

## OPERATIONS EVALUATION DEPARTMENT

### APPROACH PAPER

#### SENEGAL: COUNTRY ASSISTANCE EVALUATION

##### Country Background

1. Senegal is a small country of 10 million in West Africa with a national income per capita of US\$470 (Atlas method) in 2002. With a democratic form of government since the 1960s and a successful transition of power after the 2000 presidential election, Senegal is widely regarded as a stable African democracy, despite the long-standing separatist rebellion in the Casamance region. Owing, in part, to this political stability it has received large amounts of foreign assistance, which reached a peak of US\$80 on a per capita basis in 1995. But, until 1994, economic growth was low and erratic. Between 1967 and 1993, per capita income declined at the average rate of 0.4 percent per year and the incidence of poverty rose. This performance reflected both Senegal's mixed record of implementation of economic reform and adjustment strategy in the context of an overvalued exchange rate.

2. As a member of the CFA Franc (CFAF) Zone, Senegal lacked the ability to effect a currency devaluation.<sup>1</sup> To correct economic imbalances, it pursued an adjustment strategy based on internal deflationary measures. In the late 1980s, as adverse terms of trade shocks, combined with the sustained depreciation of non-CFA Sub-Saharan African countries' currencies, led to a high and sustained overvaluation of Senegal's real exchange rate, this strategy proved inadequate for restoring external competitiveness. The resulting contraction of economic activity culminated in a severe recession in 1993.

3. In January 1994, the CFA countries revised the parity of the CFAF from 50 CFAF/FF to 100 CFAF/FF. Accompanied by a comprehensive program of structural reforms, this exchange rate adjustment launched a period of rapid growth for Senegal. Between 1995 and 2003, GDP growth averaged 4.5 percent annually, yielding an increase in per capita income of 2 percent per year. Progress in implementing sound macroeconomic and structural policies enabled Senegal to reach the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in April 2004. The share of the population living in poverty fell from 68 percent in 1994 to 57 percent in 2001, and inequality is relatively low. Despite these positive trends, challenges remain. In particular, rural poverty is high, at 65 percent; primary school enrollment and literacy rates are below the Sub-Saharan Africa (SSA) average; and while health indicators compare favorably with those of SSA, they are higher than the averages for other low-income countries. In 2001, based in part on these outcomes, the United Nations

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<sup>1</sup> Participation in the CFAF Zone meant that Senegal could not adjust the exchange rate without the unanimous agreement of all members and France. The CFAF was tied to the French franc (FF) at the fixed rate of 50 CFAF/1 FF between 1948 and 1994, and from 1994 through 2000, at 100 CFAF/FF. It is currently tied to the Euro at the rate of 656 CFAF/1 Euro.

classified Senegal as one of the world's least developed countries, a change from its former ranking as a low-middle income country.

### **Bank Assistance Program**

4. The Bank's first loan to Senegal was approved in 1967. Since then, and through FY04, there have been 126 lending operations for a total commitment of US\$2.5 billion, consisting of 88 IDA credits, 20 IBRD loans and 18 IFC operations. The last IBRD loan was approved in 1981, after which the country was judged not to be creditworthy for further IBRD lending. Bank lending accelerated in the 1990s, totaling about US\$1.05 billion compared with US\$658 million in the 1980s. Overall, Bank assistance has been a major source of external finance for Senegal, accounting for nearly 50 percent of net multilateral assistance and 18 percent of net official development aid over the period 1998–2002. In 2001, IBRD/IDA loans represented about 43 percent of Senegal's total external public debt outstanding.

5. Since the CFAF devaluation, poverty reduction has been the overriding objective of Bank assistance. The Bank's assistance in pursuit of this objective has been articulated in three country assistance strategies between FY95 and FY03. The main focus of the FY95–97 country assistance strategy was on creating the conditions for rapid and sustainable private sector-led growth; emphasis was also placed on human capital development and access to social services. The FY98–00 country assistance strategy was a continuation of the previous one, with more attention to employment creation, particularly for the youth, and social protection for vulnerable groups. During FY01–02, while Senegal's Poverty Reduction Strategy Paper (PRSP) was under preparation, the Bank's assistance continued to be based on the FY98 country assistance strategy. The FY03–05 country assistance strategy, which derives from the PRSP, placed the focus on growth, human capital development and social services, where progress is expected to help achieve improvements in the living conditions of the poor and vulnerable groups.

### **CAE Scope**

6. The Country Assistance Evaluation (CAE) will assess the Bank's assistance to Senegal since the CFAF devaluation, focusing on the period 1994–2004, when US\$1.20 billion in credit (for 32 operations) were approved. The review of the country assistance strategies suggests that during this period the Bank pursued three main objectives: (i) rapid and sustainable private sector led-growth; (ii) human capital development and increased access to social services; and (iii) social protection for the poor and vulnerable groups. Accordingly, the CAE will focus on the contribution of the Bank's assistance to progress made and the results achieved under these three objectives.

### **Methodology**

7. The CAE will be based on OED background papers, and ongoing work such as a project performance assessment report (PPAR) on four Bank-financed projects in

Senegal,<sup>2</sup> and the evaluations of the Bank's support for public sector capacity building in Africa, community driven development (CDD) and trade reform. The CAE will also draw on completed OED reviews, including the Higher Impact Adjustment Lending (HIAL), Sharing Knowledge, HIPC Initiative, the Poverty Reduction Strategy Initiative, and Extractive Industries evaluations. In addition, the CAE will entail the review of project appraisal and supervision documents, implementation completion reports, economic and sector work (ESW), and relevant data. Interviews will be conducted with Bank staff and management, IMF staff, government officials, donors, and representatives of the private sector and civil society.

8. For each of the three objectives, the CAE will evaluate the relevance of the Bank's strategy, including the balance between lending and non-lending instruments, the efficacy with which the strategy was implemented, and the results achieved. This will be done in two steps. The first is a review of whether the Bank's program achieved a particular objective or planned outcome and had a substantive impact on the country's development. The second step is a review of the Bank's products and services (lending, analytical and advisory services and aid coordination) used to achieve the objective. In addition, an assessment will be made of the relative contribution to the results achieved by the Bank, other donors, the Government, and exogenous factors. In the case of Senegal where donor coordination/partnership is an important issue because of the large size of external aid flows, the mechanisms that have been set up to ensure improved aid coordination will be reviewed and the impact of the latter on the Bank's assistance agenda, its design and implementation will be assessed. Furthermore, as the latest country assistance strategy emphasizes selectivity and country ownership, the principles of selectivity, the extent to which the Bank has observed them and the degree of client ownership will also be evaluated. The CAE will also include an OEG/IFC annex summarizing key commitment data and evaluation of project relative performance.

9. Key evaluation questions that the CAE will address include the following:

*Sustainable private sector-led economic growth*

- A major objective of the Bank's assistance has been to facilitate a supply response from the private sector to generate export-led growth and create employment. What Bank interventions have been aimed at these objectives? Has growth become outward-oriented, driven by private investment, and created jobs in response to the devaluation? Has the macroeconomic framework been conducive to long-term growth, and what has been the Bank's role in fostering a stable environment, including in helping Senegal achieve debt sustainability? Has Bank assistance taken into account lessons learned from past experience in promoting private sector development?

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<sup>2</sup> These projects are: Development Management, Trade Reform and Competitiveness, Industrial Sector Restructuring, and Private Sector Capacity Building.

- Infrastructure development has been a major focus of the Bank's assistance. What progress has been made towards increasing and improving infrastructure services, and what has been the role of the Bank?
- The Government implemented a wide range of reforms in the 1990s to accompany the CFAF devaluation. Trade liberalization was reinforced by the implementation of the Common External Tariff in the West African Economic and Monetary Union (WAEMU) region, which has deepened regional integration and created a larger economic space. What has been the impact of Bank support on regional integration? Has Senegal taken advantage of the regional market?
- Despite the decline in the incidence of poverty, rural poverty remains high. Why have the incomes of the rural population responded so slowly? Has Bank assistance to the rural sector, following the devaluation, been effective in contributing to supply response and diversification in the sector. Has the assistance adequately taken into consideration developments in global markets and specific circumstances in rural areas?

*Human resource development and increased access to social services*

- An important objective of the Bank's assistance has been to expand access to and improve the quality of education and health services. Have Senegal's human development indicators and progress toward the Millennium Development Goals (MDGs) been commensurate with its growth performance? If not, why not, and what has been the Bank's role? Has adequate attention been paid to outcome monitoring? How has the Bank helped in building national capacities?
- What do incidence studies show about the distribution of public spending and social services across income groups? To which extent has Bank assistance addressed any inefficiencies and inequities in the health and education sectors?
- What progress has been made toward improving the living conditions of women and what has been the contribution of the Bank's assistance?

*Social protection for the vulnerable groups*

- To address the needs of vulnerable groups, the Bank supported interventions aimed at improving the nutritional status of children, raising agricultural productivity among small farmers, increasing opportunities for self-employment, expanding access to rural credit, and increasing female literacy. Emphasis was also placed on community development. Has Bank strategy been successful in reducing vulnerability among the poor?

**CAE Outputs and Timetable**

10. The CAE will be issued to CODE during FY05, well before the next country assistance strategy. A CAE mission to Senegal will take place in December 2004. The task manager is Gerard Kambou. Peer reviewers are Yvonne Tsikata (OECD) and Emmanuel Forestier (MNSIF).