Senegalese partners' concessional investments in the country are valued at less than $10 million. Because Energy Africa's local procurement rate is 15% and its staff size is more than 100 workers, it is regarded by Senegalese government officials more as a development partner than merely a foreign investor.

South African Companies in Senegal – Perceptions, Challenges and Experiences

The SAIIA survey of South African companies investing in Senegal found that most of the businesspeople interviewed regard the country as a promising market which is supported by its wide range of investment incentives. They are also attracted by its political stability, secular democracy, its market leanings, skilled labour force and good infrastructure. Most of the South African companies surveyed reported that they expect their market share and revenues to increase, owing to the improved economic situation, the continuation of the government's privatisation and export diversification programmes, and the growth of the Senegalese economy.

Despite fierce competition from its traditional partner, France, and various constraints on doing business in Senegal, South African companies have recorded healthy profits in recent years. Many have expanded their operations in the country since 2000, and are eager to extend their enterprises into other parts of the country and into the region as a whole. They view Senegal as opening a gateway to Francophone West Africa, whereas earlier Côte d'Ivoire was considered the economic hub of the region, before it lost that standing because of political turmoil.

According to South Africa's embassy in Dakar, 11 South African companies are already established in the country. A sectoral breakdown of South African direct investment shows the mining sector has attracted most attention. South African companies with operations in the country include Randgold, Kumba Resources, South African Airways, Steers, Nandos, Eskom, SABMiller, Multichoice, BEKA and Hodevco. Although South African enterprises are marginal players in all sectors outside mining, they are still regarded by the government as important partners that can contribute to Senegal's economic development and poverty reduction strategies.

Reasons for doing business in Senegal and nature of investments

The survey of South African companies reflects diverse reasons for their having chosen to invest in Senegal. The majority of businesspeople interviewed, especially those representing the larger South African firms, claimed that the reasons were essentially strategic; that they saw Senegal as an access-point to the rest of Francophone West Africa. In the past this region has attracted little investment from South Africa because of the barriers created by a different language, the continuing strong economic and trade ties these countries maintain with France, stiff competition from other members of the European Union, cultural dissimilarities, disparate business practices, and the lack of reliable air routes between South Africa and West Africa.

Senegal's membership of the ECOWAS (where goods trade with other ECOWAS states is exempt from tariffs and customs duties), of the WTO and WAEMU has also been given as a compelling reason for the interest shown by South African companies in opening agencies in the country. All respondents concurred that Senegal had been made even more attractive as a business destination by the countless bilateral investment agreements it has signed with other major trading nations. Since 1983, the treaty it entered into with the US provides for Most Favoured Nation treatment for investors, the free transfer of profits and capital, internationally recognised standards of compensation in the event of expropriation, and procedures for dispute settlement.

Senegal has signed similar agreements with Denmark, France, Italy, the Netherlands, Australia, South Korea, Romania, Italy, Switzerland, Finland, Spain, and Japan. It has also finalised arrangements for tax treaties with Mali, the Francophone members of UEMOA, and France. South African investors are particularly attracted by Senegal's privileged access to the European market under the EU/ACP agreements; the Canadian market under the Canadian Initiative Act; and the American market under the African Growth and Opportunity Act (AGOA).

The majority of those who participated in the survey indicated that they feel optimistic about the country's political and economic prospects. Almost all South African investors regard the country as a safe destination, given its political stability in a region characterised by civil disturbances, coups and totalitarian regimes. They are particularly impressed by the country's strong democratic culture. This is the result of a long process of nation-building which began when the country gained its independence, and of a willingness among the various political parties to compromise in the interests of national unity and peace. Another positive indicator in the eyes of South African investors is the economic achievements of Senegal over the past decade. The government's large-scale measures to liberalise its economy, which were supported by the World Bank, the Paris Club and the IMF, resulted in healthy, sustainable growth over the medium to long term. The country's fiscal restructuring has helped reduce inflation and the fiscal deficit, which has helped to raise income levels over the past five years, and encouraged an increase in foreign investment.

Many South African investors, especially those owning smaller to medium-sized companies, expect to record healthy profit margins in the coming years, thanks to the Senegalese government's prudent management of the economy. They believe that their market share and revenues will rise in parallel with the country's economic growth, because greater prosperity will mean an increase in the disposable income of the population, particularly middle- and upper-class Senegalese. Although most respondents indicated that they had chosen to do business in Senegal primarily to make profits, almost all reported that the contribution made by their Senegalese operations to the parent company's earnings stood at less than 10% at the time of the survey. However, in the light of Senegal's rapid economic growth and the past political turmoil in Côte d'Ivoire (which has caused a large number of foreign businesses to relocate to Senegal), they were confident that their prospects of recording higher profits were good.

Probably the most important reason for investment given by respondents to this survey was their appreciation of the government's attractive and relatively transparent investment policy. As already noted, this policy provides for 100% ownership of businesses in most sectors, no transfer or repatriation of capital and income earned, or on investments financed with convertible exchange, national-equivalent treatment of foreign investments, several sector-based and non-sector based incentives, income tax holidays, tax breaks, exoneration from several tax regimes, the right to private ownership, 100% protection of property rights, and free export schemes. A number of South African investors indicated that they had found APIX particularly efficient in assisting them to set up their businesses.

In terms of the nature of investments, most South African companies are greenfield entries. There has also been an increase in the number of mergers and acquisitions, as in the case of SAB Miller with Castle Group, and Kumba Resources and MIFERSO. Many South African companies have chosen to work with local partners as a risk-mitigating choice, although there are no such requirements in law. The representatives of those companies that have chosen to work with local partners claimed that they have benefited greatly from the expertise and experience that the local partners have brought to their respective companies. Local Senegalese partners are regarded as knowledgeable, industrious and resourceful by most of the South African companies who have used them. Their most valuable contribution to the operations of South African companies has been their familiarity with the business culture and the local market, and their knowledge of both French and English.

By and large, South African enterprises have fared relatively well in the Senegalese market. A large number of those interviewed stated that their businesses were slowly gaining ground in their respective sectors. Although the majority of these companies have a market share of 10–50%, with some exceptions such as Kumba Resources and SAB Miller, most are optimistic that their earnings will improve in the future. South African-owned companies are regarded by the Senegalese as resourceful and ambitious, despite the stiff competition they face from Senegal's traditional investors, their unfamiliarity with the market and the limited spending power of ordinary Senegalese. South Africa's strongest competitors in the Senegalese market are essentially European countries, although Canada, India and China are beginning to make their presence felt as rivals.

The costs of doing business in Senegal

One of the main complaints made by foreign investors in Senegal, including South Africans, is the costly and time-consuming procedure required for setting up a business in the country. Although there is a 'one-stop' investment agency in Senegal, starting up an enterprise may take several months. However, once the operation is up and functioning, Senegal usually proves a less expensive country in which to run a business than many of its neighbours.

Both UNCTAD and the World Bank estimate that for most foreign investors in Senegal it takes on average nine steps over 57 days, and at a cost equal to 108.7% of gross national income (GNI) per capita, to launch a business.[47] The new investor is required to deposit at least 260.4% of GNI per capita in a bank to obtain a business registration number.[48] Although this may seem a relatively high cost in global terms, Senegal is one of the least expensive of the ECOWAS states in which to set up a business. For example, to launch a comparable venture in Togo or Ghana would take foreign investors 13 and 12 steps respectively, while in Niger it would cost them 396.4% of GNI per capita. Foreign investors in Burkina Faso require 135 days on average to open a business, far more than in Senegal. APIX argues that it is important to evaluate the cost of opening a business in Senegal in comparison with those levied by other countries in the region, so that potential investors can make a more informed decision as to whether or not Senegal is an expensive country in which to operate.

Another source of concern mentioned in interviews was barriers to acquiring land, in particular getting clear title to

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[47] *Doing Business in 2005*, World Bank, 2006.

[48] *Ibid.*

properties, which have caused significant delays and additional expense to many foreign investors, including South Africans. Part of the problem is inadequate record-keeping, especially in rural areas, where transfers of land are uncommon because properties are hereditary and therefore passed from generation to generation.

Lastly, foreign investors complained about the country's utility costs, which are among the highest in the region. There are also occasional cuts in electricity and water supplies, which disrupt operations, especially in rural areas. Currently, approximately 30% of Senegalese have access to electricity. This is the second-highest coverage in the region (after Nigeria). However, electricity consumption per capita (kWh/capita) is 132.5 kWh in Senegal.[49] This is particularly high in comparison with its neighbours in the region. For example, Mali's power consumption per capita is 35 kWh. The expensive rates charged for electricity in Senegal are commonly attributed to the extensive petroleum imports required to fuel the country's energy plants. Nevertheless, the country's strategy of diversifying its sources of energy for electricity generation has borne fruit. The new Manantali hydroelectricity plant on the Senegal river has been producing electricity since 2002.[50]

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[49] Global Network on Energy for Sustainable Development, UNEP, 2004.

[50] *Ibid.*

Table 14: Business start-up costs and delays		
Procedures	***Costs***	***Delays***
1. Deposit the founding capital with a bank	N/A	1 day
2. Notarise Company Bylaws and bank deposit of subscribed capital	CFA franc 250,000	3 days
3. Register the Company Bylaws at the *Centre des Imports*	CFA franc 65,000 (CFA franc 2 000 per page, 3 copies of the Bylaws, assuming 10 pages)+ registration fee of CFA franc 5,000	8 days
4. Register at the Registry of Commerce, Tribunal of Commerce	Stamp of 2,000 CFA franc, 3,000 CFA franc fixed fee + 90 CFA franc per 1 million of capital	20 days
5. Publish a notice of the new company in an official journal	CFA franc 70,000	4 days
6. Register at the Ministry of Economy and Finance to obtain a single number, which comprises the former national company ID number, an ID number for indirect tax (NITI) and a taxpaying account	No charge	10 days
7. File a declaration of commencement of operations at the *Inspection Regionale du Travail* (Labour authority)	No charge	3 days
8. Obtain affiliation with the *Caisse de Securite Sociale* (CSS)	No charge	2 days
9. Obtain affiliation with the pension fund (*Institut de Prevoyance Retraite —IPRES*)	No charge	8 days
Source: APIX, 2005.		

Foreign investors often claim that Dakar is one of the most expensive cities in Africa. In 2005, the city was ranked as the 36th most expensive city in the world.[51] This is particularly problematic for new foreign investors, especially those opening small to medium-sized businesses, or investors with existing enterprises in the country who are attempting to expand their operations with limited resources.

On the positive side, Senegal has lower corruption rates than a number of other West African countries, such as Côte d'Ivoire, Mali and Nigeria. According to Transparency International's 2005 Corruption Perception Index, Senegal ranked 78th globally, an improvement over its 85th position the previous year (on a scale where 1 equals 'least corrupt'). In addition, the country has a low crime rate in comparison with other countries in the region (which means a drop in insurance premiums), and possesses a pool of inexpensive skilled and semi-skilled labour.

Main constraints on doing business in Senegal

South African companies entering Senegal face a number of challenges and problems, in common with all other foreign investors. Most of these constraints stem from language barriers, unfamiliarity with traditional French customs, cultural dissimilarities and conflicting business practices. Some of the major hindrances faced by South African companies, as identified in the interviews conducted for this survey, are outlined below.

[51] Cost of Living Survey, Mercer Human Resource Consultancy, 2005.

Corruption

Although levels of corruption in Senegal remain low in comparison with regional levels, some South African investors claimed that corruption is an obstacle to doing business in the country. Despite the presence of regulations, laws, penalties and government anti-corruption task forces, a culture of bribery continues in both government departments and the private sector. Foreign investors, including South Africans, have made credible allegations that corruption affects the outcomes of dispute settlements, court decisions and government bidding procedures on public projects. It is also prevalent in the official procurement and regulation-enforcement agencies.

To the government's credit, a number of highly publicised initiatives have been launched to improve transparency in government departments, fight corruption in local government and strengthen the rule of law. The government has also passed a number of laws aimed at improving the judicial and legal environment. These include supervised training for commercial law practitioners and magistrates, the adoption of new recovery and enforcement procedures with OHADA (a regional initiative to harmonise commercial codes among ECOWAS members) and the establishment of arbitration courts.

While he was in office, President Wade created several government agencies with mandates to fight fraud and corruption. For example, the *L'Inspection Générale d'Etat* is a cabinet-level office in the Ministry of Justice. The same ministry has hired Cotecna SA, a pre-shipment inspection contractor. The Wade administration also strengthened provisions for enforcing laws intended to root out corruption, among them the 1981 legislation forbidding public servants to make illicit gains. Under Senegalese law, a person convicted of giving or accepting bribes can face five to ten years in prison. Wade also ordered a number of audits of state-owned public enterprises and agencies to be carried out. However, he was highly critical of a 2002 Transparency International report, which claimed that corruption affects many businesses in Senegal in diverse ways.

Access to capital

One of the biggest obstacles facing South African firms, especially small and medium-sized ones, is obtaining capital from Senegalese state-owned banks. The country's financial system is unable to provide funding for medium-sized investments. Local banks are reluctant both to lend money to new entrepreneurs or to put money into new sectors, such as communications and information technology.

Generally, South African investors have found that the government restricts its financial support to large projects deemed to be essential to the state's interests, or to projects in strategic sectors of the economy. This means that investors must find the funds necessary to start a project without help from the Senegalese government or banks. In some cases, international banks such as the West African Development Bank can offer loans to foreign firms wishing to invest in the country, but this applies only to very large projects, and the amount is restricted to $10 million.

Land and property ownership

South African investors, in common with other entrants to Senegal, have found it problematic and time-consuming to buy land or make concessions to individuals who have claim rights over land already purchased. Although a land registration system and property titles officially exist, their application is inconsistent outside the country's urban centres of Dakar and Port Louis. The country's financing market for housing remains largely undeveloped. A secondary market for mortgages is not available to prospective buyers. Although Senegal's judicial system has a mandate to intervene in land or property disputes, judges are often burdened with high volumes of cases, and many have insufficient experience of adjudicating property or land disputes. The legal process for settling disputes is therefore extremely slow and unreliable.

Regulatory system

A large number of South African investors repeatedly criticised the country's regulatory system, giving several reasons. First, although it has set up an adequate regulatory and legal framework, the government's enforcement of intellectual property rights has remained weak or, in some cases, non-existent. In particular, the authorities are thought to be too lax when it comes to seizing counterfeit or pirated imported goods. Second, most South African companies expressed dissatisfaction with the inconsistent application of customs procedures and the slow and occasionally baffling implementation of judicial and tax regulations. Similar complaints were made about lack of openness and irregularities in evaluating tenders and making procurement decisions.

However, it is to the government's credit that it has taken a number of steps towards developing and reforming the regulatory framework, as part of a broader initiative to attract more private sector investment. Among these is the elimination both of the requirement for prior government authorisation to lay off workers temporarily during recessions, and of monopolistic agreements, whether in major state-owned enterprises or the private sector.

In 2002, the authorities created a telecommunications regulatory agency, and have also liberalised the electricity sector. The government launched an electricity regulatory body that is responsible for approving investment plans for the power sector, evaluating and maintaining price controls on supply and demand needs, and preparing terms of reference for tender specifications.

Lack of disposable income

As mentioned earlier, with an average per capita income of just $722 in 2005, the Senegalese have little money to spend on non-essential purchases. This constitutes a problem for South African companies operating in that country. They often find their products competing against inferior versions of the same type (usually consumer and durable goods) imported from Asia, which are sold at substantially cheaper prices. However, South African producers contend that with the economic growth experienced over the past few years, and the forecasts that it will continue over the next five years, more Senegalese will be able to afford luxury items and goods imported from South Africa. In addition, they are increasingly tapping into the large disposable incomes of Senegal's 2-million strong diaspora, members of which return home frequently to visit family members and to invest in the housing and commercial markets.

Rigid labour laws

Rigid labour laws represent one of the most serious obstacles to running a business in Senegal. Many South African firms complained about how difficult it is to terminate employment on grounds of malfeasance or other unsatisfactory behaviour. Often, these employees are awarded monetary compensation or even reinstatement by the state-run courts. Although some of these decisions have been overturned on appeal, the process is often lengthy and costly. The country's commercial courts are not usually presided over by trained judges, and foreign investors believe that inconsistent and arbitrary decisions are often made.

Slow and weak legal system

A slow and weak legal system was identified by some interviewees as an obstacle to doing business in Senegal. They claimed that attempts to enforce contracts through the court system were often hindered by countless hurdles. A joint World Bank-IMF assessment of the country's financial sector in 2004 study found that the judicial system lacks both sufficient technical capacity to handle financial matters and the expertise to intervene in cases pertaining to financial transactions between two parties. Another weakness is that judges may take months to come to a decision on a dispute. Foreign investors are faced with increasing costs for legal representation in disputes that may not be resolved in a satisfactory manner.

Table 15: Investment Climate – 2004						
Major Constraints	***Senegal***	***Algeria***	***Ethiopia***	***Kenya***	***Tanzania***	***Zambia***
Policy Uncertainty (%)	31.3		39.3	51.5	31.5	57.0
Corruption (%)	39.9	35.2	39.0	73.8	51.1	46.4
Courts (%)	13.3				20.0	38.6
Lack of confidence courts will uphold property rights (%)	40.5	27.3		51.3	55.1	36.0
Crime (%)	15.4		9.5	69.8	25.5	48.8
Tax rates (%)	50.8	44.8	73.6	68.2	73.4	57.5
Average time to clear customs (days)	6.5	21.6	13.5	8.9	17.5	4.8
Finance (%)	60.0	51.3	40.2	58.3	53.0	67.7
Electricity (%)	30.7	11.5	42.5	48.1	58.9	39.6
Labour (skills)	18.5	25.5	17.9	27.6	25.0	35.7
Labour regulations (%)	16.3	12.9	4.6	22.5	12.1	16.9
Source: Doing Business in 2005: Removing Obstacles to Growth, International Bank for Reconstruction and Development/The World Bank, 2005						

Some Policy Recommendations

Representatives of South African firms, of other foreign firms and of international organisations and research institutes in Senegal, and Senegalese officials who were interviewed in this survey, suggested improvements that they would like to see implemented to make Senegal a more investment-friendly destination.

Recommendations to the Senegalese government

Reduce import duties and simplify tax structure

South African companies would like to see a reduction of the corporate income tax rate, which is currently 35%, to approximately 28%. They believe that a reduction in corporate income tax will help the country to attract more FDI. In addition, they recommend that the country's import duties are also cut. At present duties are high, even compared with those of other members of ECOWAS. Senegal has introduced a number of new taxes since 2000, and the new common external tariff scheme agreed on by the member states of UEMOA further complicates the tax structure. Those interviewed were of the opinion that the recently introduced 1% community solidarity tax (CST) as well as special tariffs such as the *taxe degressive de protection*, which is applied to imports of finished items that compete with local production, for instance, candies, tomato paste, candles, batteries and powdered milk, should be dropped. They also objected to another new tariff, the *taxe conjoncturelle a l'importation*, a seasonal tax that levies a 10% levy on imported agricultural items, to help protect local farmers when world prices drop.

These taxes, when added to the import tariff, yield a maximum combined tax rate of 52%. Foreign investors and importers are also required to pay a unified 18% VAT at the port of entry.

Decrease electricity prices

Interviewees called on the government to take steps to reduce electricity prices because the high cost of power is limiting their business operations and eroding their profit margins. They felt confident that, with the privatisation of the state-owned utility company, prices would drop. However, they expressed concern over the government's reluctance to approve numerous bids by foreign companies to buy majority stakes in the company responsible for supplying the country's electricity.

Process applications for work permits more rapidly

South African companies wanted the Senegalese government to find ways to accelerate the processing of work permits by the immigration authorities.

Establish independent courts for commercially-related disputes

Another recommendation was that the Senegalese government should establish special independent courts to resolve legal disputes between foreign investors, the government and local communities. South African firms would also like to see the government appoint competent, trained judges, who would make impartial decisions, to preside over these courts.

Streamline customs procedures at the ports

Interviewees called on the government to take concrete measures to eliminate bottlenecks in customs clearance and generally upgrade procedures at ports. The average delay of 10–15 days before goods are cleared at ports was generally regarded as unacceptable. Business investors recommended the introduction of more automated inspection machines at airports and ports, to help clear imported and exported products more efficiently.

Reduce shipping costs

At the time of writing many South African investors and their Senegalese counterparts wanted a reduction in the cost of shipping goods between South Africa and Senegal. A merchant shipping agreement has now been signed between Senegal and South Africa and shipping costs are likely to come down.

Charge lower customs duties for South African products

Foreign investors, including South Africans, called on the Senegalese government to reduce customs duties. They pointed out that it is unfair that products from other ECOWAS countries should be charged much lower duties than their own products. They complained that high customs duties impede the growth of their businesses and ultimately limit the contribution they could make to the local economy.

Improve infrastructure

A number of South African investors urged the Senegalese authorities to allocate more resources to infrastructural development around the country. Although they contended that the infrastructure in large urban areas, especially Dakar, is relatively good, it is relatively poor in the rest of the country, especially in the southern and eastern parts. The lack of roads in the latter hinders South African mining companies in their exploration for mineral resources, such as gold and oil. In addition, railway and road links to neighbouring countries, such as Mali, remain poor. This increases the transport costs businesses have to pay when moving goods.

Issue more soft long-term loans

Small and medium-sized companies believed that investment could be encouraged if the government issued more soft loans, for longer periods, at reduced interest rates. At the moment, banks impose severe restrictions on long-term loans, and charge high interest rates and impose tough collateral terms.

Recommendations to the South African government

Those interviewed for the survey suggested ways in which the South African government could promote higher levels of trade and investment between the two countries.

Establish a free trade agreement

Both South African companies and Senegalese, whether government officials or businesspeople, called for the establishment of a free trade agreement between Senegal and South Africa, which they believed would substantially improve trade and investment links between the two countries. They concurred that the South African government should take the initiative in launching the process.

Share banking expertise

Many of those interviewed called on the government to help Senegal develop and modernise its banking system by bringing in banking expertise from South Africa. Senegal's banking sector is aware that it is in need of guidance from foreign experts, and South Africa is recognised not only in Africa but globally as having an efficient and modern banking system.

Ease visa requirements

Senegalese government officials and local businesses recommended that the South African government take steps to ease visa requirements for Senegalese businesspeople and holidaymakers wishing to visit South Africa. A large number of the former would like to visit South Africa to explore the business opportunities it offers. They also pointed out that if the visa requirements were made less stringent, many of the Senegalese holidaymakers who normally go to Europe for recreation and shopping would visit South Africa and spend their money on local products.

Become acquainted with Senegalese business practice

Many interviewees recommended that the South African authorities should encourage investors to acquaint themselves with Senegalese business practices and cultural norms before committing themselves. Often South African companies arriving in Senegal for the first time are taken aback by the relatively large difference in language, cultural and religious practices and business norms. They often have difficulty adjusting, whereas other foreign investors who are informed about how best to do business in the country are better equipped to manage.

Promote Senegalese investment in South Africa

A number of Senegalese business representatives and government officials said they would like to see the South African government do more to help promote Senegalese products and investments in this country. This could be materially assisted by the signing of a free trade agreement, which would result in South Africa's easing customs duties and tariffs on Senegalese products. They pointed out that although Senegalese exports have recorded healthy growth over the past five years, their volume is minimal in comparison with that of South African exports to their own country.

Lessons from Senegal

Several lessons for current and prospective investors and governments of both countries can be elicited from the experience of South African companies and subsidiaries operating in Senegal.

First, Senegal, in terms of its economic growth and development over the past decade, has become a role model to be followed in the region. The adjustment and reform measures it started in 1994 with the support of two IMF programmes, aimed at liberalising its economy, selling off state assets, reducing the national deficit, controlling debt and promoting the development of the private sector, have been important. These moves have helped to attract increasing volumes of FDI into the country, and have earned the country some much-needed debt relief under the HIPC initiative. As a result, Senegal has realised a growth rate of more than 5.5% per year since 2001.[52] This success story has resonated well with South African and other foreign investors, who have come to perceive Senegal as a lucrative and economically stable destination in the volatile Francophone West African region.

Second, a word of caution, however, is also warranted. Although the country has undergone significant economic reforms over the past decade, including the devaluation of its currency and the macroeconomic restructuring and liberalising of its fiscal, budgetary and trade policies, poverty

[52] However, despite an expected 7.1% GDP growth rate in 2005, actual growth was only 5.5% and a further decline to 3.3 is expected by the IMF for 2006, reflecting the remaining vulnerability of the economy to exogenous shocks such as the rise in the price of oil. See *Article IV consultation with Senegal*, Public Info Notice No 07/45, IMF, 12 April 2007.

levels remain high. The average Senegalese citizen has yet to reap the benefits of these reforms, so his or her purchasing power remains low. It is likely to take many more years of economic growth to reduce poverty in Senegal substantially.

Third, Senegal's political stability is an important factor that could assist the country in achieving sustained high growth levels. Its relatively peaceful society is widely envied among its neighbours in Francophone West Africa, a region notorious for its political upheavals, civil wars and coups. Although the socialist party of the former president, Abdou Diouf, held power for the four decades following the country's gaining independence, Senegal has always been a democratic state. The tradition of democracy is more thoroughly entrenched in the country and its constitution than in most other states, not only in the region, but also across the whole continent. The smooth transition of power that occurred in March 2000 provides a model to be emulated in other parts of Africa today.

Lastly, Senegal's membership of the BCEAO has enabled it to realise exceptionally low levels of inflation and maintain a stable currency since 1994. The tight monetary policy of BCEAO has helped Senegal keep its inflation figures steady at less than 2% since 1997. This record compares very favourably with that of its peers in the developing world, especially in times of economic crisis (such as the period preceding the Asian economic crisis of the late 1990s, and 9/11). Its currency stability has made the country particularly attractive to foreign investors, who are wary of the risks posed by currency devaluations and external economic and political shocks. However, the strength of Senegal's currency despite the devaluation of the CFA franc also drives up the cost of doing business. Acquiring finance for investment in particular was highlighted as a problem. The strength of the CFA franc also supports a propensity to import goods driving up Senegal's persistent trade imbalance. The latter requires serious attention. Unfortunately, Senegal's geographic location, the weak infrastructure linkages with the region and the instability in its neighbourhood also does little to provide a sustainable platform for healthy intra-regional trade. These latter factors also demonstrate the influence that the business environment in surrounding countries exercises on business activities within a country. For all these reasons, Senegal should do more to pro-actively address the concerns highlighted by South African, other foreign, and domestic investors to improve the business climate.

Conclusion

Senegal is one of the most stable and democratic countries in Africa, and has never experienced a military coup. The country is ahead of most of its neighbours in terms of the rule of law and smooth transitions of power over the decades. Economically, it is a role model for the rest of West Africa, having taken drastic action to reduce poverty and accelerate economic growth in the mid-1990s and maintained that momentum.

Its robust economic growth of over 5% since 2001, its effective measures to slash unemployment and increase the role of the private sector in the economy, and its decision to devalue its currency, which has resulted in an inflation rate of 2% since 1997, have made Senegal a promising market for South African products and investments. Other attractive factors are a currency supported by and linked to the euro, Senegal's membership of WAEMU and ECOWAS, the generous government incentives offered to foreign investors, and its implementation of IMF programmes designed to prepare the economy for stable growth.

However, a number of constraints remain for foreign investors in Senegal. Judicial, customs and tax regulation decisions are frequently inconsistent and poorly justified. The country's labour laws have become a disincentive to investment. The different steps required to start up a business are burdensome, and acquiring land or property can take months. Yet despite these hindrances and fierce competition from Senegal's traditional partner, France, South African companies have recorded healthy profits in Senegal and many have expanded their operations in the country since 2000.

The majority of South African firms surveyed expected their market share and revenues to increase owing to the improved economic situation, the continuation of the government's privatisation and export diversification programmes, and the growth of the Senegalese economy. South African business managers were confident that their enterprises would reap the benefits of a rise in income levels among ordinary Senegalese, and an influx of French and other expatriates from neighbouring states such as Côte d'Ivoire.

In addition, an increasing number of Senegal's 2 million strong diaspora living in Europe and in other West African countries have begun to return, attracted by the improved economic situation in the country. They are regarded as important consumers for South African goods because they are accustomed to quality products produced in the West. South African investors generally expressed optimism over Senegal's economic and political prospects and the future of their own businesses.

The South African government shares the confidence expressed by those who have invested in Senegal. Both countries have made attempts to strengthen bilateral economic relations in recent years. With a free trade agreement anticipated between them, both Senegal and South Africa should be better placed to do so.

Appendix A

Senegal — Macroeconomic Indicators				
Indicator	*2002*	*2003*	*2004*	*2005 (projected)*
GDP (US$bn)	5.0	6.5	7.6	8.1*
GDP per capita (US$)	503	632	722	750
Real GDP growth (%)	5.0	5.8	6.5	7.1
Fiscal deficit (including grants) as % of GDP	1.3	1.4	1.6	1.8
Trade deficit (including grants) as % of GDP	-8.4	-9.1	-8.7	-8.2
Inflation (%)	2.3	1.8	1.8	1.8
Current account balance (% of GDP)	-6.3	-8.6	-8.8	-8.9
Current account balance (US$m)	-317	-419	-452	-502
International reserves (as months of imports)	4.0	3.9	3.5	3.5

* Actual was 5.5%, see *www.imf.org*, 2007.
Source: Report No.25498-SE, World Bank, 2005.

Appendix B
Ethnic and Religious Groups in Senegal

The ethnic composition of Senegal is diverse. The principal ethnic group, the Wolof, accounts for approximately 44% of the population. Others include the Fulani (17.5%), the Serer (14.8%), the Diola and Toucoluleur (9% each), the Mandingo (6.5%), and other African groups (4.5%). A small minority of European and Eurasian descent, live mainly in Greater Dakar, and represent only 1% of the country's population, comprising mostly of Lebanese and French people, although a few Vietnamese and Chinese live in the urban areas.

Although around 94% of Senegalese are Sunni Muslims, the state recognises all religions, cultures and traditions. Today, Senegalese Muslim communities are divided into several Islamic Sufi[53] brotherhoods or orders, each headed by a Khalif, who is usually a direct descendant of that group's founder. The two largest and most prominent Sufi brotherhoods are the Muridiyya (Murid), which centres on the city of Touba, and the Tijaniyya, based in the cities of Kaolack and Tivaouane. The first community to be converted to Islam was the Halpulaar, an ethnic group that lives along the Sahel, between Senegal and Chad. The Halpulaar, who represent approximately 20% of the population of Senegal, consist of various Fula groups, including the Toucouleur and Peul. It was the Toucouleur (also called the sedentary Halpulaar) of the Senegal river valley in the north, who, having converted to Islam around a 1 000 years ago, were largely responsible for propagating the Islamic faith through the country. It was not until the 19th and early 20th

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[53] Sufism or *tasawwuf*, as it is called in Arabic, is generally understood by scholars and Sufis to be the inner, mystical, or psycho-spiritual dimension of Islam.

centuries that most communities south of the Senegal river valley converted to Islam. During the mid-19th century, Islam became a rallying-point for resistance against the traditional Senegalese aristocracies and French colonialism. The Tijani leaders Al-Hajj Umar Tall and Mabba Jaxu Ba established influential Islamic states, although they proved short-lived. Both leaders were killed in battle, and their empires were annexed by the French.[54]

Other Islamic communities include the Senegalese Laayeen brotherhood, which lives around the coastal town of Lebu, and the much older Qadiriyya sect. Primarily through the efforts of the Tijaniyya, education through formal Quranic schools (called *daara* in Wolof) became widespread, especially during the colonial period. In Murid communities (which place more emphasis on the work ethic than on literary Koran studies), the term *daara* often applies to groups devoted to working for a religious leader.[55] Currently, the majority of Senegalese children attend *daaras* for several years, during which they study and memorise the Koran. A growing number of children continue with religious studies at informal Arabic schools (*majlis*) or at private Arabic schools that are supported financially by oil-rich Gulf states.

Today around 5% of Senegal's population are Christian, most of them Roman Catholic. Small numbers are to be found among the coastal Balant, Serer and Diola, as well as in the Coniagui and Bassari communities. In the country's capital city, some European, Lebanese, American and Cape Verdian expatriates and immigrants attend Protestant and Catholic churches. Senegal's first president, Leopold Sedar, was a

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[54] *Wikipedia Encyclopaedia*, 2005

[55] *Ibid.*

Catholic Serer. A scant 1% of Senegalese practise local tribal customary beliefs.

Appendix C
Customs and Tax Benefits for New Enterprises and Extension Projects

New Enterprises:

This category includes any newly-created economic entity that is in the process of designing an investment programme eligible for the benefits below.

Benefits:

- Exemption from customs duties (3 years)
- Cancellation of VAT (3 years)
- Tax credit:
  - 40% of the eligible investment
  - five years (5 years)
  - 50% of taxable profit

- CFCE exemption = five years (5) and eight years (8), if at least 200 jobs are created of if 90% of jobs are created outside Dakar. Alternative conditions:
  - An increase of at least 25% of the production capacity or acquisition value of the fixed assets, or
  - An investment in production equipment of at least FCFA 100 million.

Extension projects:

An extension project is any approved investment programme launched by an existing enterprise, thereby implying:

- An increase of at least 25% of the production capacity or acquisition value of the fixed assets, or
- An investment in production material of at least FCFA 100 million.

Source: APIX, 2005.

Appendix D

Doing Business in Selected Francophone West African States Indices — 2006					
Economy	*Senegal*	*Mali*	*Côte d'Ivoire*	*Chad*	*Burkina Faso*
Starting a business (number of procedures)	10	13	11	19	8
Time (days)	58	42	45	75	34
Cost (% of income per capita)	6	201.9	134.1	226.1	120.8
Minimum capital (% of income per capita)	269.6	519.8	226.7	414.1	481.4
Difficulty of hiring index (0-100)	72	44	44	39	83
Rigidity of hours index (0-100)	60	60	80	60	60
Difficulty of firing index (0-100)	50	50	10	80	50
Rigidity of employment index (0-100)	61	51	45	60	64
Firing costs (weeks)	38	31	49	36	34
Registering property (number of procedures	6	5	4	6	8
Time (days)	114	33	123	31	107
Cost (% of property value)	18.1	20.7	3.0	1.3	16.2
Strength of legal rights index (0-10)	3	3	6	4	4
Depth of credit information index (0-6)	1	1	5	6	1

Doing Business in Selected Francophone West African States Indices — 2006 (continued)					
Economy	*Senegal*	*Mali*	*Côte d'Ivoire*	*Chad*	*Burkina Faso*
Public registry coverage (% of adults)	4.7	2.9	3.5	31.3	2.4
Private bureau coverage (% of adults)	0.0	0.0	51.0	19.3	0.0
Protecting investors (extent of disclosure index (0-10)	4	6	2	8	6
Enforcing contract's (number of procedures)	33	28	21	33	41
Time (days)	780	860	820	480	446
Cost (% of claim)	23.8	45.0	14.1	16.3	95.4
Closing a business (Time in years)	3.0	3.6	9.2	5.6	4.0
Cost (% of estate)	7	18	15	15	9
Recovery rate (cents on the dollar)	31.6	23.7	18.5	20.0	26.4
Source: 'Doing Business 2007: How to reform', World Bank and International Finance Corporation, 2006.					

Appendix E

Investment Incentives

Performance Requirements for Incentives

In order to qualify for investment incentives, small- and medium-sized firms are required to invest at least CFA 5 million ($10,000), employ at least 3 Senegalese nationals full-time, and keep regular accounts in a standard format. Furthermore, a new firm or an existing firm requesting an extension of such incentives must be at least 20% self-financed; whereas 30% self-financing is required for other types of firms. Large firms (those with at least CFA 200 million or $400,000 in equity capital) are required to create at least 50 full-time positions for Senegalese nationals, to contribute hard currency equivalent to at least CFA 100 million (approximately $200,000) and to keep regular accounts in conformity with Senegalese standards. Further, firms must report on company products, production, employment and consumption of raw material.

Under the Investment Code various incentives have been defined to encourage new investments.

Tax Exemptions

Corporations may apply for various categories of priority status and the corresponding tax exemptions. The priority status varies depending on the nature of the project and the level of investments (including free industrial zone facilities).

Conversion and Transfer Policies

There are no restrictions on the transfer or repatriation of capital and income earned, or investments financed with convertible foreign exchange. Although the amount of foreign currency individuals may obtain for trips outside Senegal is limited, commercial transfers are normally carried out rapidly and in full by local banking institutions. The CFA franc, used by Senegal and other zone countries, was devalued in early 1994, but remains pegged to the French franc at the rate of 100 CFA=I FF. Currently, $1=about CFA 500.

Expropriation and Compensation

In recent history, there have been no major expropriations in Senegal. During the period 1973–1975, the government bought out foreign interests, mostly French, in a number of areas, in order to form parastatals. In each case, adequate compensation was paid to the foreign investors affected. This practice was abandoned, and many of the firms involved have since been reprivatised.

Efficient Capital Markets and Portfolio Investment

There is no Senegalese stock market or over-the-counter market in shares; credit to industry is provided exclusively by bank loans or through special lines of credit from bilateral donors or international institutions. Credit is available without discrimination, but the tight monetary policy of the West African Central Bank makes borrowing prohibitively expensive for all but the highest-yielding projects. The current commercial cost of funds is 17–20%, plus a bank operating tax of 2%.

There is no system to encourage and facilitate portfolio investment.

Source: APIX, 2005.

Appendix F
Setting up a Business Enterprise in Senegal

Steps to establishing an office

- The *Guichet Unique* or one-stop-shop at the Ministry of Finance is the first step towards establishing a business in Senegal and qualifying for investment incentives for foreign investors.
- Because of lengthy processes involved, the government of Senegal has announced the imminent creation of an Export Development and Investment Authority in place of the *Guichet Unique*. The Authority's mission will be to promote investment and exports.
- Under the newly-created OHADA initiative to harmonise commercial codes in Francophone Africa, foreign investors also need the assistance of a notary to register and incorporate a company.
- The most common legal forms of incorporation are: as a branch of a foreign company (*succursale*); a limited liability company (*Société à Responsibilité Limitée* — SARL) and a public corporation (*Société Anonyme* — SA).
- Once registered, a branch is regarded as a Senegalese judicial entity.
- All SARLs must have a minimum capital of CFA 1,000,000 (approximately $1,600) and at least one shareholder.
- The minimum capital required to create a public corporation is CFA 10 million (approximately $16,000) and have a minimum of one shareholder.

Source: APIX, 2005.

Appendix G
Tax Structure

Taxes on Corporate Income and Gains

Senegalese companies are taxed on the territoriality principle. As a result, companies carrying on a trade or business outside Senegal are not taxed in Senegal on the related profits. Foreign companies with activities in Senegal are subject to Senegalese corporate tax on Senegalese-source profits only.

In 1994, the corporate income tax rate was 35% and the minimum tax payable was FCFA 500,000 (FCFA 1 million if annual turnover exceeded FCFA 500 million).

Profits realised in Senegal by branches of foreign companies that have not been reinvested in Senegal are deemed to be distributed, and are therefore subject to a 16% witholding tax. This system is subject to treaty modification.

Capital gains are generally taxed at the regular corporate rate. The tax, however, can be deferred under the following conditions:

- if the proceeds are used to acquire new fixed assets in Senegal within three years, or in the event of a merger (or other corporate acquisition); or
- if the business is totally or partially transferred or discontinued, in which case only one-half of the net capital gains are taxed if the event occurs less than five years after the start-up or purchase of the business; whereas only one-third of the gain is taxed if the event occurs five years or more after the business was begun or purchased.
- Capital gains on the sale or transfer of land and buildings are also subject to land tax.

In general, foreign tax credits are not allowed. Income subject to foreign tax which is not exempt from Senegalese tax under the territoriality principle is taxable as net of the foreign tax. However, the tax treaty with France provides a tax credit for French tax paid on dividends.

Taxable income is based on financial statements prepared according to generally-accepted accounting principles and the rules contained in the National General Account Plan promulgated by the Senegalese Government.

Business expenses are generally deductible unless specifically excluded by law. The following expenses are not deductible:

- foreign land office overheads, limited to 20% of Senegalese taxable profits before deductions are made by foreign head office;
- overheads (unless otherwise provided for by tax treaties);
- *interest paid to shareholders in excess of two percentage* points above a standard annual rate set by the Central Bank and the interest on loans in excess of the capital stock amount; and
- certain specific charges over specified limits, taxes, penalties, gifts and most liberalities (payments that do not produce a compensatory benefit, such as excessive remuneration paid to a Director).

In determining accounting profits, companies must establish certain provisions, such as a provision for risk of loss or certain expenses. These provisions are normally deductible for tax purposes if they provide for clearly specified losses or expenses that are likely to occur, on condition that they appear both in the financial statement and in a specific statement in the tax return.

Provision for equipment replacements is also allowed in accordance with the annual legal rate of provision for renewal of equipment and material index (PRMO) issued by the Ministry of Finance.

Land and some intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated. The straight-line method is generally allowed at the usual rates, such as 5% for building and 20% for machinery and equipment. Accelerated decreasing depreciation is allowed in specific cases.

There is no fiscal integration system equivalent to a consolidated filing position in Senegal. Dividends paid are subject to a 16% witholding tax that applies to all investors except for French citizens resident in France (15%).

A parent corporation may exclude up to 95% of the net dividends received from a subsidiary if all of the following apply:

- the parent corporation and the subsidiary are either joint-stock companies or limited liability companies;
- the parent corporation has its registered office in Senegal and is subject to corporate income tax;
- the parent corporation holds at least 20% of the shares of the subsidiary; and
- the shares of the subsidiary have been held by the parent corporation since the formation of the subsidiary or for two years in registered form.

Dividends received from a company that is at least 20% Senegalese-owned are not subject to dividend withholding tax on the second distribution.

Taxation of Individuals

Individuals are subject to income tax (revenues from real estate and properties, movables, commercial and industrial profits etc.).

Other Significant Taxes

Nature of tax	Rate(%)
Internal turnover tax, a value added tax, on goods sold and services rendered.	10 or 20
Business activity tax (patents), based on the business rental value of tangible assets and equipment and the number of employees.	Various
Registration duties on transfers of real property or business.	2 to 15
Land tax on capital gains resulting from the sale or transfer of land and buildings.	15
Payroll taxes paid by the employer for a • Senegalese employee • foreign employee.	 3 6
Social security contributions paid for the regular pension, paid on each employee's gross salary up to FCFA 720 000.	7 to 11
Regular pension tax paid on each employee's gross salary up to FCFA 2,4 million • employer • - employee	 7,2 4,8
Regular pension tax paid on an executive's gross salary up to FCF 7,2 million • employer • employee	 3 2
Source: Asia Africa Investment & Technology Promotions Centre-Senegal Investment Profile, 2005	

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