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Senegal
Country Assistance Evaluation

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Acronyms and Abbreviations

AAA	Analytical and Advisory Activities
AATR	Autonomous Road Management Agency
AFD	French Development Agency
AfDB	African Development Bank
APIX	National Investment Promotion Agency
APLs	Adaptable Program Loans
BOT	(Build, Operate, Transfer)
BCEAO	Banque centrale des états de l'Afrique de l'ouest
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
CET	Common External Tariff
CFAA	Country Financial and Accountability Assessment
CFA	Communauté financière africaine
CFAF	CFA Franc
CPAR	Country Procurement Assessment Report
CPIA	Country performance and institutional assessment
DSA	Debt sustainability analysis
ECOWAS	Economic Community of West African States
ESAC	Energy Sector Adjustment Credit
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
FF	French franc
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GNI	Gross national income
HIPC	Heavily Indebted Poor Countries
IEG	Independent Evaluation Group
IMF	International Monetary Fund
IPPs	Independent power producers
MDGs	Millennium development goals
MEM	Ministry of Energy and Mines
MTEF	Medium-term expenditure framework
NGOs	Non-governmental organizations
ODA	Official development assistance
OED	Operations Evaluation Department
PEM	Public expenditure management
PER	Public Expenditure Review
PIU	Project Implementation Units
PNIR	National Rural Infrastructure Project
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and social impact analysis
PSOAP	Agriculture Services and Producer Organizations Project
QEFA	Quality Education for All
SENELEC	National Electricity Company of Senegal
SMEs	Small and medium enterprises
SSA	Sub-Saharan Africa
STSP	Second Transport Sector Project
SWAp	Sector-Wide Approach
TFP	Total factor productivity
TRCC	Trade Reform and Competitiveness Credit
WAEMU	West African Economic and Monetary Union
VAT	Value added tax
UNDP	United Nations Development Program

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Preface

This Country Assistance Evaluation (CAE) provides an independent assessment of World Bank program in Senegal from fiscal 1994 through fiscal 2004. The evaluation examines whether: (a) the objectives of Bank support were relevant; (b) the Bank's program was effectively designed and consistent with its objectives; and (c) the Bank's program achieved its objectives and had a substantial impact on the country's development during this period. Examining these questions allows the CAE to draw lessons and recommendations for future Bank support. Annex E describes the methodological approach.

The evaluation is based on analysis in the Independent Evaluation Group (IEG) background papers, sectoral reviews, and project assessments as well as on interviews with senior government officials, representatives of the private sector and civil society, trade unions, NGOs, members of the donor community, staff of project implementation units, and Bank and IMF staff in Washington and in Senegal. A list of those interviewed is in Annex C. An IEG-World Bank mission visited Senegal in November/December 2004. The preliminary findings were discussed with the Country Team in July 2005.

The Management Action Record is attached as Annex D. Comments from the Government have been incorporated in the report. Comments in French and their unofficial English translation are attached as Attachment 1 and 2 respectively.

The report includes a contribution by the Independent Evaluation Group (IEG) of the World Bank's International Finance Corporation (box 1 and Annex B), prepared by Sidney Edelmann and Cherian Samuel.

This CAE was written by Gerard Kambou (Task Manager, IEGCR) with the assistance of Zeynep Taymas (IEGCR) on macroeconomic, private sector, and rural development issues; Mary Oakes Smith (Consultant) on social sectors; and Robert Lacey (Consultant) on decentralization, governance, the environment and infrastructure. This evaluation also benefited from comments of Laurie Effron (IEGCR), and Yvonne Tsikata (IEGCR). Bell Ouelega, Adrian Kats, and Victor Orozco provided research assistance. Silvana Valle and Janice Joshi provided administrative and editorial assistance.

Summary of CAE Ratings, FY94–04

Country Program Objectives	Outcomes of Bank Program Objectives	Ratings for Bank Program Outcomes
Rapid, sustainable economic growth		***Moderately satisfactory***
• Macroeconomic stability	The macroeconomic environment has improved but a strong public expenditure management system is needed to improve the efficiency and transparency of resource use (paras. 3.5–3.8).	Satisfactory
• Private sector development	Important constraints on the investment climate remain (paras. 3.10–3.18).	Moderately Satisfactory
• Infrastructure development	Quantity and quality of water and sanitation and telecommunication services increased. Electricity services remain poor, port of Dakar is still uncompetitive and road maintenance is inadequate (paras. 3.20–3.30).	Moderately Satisfactory
• Agriculture and rural development	Agriculture growth is low and rural development has been modest (paras. 3.32–3.36).	Moderately Satisfactory
Capacity building and development of social services		***Moderately satisfactory***
• Raise access, improve efficiency and effectiveness of education system	Primary school enrollment increased and gender gap narrowed, but progress in improving outcomes has been slow (paras. 3.40–3.42).	Moderately Satisfactory
• Improve access and quality of health services	Access to and utilization of health facilities have not increased to the extent expected (paras. 3.43–3.46).	Moderately Satisfactory
• Improve access to basic infrastructure services	Access to basic infrastructure services has been very limited in rural areas (paras. 3.47–3.51).	Moderately Unsatisfactory
Improving the living conditions of vulnerable groups		***Moderately satisfactory***
• Improve situation of women	Gains in female literacy have been made, but maternal mortality is high and access to basic services limited (paras. 3.56–3.57).	Moderately Satisfactory
• Rural social protection	Micro-projects are addressing the needs of the rural poor but came late in the period (paras. 3.59–3.60).	Moderately Satisfactory
• Strengthened decentralized institutions	Efforts to develop strong local governments have not received consistent support (para. 3.63–3.64).	Moderately Satisfactory
Overall		**Moderately satisfactory**

Summary

1. This report evaluates the World Bank's program in Senegal from fiscal 1994 through fiscal 2004. At the beginning of this period Senegal faced an increasingly difficult economic and social situation. Real GDP growth had averaged 2.2 percent a year between 1985 and 1993, much lower than the annual population growth rate of 2.8 percent; and most of Senegal's social indicators compared unfavorably with those of other low-income countries. In 1994, 68 percent of the population lived below the poverty line; in rural areas, it was 71 percent. A devaluation in January 1994 helped correct a fundamental exchange rate misalignment, boosting exports and investment, and promising a revival of economic growth.

2. Bank lending to Senegal over the period FY94–04 totaled US$1.23 billion. Following the devaluation Bank lending increased sharply and remained high up to FY02. At its peak in FY98–00, Bank commitments averaged US$18.4 per capita, higher than in most comparable countries in the Africa Region. About 50 percent of total Bank lending over FY94–04 was devoted to infrastructure and urban development, and 22 percent to social sectors. Lending was marked by a move toward sector and program investments: in the latter half of this period, almost half of the operations approved were adaptable program loans (APL) with multiple phases. The transition to follow-on phases has been slow, however.

3. A major objective of the Bank's program was to help achieve rapid, sustainable economic growth. Progress under this objective was significant. Between 1994 and 2004 Senegal grew at an average rate of 4.4 percent per year (about 1.7 percent in per capita terms). This was a notable improvement over the period 1990–93 when per capita GDP declined by 1.6 percent a year and faster than the average for Sub-Saharan Africa, especially in the most recent period. But while the rebound in economic growth has been encouraging, its rate is below what is needed for Senegal to achieve the Millennium Development Goal (MDG) of halving the share of the population living below US$1 per day.

4. With Bank support, tax revenue increased and Senegal made progress toward fiscal consolidation. The Bank's program helped to improve the business environment, strengthen the regulatory framework, increase private sector participation in the provision of water and telecommunications services, and promote exports in agriculture.

But the program did not succeed in helping the government to remove critical bottlenecks that continue to discourage private investment. Significant constraints remain on the investment climate; reforms to promote agricultural growth have been partially effective; and attention is only now being focused on rural infrastructure.

5. The second major objective was to help promote capacity building and the development of social services. The Bank's program produced some positive results but progress has been uneven. Gross primary school enrollment increased from 58 percent in 1991 to 80 percent in 2003, and the ratio of girls to boys also almost doubled over this period. However, drop out and repetition rates remain high, and progress in improving efficiency and completion rates has been slow; completion rates, for example, remain below averages for Sub-Saharan Africa. Youth literacy rates also have remained relatively low, although they have improved in recent years. These indicators suggest that, at the current pace, Senegal is unlikely to reach the MDG of universal primary education although it has the potential to achieve the goal of gender parity. The Bank's support helped to build classrooms and increase public awareness about girls' education. But efforts to increase the supply and distribution of textbooks, enhance the quality of teaching, and promote decentralization have been less successful.

6. In health, under-five and infant mortality have been declining at an annual rate of 1.1 and 1.4 percent, respectively, compared with the 4.4 percent annual decline that is needed to achieve the MDG by 2015. The poorest 20 percent of the population continue to experience under-five mortality rates that are double that of the richest 20 percent. While Senegal can halt and begin to reverse the spread of AIDS, faster progress is needed if it is to reach most other health-related MDGs. Bank support designed to help combat endemic diseases such as malaria did not achieve its objectives; and malnutrition remains a serious problem for low-income groups. The Bank's program contributed to the construction and rehabilitation of health centers, but access to and the utilization of health centers have not expanded to the extent expected.

7. Finally, under this second major objective, while the Bank's program helped expand access to water and sanitation and telecommunication services, it was less effective in helping to provide affordable, reliable, and safer public transport services.

8. Bank support toward the third major objective, helping to improve the living conditions of vulnerable groups, also produced some positive results, but overall, outcomes have been less than fully satisfactory. The share of the population living in poverty did decrease by slightly more than 10 percentage points. Much of this decline, how-

ever, was concentrated in urban areas. Poverty reduction has been more modest in rural areas, where the vast majority of the poor live. Analysis by the Bank indicates that the elasticity of poverty reduction with respect to GDP has been moderate. Access of poor communities and vulnerable groups—women and youth—to economic opportunities, basic infrastructure, and services continues to be low. And, though improving, technical and managerial capacity at the local level remains weak. The Bank's program emphasized decentralization of public services, community-driven development, and the use of social funds to allocate investments. But most of its interventions started late in the decade and are only now reaching the end of their initial phases.

9. The overall outcome of the Bank's program during the FY94–04 period is rated *moderately satisfactory*, while the institutional development impact is rated *modest*. The sustainability of the overall program is rated *likely*.

10. Three lessons emerge from this assessment. *First, when the Bank makes a conscientious effort to reach consensus with the government on the approach and pace of reforms it gets better outcomes.* For example, the Bank used a flexible and gradual approach to increasing private provision of water with significant progress in the sector. This contrasts with the lack of progress in the power sector, where the Bank moved ahead in supporting the government's detailed approach to privatization even though the Bank had legitimate concerns about the government's proposed approach. Moreover, these concerns and the risks were not communicated clearly to the Board. Other examples of poor outcomes include the Second Transport and Endemic Disease Projects, in both of which the Bank did not get prior agreement with the government on basic institutional approaches.

11. *Second, donor agreement on major reforms is essential to the success of these reforms.* Where collaboration and cooperation were good, as in the area of municipal development, the Bank was able to achieve better outcomes. On the other hand, lack of cooperation among major donors in the groundnut sector in the 1990s sent conflicting signals to government and may have been an important factor in the lack of progress in the sector. As donors also expressed concerns about limited Bank consultations related to the triggers of the first PRSC, this may diminish the effectiveness of the reforms and reduce synergies around the PRSP process.

12. *Third, an emphasis on infrastructure is insufficient unless there is adequate attention to the linkages between urban and rural areas.* The Bank's support was weighted toward infrastructure (about 40 percent of commitments), particularly urban interventions; there were too few activities to bolster rural infrastructure. The lack of timely analytical

work also inhibited the Bank's ability to focus on key rural interventions and, over the period under review, the decline in poverty rates in rural areas, where the majority of the poor live, was much lower than the decline in urban areas.

13. The Bank will continue to have a key role in helping the government tackle reforms and reduce poverty. Based on the evaluation of its program over the past decade, IEG recommends that the Bank emphasize the following:

- *Provide support for rural development and rural-urban linkages.* This includes more emphasis than in the past on increasing rural access to infrastructure, particularly roads and electricity, and on addressing inefficiencies and inequities in rural access to education and health services. In addition, it implies support for agriculture exports through promoting economic integration within the WAEMU and ECOWAS and improving the environment for private investments.

- *Continue to strengthen capacity and governance at multiple levels.* In addition to providing support to the government at the central level for expenditure management and accountability, increased support is needed at the local level to strengthen the capacity of local governments and local institutions to manage investments and to deliver local services.

- *Enhance donor coordination.* The APLs and sector-wide approaches may provide good platforms for Bank and other donors to continue to work together, but beyond this, the Bank should explore the scope for enhancing multi-donor buy-in on programmatic lending, as has been done in other countries with success (for example, in Uganda). This would involve reaching explicit agreement among participating donors on the scope, approach, and specific timing of reforms supported under Bank lending and, to the extent that the donor community was speaking with a coherent voice, could lead to better progress on those reforms.

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1. Introduction

Senegal's Development Situation Before 1994

Despite Generally Promising Initial Conditions, Economic Growth Has Been Weak and Poverty Endemic

1.1 Senegal is a semi-Sahelian country with a population of just over 10 million. The population grew by an annual average rate of 2.8 percent between 1985 and 1993, and was accompanied by large-scale migration from the countryside to urban areas.[1] The economy consists of traditional agricultural products (millet and groundnut cultivation, nomadic cattle raising), resource processing activities (fishing, phosphates-based chemicals), and a large services sector (trade, transport, and tourism). When Senegal gained independence from France in 1960, conditions looked reasonably favorable for economic development. Dakar was one of the best ports in western Africa, and had a relatively advanced level of physical infrastructure; the country had a well educated elite; and its currency, the CFA franc (CFAF), was stable and convertible against the French franc (FF).[2]

1.2 However, the economy was not able to deliver sustained income gains in the three and a half decades after independence. In the period 1985–93, GDP growth averaged 2.2 percent a year, lower than the population growth rate. The gross national income (GNI) per capita, at US$700 in 1993, placed Senegal near the bottom of lower middle-income countries. Agricultural output was a major determinant of overall economic performance: the sector provided employment to over three-quarters of the workforce and important manufacturing activities, such as oil milling, were agro-based. But agriculture growth has been volatile and it has also been weak: in the 10 years to 1993, agriculture output increased by an annual average of only 1.4 percent. Groundnut remained the dominant agricultural crop, although its share of the economy was in relative decline. The poor performance of the agricultural sector was due to a combination of unfavorable weather conditions, declining world prices of groundnuts, and inadequate government policies.

1.3 At the beginning of the period under review, most of Senegal's social indicators compared unfavorably with the averages for Sub-Saharan Africa (SSA) and were below the levels prevailing in other low-income countries (Table 1). In 1994, UNDP's Human Development Report ranked Senegal 143 out of 173 countries in its human development index and a household budget survey estimated that 68 percent of the population lived below the poverty line. Rural poverty was particularly pronounced—71 percent of the rural population lived below the poverty line, and was concentrated in the center, south, and southeast of the country, an area known as the "Groundnut Basin."

Table 1. Senegal—Social Indicators, 1989–94

	Senegal	Sub-Saharan Africa	Low income
Gross enrollment ratios	58	71	105
Primary (% school age population)			
Male	67	77	112
Female	50	64	98
Mortality			
Infant mortality (per thousand of live births)	64	92	58
Under-five mortality	99	161	101
Immunization			
Measles (% age group)	45.0	51.4	86.2
Diphtheria, Pertussis, Tetanus (DPT)	54.0	53.5	89.1
Child malnutrition (under-five)	20.1	—	38.2
Life expectancy			
Total years	50	52	63
Female advantage	2.0	3.5	2.4
Total fertility rate (births per woman)	5.8	5.9	3.3
Maternal mortality rate (per 100,000 live)	510	—	—

Source: World Bank data.

PRIVATE SECTOR ACTIVITY WAS FRUSTRATED BY A POOR BUSINESS ENVIRONMENT

1.4 In the mid-1980s, growing macroeconomic imbalances induced the government to adopt a series of structural adjustment reforms, supported by the World Bank and IMF. These attempted to reduce the state's role in the economy, but were insufficient to spur private sector-led growth. Price controls and high effective rates of protection remained, along with public sector monopolies in rice imports, the groundnut sector, and infrastructure management. Reforms of public enterprise in agriculture, electricity, water, and transport were only partial. The regulatory and administrative frameworks were cumbersome and legal institutions weak. In addition, the costs of factors of production—electricity, water, and transport—were high, while the formal financial system was weak and lacked depth; and labor market regulations imposed restrictions on hiring and firing of employees. This inhospitable business environment undermined private sector activity and dampened investment. As a share of GDP, private investment averaged 8.5 percent in 1985–93; and foreign direct investment (FDI) inflows averaged 0.3 percent over the same period. There was extensive unemployment and a sizable informal sector.

OFFICIAL DEVELOPMENT ASSISTANCE WAS DECLINING

1.5 Despite uneven economic performance, Senegal was one of the largest recipients of official development assistance (ODA) in West Africa. In the mid-1980s, total net aid receipts averaged US$93 per annum on per capita basis. But at the beginning of the 1990s, reflecting donors' concerns that the high level of foreign assistance may have weakened government commitment to reforms, net aid receipts declined to US$78 per capita, although this was still twice as high as the average for SSA. Meanwhile, Senegal's external debt began to rise, so that by 1993 the total debt represented 64.7 percent of GDP and debt service, 21.5 percent of exports of goods and non-factor services.

A STABLE BUT OVER-VALUED CURRENCY BECAME AN OBSTACLE TO GROWTH

1.6 As a member of the CFA Franc (CFAF) zone, Senegal benefited from monetary stability and low inflation for an extended period. In the mid-1980s, however, the fixed parity with the French franc had become incompatible with the sustained deterioration of the CFA zone's terms of trade and the sharp appreciation of the French franc against the U.S. dollar. As Senegal could not independently undertake a devaluation of the nominal exchange rate, the burden of adjustment fell heavily on expenditure reduction; but this strategy was ineffective in maintaining external competitiveness, and current account deficits were persistent. Public finances deteriorated, capital flight accelerated, and the industrial sector, already weakened by low investment, remained uncompetitive.

The Devaluation of the CFA Franc and the Response of the Economy in 1994

1.7 On January 12, 1994, the CFA zone countries agreed unanimously to change the parity of the CFAF from 1FF = 50CFAF, the prevailing rate since 1948, to 1FF = 100CFAF.[3] The devaluation was followed by a range of measures aimed at improving the incentives for private sector development. By end-1994, the nominal devaluation had sufficiently corrected the real exchange rate overvaluation, and signs of recovery in production began to emerge in phosphates, fish, livestock exports, and other sectors, promising a revival of economic growth (Table 2).

Table 2. Senegal—Selected Economic Indicators, 1985–1994 (period averages)

	1985–93	1994
Real GDP growth (%)	2.2	2.9
GDP growth, per capita (%)	-0.5	0.1
Current account deficit, excl. current official transfers (% of GDP)	-11.4	-9.9
Overall fiscal balance, excluding grants (% of GDP)	-3.1	-6.1
Inflation, consumer prices (annual %)	1.2	32.0
Exports volume growth (%)	-	2.9
Gross domestic investment (% of GDP)	12.6	18.5
Private Investment (% of GDP)	8.5	13.5
External debt (% of GDP)	75.8	100.3
Real effective exchange rate (2000 = 100)	181.4	105.2
Gross domestic savings (% of GDP)	5.9	11.8
Exports of goods and services (% of GDP)	24.8	34.9
Imports of goods an services (% of GDP)	31.5	41.6

Source: World Bank and IMF data.

Development Challenges

1.8 In spite of reforms introduced in the decade leading up to 1994, the beginning of the period under review, Senegal had negative per capita growth, low living standards, and widespread poverty. The root causes of this situation included:

- A poor investment climate, with weak regulatory and legal institutions, high costs, weak formal financial sector, a rigid labor market, and pervasive state involvement.
- Low agricultural productivity growth due to lack of access to technology for arid agriculture, deterioration in soil quality, a secular decline in rainfall, weak extension, and declining public investments in infrastructure.
- Limited access to and poor quality of basic services, with significant gender and regional inequity.
- The growth of a large informal sector; rapid urbanization without corresponding increases in employment prospects and basic services.
- A narrow revenue base and inefficient expenditure policies.

NOTES

1. In 1993, 60 percent of the population lived in rural areas; by 2003, it was 50 percent.

2. Senegal is a member of the West African Economic and Monetary Union (WAEMU), which together with the Central African Economic and Monetary Union and the Comoros form the Communauté Financière Africaine (CFA) franc zone. The other members of WAEMU are Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, and Togo.

3. Since 1999, The CFAF is tied to the Euro at the rate of 656 CFAF/1 Euro.

2. World Bank Strategy and Assistance in Senegal, 1994–2004

Objectives of Bank Assistance

2.1 Since 1994, the overarching goal of Bank support in Senegal has been poverty reduction. This goal has been pursued by supporting the government's efforts in (i) achieving rapid, sustainable economic growth; (ii) human development and increasing access to social services; and (iii) improving the living conditions of vulnerable groups. The Bank's strategy was developed in three country assistance strategies prepared in FY95, FY98, and FY03. For each of the government's main objectives, the country assistance strategies identified intermediate objectives on which the Bank would focus its support.

2.2 The 1995 country assistance strategy, covering the period FY95–97, focused on helping Senegal generate a supply response to the devaluation and restore growth in per capita incomes. It had six foci: private sector-led exports; structural reforms in agriculture, human resource development and access to basic services; provision of adequate infrastructure; environmental protection; and social protection. Given the government's record of weak implementation and reversal of reforms, the country assistance strategy tried to take these factors into account, although progress indicators were sparse.

2.3 The FY98 country assistance strategy, covering the period FY98–00, had seven themes: macroeconomic stability; improved environment for private sector; infrastructure development; environmental management; education and health; population, social protection and gender; and rural development. The country assistance strategy contained indicators to monitor progress toward stated objectives. It continued to guide Bank program during FY01–02, in the absence of an explicit country assistance strategy, while the Bank supported the preparation of Senegal's Poverty Reduction Strategy Paper (PRSP).

2.4 The government first prepared an interim PRSP (endorsed by the Boards of the Bank and the IMF in June 2000), when it achieved the decision point of the enhanced heavily indebted poor countries (HIPC) initiative. The full PRSP was completed in June 2002, and was based on four pillars: (i) wealth creation through economic reform and private sector development; (ii) capacity building and development of social services; (iii) improvements in the living conditions of vulnerable groups; and (iv) implementation of the strategy and monitoring of its outcomes.

2.5 Most people interviewed for this evaluation thought that the preparation of the PRSP was a positive process: the government applied a participatory approach at both national and local levels, involving the public and private sectors, civil society, and development partners. But civil society groups also noted that the government could have sought more participation at the grassroots level and done a better job at communicating with civil society, especially during the elaboration of the interim PRSP.

2.6 The 2003 country assistance strategy, covering the period FY03–05, focused Bank support on the first two pillars of the PRSP and continued to emphasize private sector-based growth and human development. Although more attention than in the past was paid to rural development, the 2003 country assistance strategy did not reflect the priority the PRSP placed on agriculture and rural development.

Relevance of Bank Strategy

THE BANK'S STRATEGY WAS RELEVANT TO SENEGAL'S DEVELOPMENT SITUATION

2.7 The Bank's strategy consistently emphasized creating the conditions for rapid economic growth, which had been erratic in Senegal in the decade before the devaluation. Bank support stressed, in particular, infrastructure reform to improve the quality and reduce the cost of infrastructure services, which was appropriate given the inadequate and poorly performing infrastructure that had been a major constraint to growth. Moreover, the strategy was consistent with the government's efforts to introduce private sector participation and competition in the delivery of infrastructure services.

2.8 By stressing the need for increased investments in education and health, and promoting participation at the local level through decentralization and social funds, the Bank's strategy also recognized that complementary measures to macroeconomic adjustment and trade liberalization were necessary to stimulate rapid growth and enhance the ability of the poor to share in this growth. In this regard, the emphasis placed in recent years on developing the human capital of the poor, improving rural infrastructure, and strengthening rural institutions, such as agriculture producers' organizations, has helped ensure consistency with the PRSP. In sum, the Bank's strategy during FY94–04 was relevant to Senegal's development situation. In addition, in line with international developments, the FY03 country assistance strategy adopted the Millennium Development Goals (MDGs) as a framework for shaping the Bank's program to Senegal and for assessing the impact of its interventions.

BUT THE BANK'S STRATEGY HAD SIGNIFICANT UNDERLYING SHORTCOMINGS

2.9 An explicit assumption of the Bank's strategy has been that urban-based development would spread to rural areas. Limited emphasis was placed, however, on improving rural-urban linkages, especially through the provision of rural roads, electrification and telecommunication. Rural-urban inequities in access to health, education, and water and sanitation services also received too little attention. More generally, the Bank's strategy was not built on a thorough analysis of how to increase the participation of poor rural households in the growth process. Moreover, in the area of trade, Bank support did not, until recently, emphasize the complementary institutional changes needed to enable exporters to take advantage of price liberalization. Finally, although Bank strategy recognized the need to address cross-cutting issues, it was late in addressing issues of governance; in environment, the Bank has not been prominent in policy dialogue, focusing instead on individual operations; and in gender and decentralization, Bank support lacked broader strategies to address key constraints to growth and poverty reduction.

Lending Services

BANK LENDING WAS HIGH AND INCREASED UNTIL FISCAL 2002

2.10 Totaling US$1.23 billion, the lending in FY94–04 was higher than planned (Table 3). During the FY95–97 period the Bank moved to a high case lending scenario even though the triggers were not being met.[1] The FY98 country assistance strategy proposed a higher base case lending program to support the government's reform program; and in FY01–02, when the Bank operated without a new strategy, lending increased sharply. Calling for a consolidation of the portfolio and a transition to programmatic lending to support Senegal's PRSP, the FY03 country assistance strategy proposed a reduced lending program. The lending was back-loaded and lower than planned as several operations have been delayed.

Table 3. Senegal—Lending (Planned versus Actual), FY94–04

	FY94–97		FY98–00		FY01–04		FY94–04	
	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual
Total (US$m)	195	329	560	511	173	391	928	1230
Adjustment (% of all commitments)	10	37	6	20	21	37	10	30
Investment (% of all commitments)	90	63	94	80	79	63	90	70

Source: World Bank internal database, July 2005.

IDA COMMITMENTS TO SENEGAL WERE HIGH RELATIVE TO COMPARABLE COUNTRIES[2]

2.11 The Bank has been a major contributor to the net ODA flows to Senegal in the past decade. Senegal's lending program was one of the fastest growing programs in the Africa Region, especially in the latter part of the 1990s when Bank commitments averaged US$18.4 per capita (Table 4). Senegal's relatively high country performance and institutional assessment (CPIA) scores suggest that the high volume of lending was justified. However, Senegal's external debt ratios worsened following the devaluation. At end-1998, Senegal's public and publicly guaranteed external debt in net present value (NPV) terms represented 305 percent of government revenue, 162 percent of exports, and 51 percent of GDP,[3] requiring debt relief. In June 2000 Senegal became eligible to receive support under the enhanced HIPC Initiative and, in March 2004, reached its completion point.

Table 4. Annual Average per Capita IDA Commitments for Selected African Countries, 1994–2004 (in US$)

	1994–1997	1998–2000	2001–2004
Senegal	9.8	18.4	9.7
Benin [a]	9.5	4.6	3.1
Côte d'Ivoire [a]	22.0	9.6	12.7
Ghana [a]	10.0	7.3	10.4
Mali [a]	9.7	6.3	9.0
Uganda [b]	6.4	7.1	11.4
Zambia [b]	20.8	21.6	7.4

Source: Calculations based on World Bank internal database, September 2005.

Note: a. Countries selected as main comparators based on their population, GDP per capita in PPP terms, and percent of population in urban areas. These countries are used throughout the report.

b. Countries considered heavily assisted by the Bank.

LENDING REFLECTED THE EMPHASIS ON INFRASTRUCTURE

2.12 About 42 percent of total Bank lending over FY94–04 was devoted to infrastructure, especially water, and it was heavily concentrated in urban areas (Table 5). The share of rural development in total commitments declined sharply compared to the previous decade. Lending was marked by a move toward sector and program investments, with an increasing share of adaptable program loans (APL) in total commitments. Almost half of all operations approved during FY98–04 were APLs with multiple phases.[4] However, the transition to follow-on phases has been slow. APLs are concentrated in the social sectors; with only one APL approved in the transport sector. Staff of project implementation units (PIUs) interviewed by IEG noted that the Bank tended to change approaches even with APLs and further noted that they could not identify significant differences between APLs and sector investment loans.

Table 5. Senegal—Sectoral Allocation of IDA Commitments, FY94–04 (percent of total allocations)

Sector Board	FY94–97	FY98–00	FY01–04	FY94–04
Social Sector	22.0	25.6	19.1	22.6
Education	11.9	10.2		7.4
Health, Nutrition and Population	10.1	9.8	11.4	10.4
Social Development		5.6		2.3
Social Protection			7.7	2.4
Infrastructure	36.0	52.9	32.0	41.9
Energy and Mining	3.2	19.6		9.0
Transport	3.1	31.3		13.8
Global Information/Communications Technology		2.0		0.8
Water Supply and Sanitation	30.4		32.0	18.3
Environment	1.6			0.4
Economic Policy	20.8		25.6	13.7
Private Sector Development	3.8		23.3	8.4
Rural Sector	15.1	6.9		6.9
Urban Development		14.7		6.1
Overall Result	100.0	100.0	100.0	100.0
Share of Adjustment Loans	**37.0**	**19.6**	**37.1**	**29.8**

Source: World Bank internal database, September 14, 2005.

2.13 *Assessment of closed projects.* During 1994–2004, IEG reviewed a total of 29 closed Bank-financed projects in Senegal, or US$907 million in commitments (Table 6). About three-quarters of all projects have had satisfactory outcomes. Overall, the portfolio in Senegal has performed better than the Africa region across all dimensions; it also is similar to the Bank-wide average, except for sustainability where Senegal's ratings are significantly lower, as in the rest of Africa.

Table 6. Senegal—IEG Ratings FY94–04

Region	Total Evaluated (US$M)	Total Evaluated (No.)	Outcome % Sat. (US$)	Outcome % Sat. (No.)	Inst Dev Impact % Subst. (US$)	Inst Dev Impact % Subst. (No.)	Sustain-ability % Likely (US$)	Sustain-ability % Likely (No.)
Senegal	907	29	76	76	45	41	52	48
AFR	30,822	846	67	61	31	32	47	42
World Bank	221,189	2,937	78	73	45	42	70	60

Source: World Bank internal database, August 2005.

2.14 *Assessment of ongoing projects.* Only 1 of the 15 active Bank-financed projects, representing 7 percent of the portfolio, is considered at risk (annex table 5a). This is better than the Bank-wide average of 13 percent and the Africa Region average of 21 percent and is an improvement over the past four years. As the 2000 presidential elections and the change of government caused delays in decision-making and resulted in a high turnover of staff in line ministries, the proportion of projects and commitments at risk increased in FY01 and FY02 (annex table 5c); after some improvement in FY03, the riskiness of the portfolio increased again in FY04 as disagreements between the government and the Bank on some policy-reform elements remained.

2.15 The International Finance Corporation's (IFC) strategy and program are assessed in Box 1 and Annex B. Notwithstanding the joint private sector assessment and the Kounoune power project (FY05), none of the country assistance strategies reviewed during this period were joint with the IFC, which would have strengthened collaboration between the two programs.

Box 1. Overview of IFC Operations in Senegal, 1994–2004

IFC's strategy for Senegal has been consistent with that of the World Bank: Over the last ten years, IFC's Senegal strategy and operations supported the World Bank's private sector development (PSD) strategy. IFC opened an office in Senegal in 1997, as part of the Extending IFC's Reach Initiative (FY96-FY00) for proactively expanding business through field offices. IFC invested in small and medium enterprises (SMEs) and, to the extent reforms were implemented and opportunities arose, in larger projects. IFC committed loans, equity, and guarantees for 16 operations – 12 small, two medium and two large – in various sectors. Eight of the 16 operations were for SME investments that were part of the Africa Enterprise Fund (AEF) and Small Enterprise Fund (SEF) programs. In the financial sector, IFC provided three local currency guarantees for micro, small, and medium enterprises. SMEs in Senegal have difficulty securing commercial bank funding without guarantees because they have insufficient collateral, poor quality accounting records, and lack transparency. However, microfinance institutions, supported by various bilateral and multilateral entities, have generally been more successful. IFC approved only two new projects in Senegal from FY01 to FY05, due to the relatively low level of private investment and foreign direct investment (FDI) in the country. IFC also supported thirteen technical assistance (TA) operations that focused on improving the investment climate and on attracting power sector investment. One TA operation helped prepare the Kounoune power project, approved by IFC in April, 2005, while others promoted the reform agenda for PSD.

Performance of IFC's operations is mixed: Of IFC's 16 operations in Senegal during 1994-2004, only four met the criteria for evaluation under the Extended Project Supervision Report (XPSR) random sampling system and one was selected. IEG-IFC, however, reviewed all 16 operations and was able to rate nine projects (the other seven did not have sufficient data). It found that the large projects in the real sector generally performed well, but the SME projects – mostly approved under the AEF and SEF programs – performed poorly both from a development and an investment outcome standpoint. Problems included the projects' inability to deal with competition and declining commodity prices, poor site selection, and corporate governance. As recommended by a 2000 IEG-IFC evaluation of AEF, IFC has phased out its direct SME investments through the AEF/SEF programs. This is part of the overall shift in IFC's SME financing strategy towards using financial intermediaries. IFC offered partial risk guarantees in three Senegal financial sector operations, one each in the leasing, microfinance, and banking sectors. The banking sector operation was cancelled; the leasing operation did not perform well; and there is not enough information to judge the microfinance operation.

Investment climate has improved, but more reforms are needed: Senegal's business climate improved from high-risk to the lower range of medium-risk in 2004, based on Institutional Investor Country Credit Risk (IICCR) scores. However, respondents to a World Bank Group (2004) investment climate survey cited several major constraints to business growth, including inefficiencies in the financial sector, high taxes, corruption, and infrastructure bottlenecks. Businesses also viewed anti-competitive practices as a problem, consistent with the long-standing dominance of most major sectors of the economy by a small number of private and public sector firms with close ties to the Government. This has been the result of special privileges granted by the Government restricting entry and domestic competition. IFC's eight TA operations through the Foreign Investment Advisory Service (FIAS) facilitated the PSD reform agenda. However, a 2003 update found that the Government of Senegal had totally, or partly, implemented only 40 percent of the 34 measures recommended by FIAS. Continuing difficulties in the investment climate, together with the slow progress in privatization, has limited IFC operations in Senegal.

Challenges and Opportunities: Large corporations in Senegal have access to funding at competitive terms as local banks, which are liquid, and foreign financial institutions are willing to fund low-risk clients and projects. IFC's niche in Senegal may be in complex, possibly first-of-a-kind projects that bring together IFC's reputation for lowering risk, its expertise, TA, and possibly WB/IDA program, like the recently approved Kounoune power project. This project—supported with an IDA partial risk guarantee and funding from IFC and others—was preceded by nearly three years of TA. IFC's attempts to support SMEs in Senegal through AEF/SEF programs have been ineffective. IFC could have a stronger role in the SME sector if it is able to provide local currency guarantees and at the same time provide TA for the financial intermediaries to develop appropriate systems and procedures to serve SMEs. The sustainability of the microfinance sector is likely to depend on the availability of follow-on local currency financing after the initial capital and funding of the microfinance institutions is loaned out. IFC could provide this follow-on financing. The growth of IFC operations in Senegal will also depend on the Government's progress in adopting reforms and improving the investment climate. IFC could work with the World Bank and provide TA to facilitate privatization and bring about changes in competition policy to promote new investments in key sectors.

Source: Independent Evaluation Group - IFC.

Economic and Sector Work

2.16 *Formal economic and sector work in the second half of the 1990s was limited.* As in most countries in the Africa region during this period, core diagnostic work was lacking (annex table 4). Only an Assessment of Living Conditions (FY95) was completed; the planned public expenditure reviews (PER) were not delivered. The Bank did carry out analytical work on private sector development issues, including the Private Sector Assessment (FY94), the Challenge of Integration (FY98), and FIAS studies (FY99). In the infrastructure sector, accounting for nearly half of total commitments, only one piece of Bank-led ESW, the Country Framework Report, was completed, and only in FY02 after the bulk of lending had taken place. An internal study which accompanied the FY03 country assistance strategy, summarized the situation well by noting that when a new government came to power in 2000 the Bank was caught in a situation where it had no recent and comprehensive analytical work to engage the authorities in a discussion on long-term development policy issues.

2.17 *At the sector level, since FY97, the Bank has relied extensively on analytical work carried out during preparation of lending operations under the direction of the government.* This approach has helped to focus policy dialogue with the government and provided opportunities to involve local research groups such as the Centre for Research in Applied Economics (CREA). At the same time, however, quality control has been less rigorous than that applied to Bank-led ESW. Furthermore, in part because the studies focused on project objectives, this approach has not provided a platform for consensus building and donor coordination around broader sector issues.

2.18 *Most gaps in core diagnostic work have been addressed, although work on distributional issues and social protection in rural areas could have been addressed more thoroughly and earlier.* Since FY03 a Country Economic Memorandum (CEM), Country Financial and Accountability Assessment (CFAA), Country Procurement Assessment Report (CPAR), and PER have been issued, and a new Poverty Assessment is ongoing. These reports were instrumental in informing the 2003 country assistance strategy. In addition, important thematic studies prepared recently, such as the Diagnostic Trade Integration Study (FY03) and Decentralization and Civic Engagement Study (FY04), are helping to strengthen the analytical basis for policy dialogue and Bank lending. But little poverty and social impact analysis (PSIA) has been carried out. Given the distributional consequences of reforms that the Bank has been promoting, this is a critical omission. More generally, there has been a lack of comprehensive and timely analytical work in rural development and social protection to guide the Bank's strategy to reduce rural poverty.[5] A study of Senegal's pension system was completed in FY03, toward the end of the period under review, while a rural social protection study became available only in FY06. Similarly the study to analyze the distributional impact of reforms in the groundnut sector began late in the period and remains to be completed.

2.19 Government officials and donors interviewed by IEG found Bank-led ESW to be useful, technically sound, and increasingly based on wide consultations and participation. Representatives of civil society held a similar view of ESW that they had been asked to comment on. But dissemination of ESW has not been consistently wide, and the ESW has not always been available in French.

Aid Coordination and Partnership

2.20 More than 50 donor countries and agencies are active in Senegal. In light of the limited effectiveness of aid in the past, government and donors have sought to better coordinate foreign assistance. The government has established several units to coordinate donors' programs, with the Directorate of Economic and Financial Cooperation at the Ministry of Finance as the focal unit. In the late 1990s, the Bank began to help the government organize sector meetings to discuss programs and policies. Sector and thematic working groups were created and joint sector reviews established under the Sector-Wide Approach (SWAp).

2.21 Government officials and civil society groups report an improvement in Bank efforts to build consensus around policy reforms and to ensure national ownership, especially since the beginning of the PRSP process. In contrast to the late 1990s, when there was limited cooperation on important reforms such as in the groundnut sector, the 2003 country assistance strategy is generally perceived to have been prepared through an inclusive, participatory process; and many donors acknowledged the Bank's efforts to develop an understanding of their respective roles and areas of comparative advantage. The increasing shift in responsibility to the country office has been instrumental in helping the Bank engage more effectively in the partnership process.

2.22 But despite notable progress in recent years, problems remain. Interviews with donors revealed that there was a lack of consensus on the triggers in PRSC1, with several donors expressing the view that the Bank should have engaged in more consultation before its presentation to the Board (in December 2004). At the sectoral level, coordination among donors has varied depending on the sector. Donor coordination has been good in the transport sector and in the area of municipal development, but while the move to SWAps has helped improved donor coordination in health and education, the degree of participation varies among donors. Finally, progress toward harmonization of procedures has been slow, and the lack of notable progress remains a major area of concern for the government.

2.23 Owing to weak capacity, the government has been unable to provide leadership to the partnership process. Addressing Senegal's capacity needs will, therefore, be critical to ensuring that foreign aid is absorbed in ways that will improve the lives of the poor. Ongoing partnership efforts built around SWAps and PRSCs are beginning to address these needs. Given that much remains to be done, aid coordination will continue to demand special attention and, in particular, a leadership role of the Bank in mobilizing support to improve government capacity to manage and coordinate aid.

NOTES

1. The triggers for the high case scenario were acceleration of reforms, improved public expenditure management, and high and rising levels of private investment. The triggers were not well specified, stated in broad terms with no specific targets.

2. Since FY82, Senegal has been an IDA-only country.

3. See "Senegal: Decision Point Document under the Enhanced HIPC Initiative," IMF, June 2000.

4. This finding is consistent with the Bank review of adaptable lending, which found that demand for APLs continues to be robust and steady. See "Fourth Review of Adaptable Lending," World Bank, 2005.

5. However, the CEM provides a comprehensive review of key issues in the health and education sectors.

3. Progress in Achieving the Bank's Major Objectives

Objective 1: Rapid, Sustainable Economic Growth

Table 7. GDP Per Capita Growth in WAEMU-Member Countries in 1994–2004 (annual %)

Country	Average
Mali	2.8
Togo	2.2
Benin	2.2
Burkina Faso	1.9
Senegal	**1.7**
Niger	0.1
Cote d'Ivoire	-0.7
Guinea-Bissau	-1.9

Source: World Bank data (2005).

3.1 Between 1994 and 2004 Senegal grew at an average rate of 4.4 percent per annum, or 1.7 percent in per capita terms. This is a notable improvement over the pre-devaluation years when per capita GDP growth was negative; it is also faster than the average for SSA, especially in more recent years. While the rebound in economic growth has been encouraging, its rate has been below that of low-income countries (annex table 2) and many WAEMU countries (Table 7), and far less than what is needed for Senegal to achieve the MDG of halving the share of the population living below US$1 per day.[1] Growth came primarily from construction and public works, commerce, transportation and telecommunication, and manufacturing; the contribution from agriculture was positive but variable due to unstable rainfall. Following the devaluation, the volume of export grew at a rapid rate, averaging 8.5 percent in 1998–2000, but since then more slowly, below 1 percent per year (Table 8).

3.2 The growth recovery since 1994 reflected the combined impact of improved policies, especially macroeconomic, donor aid, and the boost to the competitiveness of formal sector firms from a fall in real wages induced by the devaluation.[2] Real GDP growth, however, has been largely driven by factor accumulation rather than total factor productivity growth, which has remained negative or small.[3]

3.3 The Bank's strategy to help promote economic growth in Senegal emphasized four interrelated objectives: macroeconomic stability, private sector development, infrastructure development, and agriculture and rural development. The bulk of Bank support was devoted to the pursuit of these objectives. The extent to which these objectives were achieved has varied.

Table 8. Senegal—Selected Economic Indicators, 1994–2004 (period averages)

	1994–97	1998–00	2001–04
Real GDP growth (%)	4.1	4.5	4.6
GDP growth, per capita (%)	1.3	1.7	2.2
Current account balance, excl. current official transfers (% of GDP)	-8.4	-7.8	-7.9
Overall fiscal balance (excluding grants)	-3.9	-2.9	-3.8
Inflation, consumer prices (annual %)	11.3	0.9	1.4
Exports volume growth (%)	3.3	8.5	0.9*
Gross domestic investment (% of GDP)	17.3	19.3	20.0
Private Investment (% of GDP)	11.8	12.3	11.5
External debt (% of GDP)	87.7	80.5	72.5*
Real effective exchange rate (2000 = 100)	110.3	105.5	105.4
Gross domestic savings (% of GDP)	11.0	11.4	8.4
Exports of goods and services (% of GDP)	32.0	30.3	29.4
Imports of goods an services (% of GDP)	38.3	38.3	41.0

Source: World Bank and IMF data. * The value is the average for 2001–2003.

MACROECONOMIC STABILITY

3.4 Macroeconomic stabilization measures have been integral to Senegal's economic recovery. Bank support emphasized two areas: (i) internal balance, through improved revenue mobilization and improved expenditure controls and budgetary process; and (ii) external balance, including progress toward external debt sustainability. The Bank supported these areas through adjustment lending, collaboration with the IMF and, to a smaller extent, ESW.[4]

3.5 Senegal made notable progress on fiscal consolidation and inflation. Senegal's fiscal deficits and inflation rates are now among the lowest in the West African Economic and Monetary Union (WAEMU), and compare favorably with SSA averages. Tax revenues have risen from 15.1 percent of GDP in 1994–99 to 17.7 percent in 2000–04, which has helped maintain fiscal deficits at relatively low levels. Senegal also made progress on tracking public spending in the context of the enhanced HIPC initiative, indicated by the increase in the number of benchmarks met in public expenditure management (PEM) reforms from four in 2001 to seven in 2004. Nevertheless, the PEM system needs substantial upgrading in the areas of budget preparation, execution, and reporting; and fiscal discipline could weaken as in 2003/04 when the fiscal deficit increased to 3.3 percent of GDP. Weak private savings have kept gross domestic savings low over the 1994–2004 period. Reflecting these trends, the current account deficit has remained relatively high. As regards external debt sustainability, after delivery of enhanced HIPC assistance, Senegal's debt ratios (to GDP, exports, and revenues) are significantly below sustainability thresholds.[5] But while debt service has declined to 11 percent of the budget in 2004 from 15 percent in 2001, it continues to compete for funding with operating expenses.[6]

3.6 The Bank contributed to these results by providing emergency support in the wake of the devaluation, and by promoting tax reforms and HIPC debt relief. The Economic Recovery Credit helped the government control inflation, and reduce and simplify the value added tax (VAT) to three rates. In FY01, with support from the Trade Reform and Competitiveness Credit (TRCC), the government introduced a unified, broad-based VAT rate of 18 percent (although it allowed a large number of exemptions, which slows efforts to broaden the tax base) and adopted the common regulation on excise taxes in the context of fiscal and tax harmonization within WAEMU; it also created a large taxpayer unit and introduced a single taxpayer identification number system, improving tax administration.

3.7 Bank support had a relatively limited focus on public expenditure management in the second half of the 1990s. The Bank initiated work on a PER in FY97 aimed at improving the execution of public expenditure in the health and education sectors based on medium-term expenditure frameworks (MTEF), but the quality of the PER was low and it remained an internal exercise. Since the PSRP public expenditure management has been at the center of the Bank's programmatic lending. With the recently completed CFAA, CPAR, and PER providing the necessary analytical underpinnings, the Bank has moved in its poverty reduction support credits (PRSC) to support the establishment of a MTEF, financial decentralization, external and independent audits, and strengthen procurement rules and practices, but it is too early to assess the impact of this program.

3.8 Bank support to reduce Senegal's external debt service burden achieved most of its objectives, though with delays. The Bank supported debt buyback operations and reschedulings, in part through analytic work—two debt sustainability analyses (DSA) were carried out (FY98 and FY00). When Senegal reached the decision point under the enhanced HIPC Initiative in June 2000, it was expected to reach the completion point in 2002, which did not happen until 2004. The delay reflected optimistic assumptions not only in the medium-term balance of payments projections and debt sustainability analysis but also about the ability of the government and the Bank to monitor progress under the IDA-financed sector reforms.[7]

PRIVATE SECTOR DEVELOPMENT

3.9 Bank support for private sector development emphasized three themes: (i) improving the investment climate; (ii) increasing private sector participation in economic activity; and (iii) stimulating sector investment. To these ends, the Bank financed five adjustment and investment operations and a number of studies.[8]

3.10 *Improving the investment climate.* Bank support under this theme focused on regulatory reforms, legal and judicial capacity building, removal of administrative barriers, tax reform, and trade facilitation. Senegal's business climate has improved in many respects (box 1). In particular, progress has been achieved in trade facilitation and in streamlining the procedures faced by enterprises. However, significant constraints remain. In the FY04 investment climate survey firms cited the lack of an impartial judiciary and legal system, inefficiencies in the financial sector, high tax rates, corruption and infrastructure bottlenecks as major obstacles to business growth.[9] Furthermore, Senegal's Doing Business indicators (Table 9) show that complex procedures for contract enforcement and rigid regulations in labor markets remain important factors contributing to the cost of doing business in Senegal.

3.11 Bank Group ESW, notably the FIAS studies, contributed to efforts in this area by identifying key constraints to private investment, and in assisting in the preparation of action plans to address them. So far, however, Bank lending has not had a strong impact on the investment climate for several reasons. First, Bank support aimed at improving the regulatory and legal framework produced mixed results. The regulatory framework for water and sanitation was improved; after some delay, an effective regulatory authority was established in the telecommunication sector. Progress was also made in the transport sector. In the electricity sector, however, efforts to establish effective regulatory institutions have been unsuccessful, reflecting the lack of progress in liberalizing the sector (para. 3.24). In the legal sector, reforms to modernize commercial legislation and strengthen the rights of private enterprises were ineffective.

Table 9. Senegal—Comparative Costs of Doing Business in 2005

	Senegal	Côte D'Ivoire	Mali	Benin	Ghana	SSA	OECD
Starting a Business							
No. of procedures	9	11	13	8	12	11	6
Cost (% GNI per capita)	108.7	134.0	190.7	190.8	78.6	215.3	6.5
Minimum capital (% GNI per capita)	260.4	225.2	490.8	323.1	27.9	297.2	28.9
Labor Market							
Difficulty of hiring index[a]	61	44	78	39	11	48.1	29.5
Difficulty of firing index[a]	70	10	60	40	50	47.8	27.3
Contract Enforcement							
No. of procedures	33	25	28	49	23	35	19
Time (days)	485	525	340	570	200	434	232

Source: WB Doing Business (September 2005).

Note: a. Higher values represent more rigid regulations.

3.12 Second, although the Bank recognized the need to deepen financial sector reform, it was not a focus of its support. Jointly with the Fund, the Bank prepared a financial sector assessment paper (FSAP) in 2001, followed by an update in 2005, both of which concluded that, since its restructuring in the early 1990s, Senegal's banking system has steadily strengthened and remained financially sound. But market inefficiencies have remained largely unaddressed. A large spread between deposit and lending rates has helped create excess liquidity, which in turn has given rise to increased funding for short-term credit, especially to large corporations and including public enterprises. Private sector credit, estimated at 21 percent of GDP in 2003, has grown slowly over the past decade, although inadequate access to finance remains a major constraint for small and medium enterprises (SMEs).

3.13 Third, trade reforms have only been partially effective in achieving their objectives. With Bank support the government implemented far-reaching trade liberalization measures that reduced average protection rates, with both tariff rates and non-tariff barriers falling; and the use of information technology has helped reduce customs clearance and processing time. But although Senegal's average tariffs (14 percent) are lower than the SSA average, its maximum tariff rate (42 percent) has been higher than the WAEMU's common external tariff (CET, 20 percent), distorting the system of incentives. Moreover, although complementary institutional measures were implemented, they have not enabled exporters to capitalize on the price changes. However, in 2004, with the support of the Private Sector Adjustment Credit (PSAC) the Government adopted a new corporate income tax law that reduced the marginal effective tax rate (METR) from 45 percent to 28 percent. And with the support of the Private Investment Promotion Project (PIPP) it also adopted a new investment code that ensures consistency with WEAMU CET and VAT codes.

3.14 Finally, there has been little evidence of a marked improvement in governance in Senegal in recent years. In fact, the World Bank Governance Indicators for 1996–2004 suggest that Senegal's ranking on the "control of corruption" measure deteriorated in 2004.[10] Although the importance of good governance for private sector development was stressed early on, Bank support to improve governance assumed greater significance only since the FY03 country assistance strategy. The CFAA is helping to improve transparency in budgetary procedures, the CPAR has provided a framework for new procurement legislation and a new procurement code, and a new BOT (Build, Operate, Transfer) law was adopted. It is too early, however, to tell how effective these instruments will be in the fight against corruption. In November 2003, legislation was passed establishing a national anti-corruption commission, but the commission is unclear about how to carry out its mandate, and has not received sufficient resources from the government to do its job.

3.15 *Facilitating private sector participation and enhancing competitiveness.* The objective of the Bank's program under this theme was to stimulate foreign investment, broaden private sector participation in economic activities, and increase the productivity of the local private sector. In 1994, following the devaluation, private domestic investment rose to 13.5 percent of GDP from an average of 9.4 percent in 1990–93. But since then, the rate of growth of investment has been low and volatile—over 1994-2004 private investment averaged 11.8 percent of GDP, lower than the average of 13 percent for SSA. Similarly, while there has been some increase in FDI in recent years, it remains modest, at 1.2 percent of GDP in 2003, compared with the average of 2.5 percent for SSA.

3.16 Immediately after the devaluation the Bank provided support to enhance the managerial capacity of firms and accelerate implementation of the government's privatization program, with mixed results. A matching grant scheme helped provide business advisory services and training to a range of private enterprises and professional associations. The evidence suggests that these services helped beneficiary enterprises increase sales and create employment, although results were modest relative to the size of the private sector.

3.17 Bank support for privatization achieved some success recently, but unsuccessful attempts at privatization in the energy and groundnut sectors were critical shortcomings. In the early years, there were few buyers of firms offered for sale, in part due to continued price controls and other government interventions that made the offers unattractive, and also because of weak government commitment. With progress in price and trade liberalization, the privatization program advanced. But the long delays, coupled with the unsuccessful attempts at privatization in the key energy and groundnut sectors, limited the contribution of Bank support.

3.18 The Bank has more recently focused on providing support to Senegal's National Investment Promotion Agency (APIX); ensuring that the matching grant scheme is sustainable; promoting capacity building within business associations; and monitoring public enterprises. Implementation of these efforts is ongoing and it is too early to assess outcomes.

INFRASTRUCTURE DEVELOPMENT

3.19 Bank support aimed to help reduce the cost of infrastructure services through greater private sector participation. The second objective in infrastructure, to increase access, is discussed in paras. 3.47–3.51. While progress was good in water, sanitation, and telecommunications, there has been no significant progress in the power sector, and outcomes have been mixed in the transportation sector.

3.20 *Water and sanitation*. Senegal made good progress in increasing the supply of water services. Between 1997 and 2003, the volume of potable water produced for urban areas increased from 96.3 million to 113.8 million cubic meters, substantially reducing the water supply deficit. An improved allocation and regulation of responsibilities was achieved by the unbundling of the water and sewerage utility into three entities.[11] The annual turnover of the sector increased by 8 percent per year between 1996 and 2003. However, over the same period, average tariffs rose by 23 percent, and are high by regional standards. Bank support[12] contributed to progress in the water and sanitation sector by promoting institutional development, and supporting investment to rehabilitate and expand the water supply and sewerage system.

3.21 These accomplishments reflect the benefits of a flexible and country-specific approach. Although the Bank initially supported a different solution (a concession, with the strategic partner responsible for major investments), it agreed to an enhanced lease arrangement, with the private operator allowed to finance certain investments directly from the tariff-generated cash flow.[13] In addition, a financial model was used to assess the level of mixed public/private investment consistent with financial health and with socially acceptable tariff increases. This was effective not only in improving the sector's financial health but also in building political consensus.

3.22 *Telecommunications*. The privatization of the telecommunication sector has also been successful. The country is now endowed with a modern, efficient, and competitive network. The number of fixed-line subscribers has risen, mobile telephone growth has been strong, and the quality of service and coverage and the variety of products have improved. However, an effective regulatory agency was not established until relatively late in the process, in 2001. During this period, SONATEL, the national telephone company, engaged in anti-competitive behavior that constrained the development of services such as leased lines and international gateways; and it did not fulfill its performance contract obligations to extend telephone services into the rural areas, which have remained under-served. In July 2004 SONATEL lost its monopoly over the provision of fixed-line services, and services have become cheaper due to greater competition. Nevertheless, service remains heavily concentrated in Dakar.

3.23 The Bank did not play a major role in the first round of reforms introduced in 1995, although it provided advice and technical support at important stages. The positive results are due in part to the gradual nature of the reform, to the participation of opposition parties, which helped to reduce resistance to the privatization of SONATEL, and to transparency in the bidding processes for the privatization of SONATEL and for the award of contracts and licenses for other telecommunication services. The Bank is now supporting further government reform efforts in the sector, with a focus on helping to establish an appropriate legal and regulatory framework, strengthening the regulatory agency, and promoting rural access.

3.24 *Electricity.* By contrast, the performance of the power sector has been weak. As described in the 2005 project appraisal document (PAD) of the Electricity Sector Efficiency Enhancement Project[14] the sector remains characterized by low coverage, high transmission and distribution costs, and poor quality of service despite high tariffs. Load shedding is frequent, forcing firms to invest in their own generators. Attempts to introduce significant private sector participation have been unsuccessful. Two privatization attempts between 1998 and 2002 failed, and SENELEC (National Electricity Company of Senegal), the main power company, remains 100 percent state-owned. The company's financial situation had improved over the past few years, but the recent government decision to cut electricity prices by 5 percent in spite of rising oil prices may weaken SENELEC's ability to finance investments or to purchase from independent power producers (IPPs). The regulatory authority is not independent and its capacity is in need of greater institutional support, making it relatively ineffective.

3.25 These problems are due to several factors. First, for an extended period, little investment was made to improve the sector's deteriorating infrastructure. In FY97, the Bank financed a regional power project that supported the construction of a hydropower generation station and transmission lines, which helped increase the supply of electricity and lower its long-term cost. But, without additional investments, SENELEC has been unable to keep pace with demand and the overall efficiency and reliability of the power system did not improve significantly.

3.26 Second, a comprehensive reform program, undertaken in 1998 and supported by the Energy Sector Adjustment Credit (ESAC), was characterized by disagreements between the Bank and the government and by unrealistic expectations about the role of a strategic investor. The Ministry of Energy and Mines (MEM) did not agree that at least 51 percent of SENELEC's share capital should be offered for sale to a strategic partner.[15] The government expected that the partner would, in addition to paying up-front for its shares or concession fee, finance all the investment required to rehabilitate existing infrastructure. The authorities refused to take the Bank's advice on a number of occasions and made strategic errors of judgment, such as insisting on a large advance payment and failing to secure an adequate investment plan up-front, which led to the first failed privatization attempt. [16] The second privatization failed in part because of the deterioration that had occurred in the global energy market, but also because of the conditions the government had imposed on the deal. IEG review of relevant documents indicates that although the Bank expressed concerns about these conditions as well as about a series of risk factors that were not adequately mitigated, these concerns and risks were not communicated clearly to the Board.

3.27 It is clear that the gradualist, consensual approach adopted in the water sector was better fitted to Senegalese conditions than the more radical one in electricity. The Bank has learned the lessons of the past and is now adopting a different approach. Two APLs, which will provide needed concessionary financing for urgent investments, are expected to contribute to the unbundling of SENELEC. Both APLs will also support a strengthening of the regulatory agency. The rural electrification APL, approved in FY05, is to focus on the provision of electricity services to rural areas. The second APL, also approved in FY05, aims at the reform of the urban power sector, includes a restructuring and rehabilitation of SENELEC necessary to attract a strategic partner, and provides partial guarantees for two new IPPs.

3.28 *Transport.* The Bank's program in this sector focused on improving road maintenance, developing the port of Dakar into a major trans-shipment hub, and improving the efficiency of transport services. In road maintenance, an autonomous road management agency (AATR) has been set up. The establishment of the AATR brought about a significant improvement in the implementation of the road maintenance program and greater coherence in the management of the road sector. Nevertheless, budgetary allocations for road maintenance are still inadequate and capacity at the AATR is weak. In other subsectors, Air Senegal, the national airline, has been successfully privatized, and the Dakar-Bamako railroad, linking Senegal to Mali, has been concessioned to a private company. But the Port of Dakar is yet to regain its competitiveness although financial, technical and commercial management have improved; trans-shipment traffic has shown little growth since 1998 partly because of congestion and high handling costs of containers.

3.29 The Bank's support consisted mainly of the ongoing Second Transport Sector Project (FY99), which has suffered from lack of agreement with the government on basic policy and institutional changes. In road maintenance, the consensus building efforts for the complex institutional changes were only partially completed when the program got under way, so that the transfer of maintenance responsibilities to the new road agency took longer than anticipated. In addition, major disagreements emerged with the new government elected in 2000 with regard to the role and financing of the Road Fund. These delays, combined with underestimates of unit costs at appraisal, have resulted in a much lower volume of work than originally foreseen.[17] The government has, however, made a special effort to preserve critical repairs of rural access roads.

3.30 The government also decided to fund the expanded container facility through a public bonds issue, rather than through BOT as foreseen in the credit agreement with IDA; as for the Dakar-Bamako Railway, the government preferred a concession, where the strategic partner would be responsible for all major investments, rather than the management contract stipulated in the credit agreement. Finally, the government decided to build a new international airport whereas the credit was to support the management concession of the existing airport. The loan was amended in FY05, with the cancellation of activities relating to the port, civil aviation, and land transport.

AGRICULTURE AND RURAL DEVELOPMENT

3.31 Bank support to Senegal's agriculture and rural sector focused on helping to increase rural incomes through increasing and diversifying output, promoting price and trade liberalization, supporting the privatization of production, and processing and marketing of agricultural products. However, little lending or analytical work was devoted to these objectives.[18]

3.32 Agricultural growth over the past decade has been low and variable, barely keeping pace with population growth; and output diversification has been limited. In that time, Senegal has slowly moved away from government management of the agricultural sector. In 2001, the government liquidated SONAGRAINES, a subsidiary of SONACOS active in the distribution of seeds and fertilizers and the collection of groundnuts. The private sector has not, however, engaged in input supply, commercialization, or marketing. Data on income are scarce but the high incidence of poverty in rural areas suggests that reforms aimed at raising rural farm and off-farm incomes have been ineffective.

3.33 This mixed record can in part be attributed to the underlying constraints on Senegalese agriculture, including climatic factors, but it may also be due to inadequacies in the interventions promoted by the Bank and implemented by the government. First, the price and trade reforms supported by the Bank were only partially successful: they were fully implemented in the rice sector, and helped support increases in producer prices for cotton, but were largely unsuccessful in reducing monopoly pricing practices in the sugar sector.

3.34 Second, reforms supported by the Bank to privatize SONACOS, the state-owned groundnut marketing company, and eliminate taxes on vegetable oil were still not completed by the end of the period under review (Box 2). Two attempts at privatization of SONACOS in 1995 and 1999 failed. Although in each case the government brought SONACOS to the point of sale and rejected bids as unrealistically low, the failed privatization attempts also reflected a difference between the Bank and EU. A new phased strategy after 2001 proved more successful, but also has had some shortcomings. The approach involved the separation and closure of SONAGRAINES. The rapid dissolution of SONAGRAINES has caused dislocations including lack of access of farmers to critical inputs, which may have been mitigated by a more gradual and phased approach. During FY05 the privatization of SONACOS was finally completed. The government also took the measures needed to eliminate the temporary tax on imports (Taxe Conjoncturelle d'Importation) and the surcharge (Taxe Spécifique) on edible oil, although the elimination of the surcharge is yet to become effective; and therefore, the anticipated impact of the full liberalization of the sector is yet to materialize. A major issue that delayed the liberalization of the groundnut sector has been whether the reforms would have adverse distributional consequences for poor farmers. The Bank should have undertaken analytical work on these issues sooner, given the importance of this sector to rural livelihoods (see para. 2.18).

Box 2. The Groundnut Sector: Structure and Reforms

The groundnut share of the Senegalese economy has declined from 7 percent of GDP and 80 percent of exports in 1960 to 2 percent of GDP and 9 percent of exports today. Nevertheless, groundnuts remain an important source of income for the rural population, with some 70 percent of the rural labor force employed in their production, which in turn accounts for 60 percent of these households' agricultural income. Senegal is the world's largest supplier of groundnut oil, but the world market has declined as cheaper vegetable oils are increasingly used as substitutes.

The groundnut sector has been dominated by the state-owned Société Nationale de Commercialisation des Oléagineux du Sénégal (SONACOS), which has about 20–25 percent of the world market share for groundnut oil. SONACOS also has a dominant position in processing imported unrefined vegetable oil for the local market. Its 75 percent market share has been shielded by a combination of tariffs and domestic taxes, which resulted in a protection equivalent to about 30 percent of the price of refined vegetable oil. SONACOS's privatization and the elimination of specific protective taxes are the last major steps needed to fully liberalize the groundnut sector.

Source: IMF country report (2005) and a World Bank report (2005).

3.35 Third, the Bank began to address complementary measures to price and trade liberalization only in the late 1990s, with mixed results. Progress on institution building, export promotion, and research has been good. An export promotion project contributed to the construction of post-harvest processing centers for SMEs and a cold storage facility at the Dakar airport. It also helped Senegal's two main exporter associations to access new markets and to meet the stringent standards of European markets. These efforts helped boost horticulture exports. The Agriculture Services and Producer Organizations Project (PSOAP) is supporting further institutional reforms including, in particular, efforts to build and strengthen agricultural research capacity, develop decentralized extension services, and promote the participation of rural organizations in decision-making and development processes at the local levels.

3.36 Finally, there were too few activities to bolster rural infrastructure and Bank support to the environment has been limited, though somewhat successful. Most of the infrastructure service improvements supported by the Bank over the past decade were heavily concentrated in urban areas. For example, as noted in the PAD for the Electricity Sector Efficiency Enhancement Project, less than 4 percent of the villages are electrified, and in these villages less than 30 percent of the population have access to electricity. Integration within Senegal's rural economy remains constrained by the low quality of the rural road network, limiting opportunities for wage employment and trade. This is not to imply that urban centers are free of infrastructure problems: in the city of Dakar, for example, the volume of traffic has become so dense that mobility is severely reduced during peak traffic hours. However, with a large part of the population still deriving its livelihood from the agriculture sector, improvements in rural infrastructure are critical for raising the sector's output and reducing rural poverty. Over the period under review the Bank contributed to efforts to improve rural infrastructure in part through the national Rural Infrastructure Project (PNIR) which, among others, supported implementation and maintenance of community-based infrastructure including community roads. Implementation of PNIR appears to have been successful, benefiting a number of communities. Though PNIR is highly regarded in the country, it represented a limited response to Senegal's needs for roads within rural areas as well as between rural and urban areas. In environment, the Bank contributed to the preparation of the National Environmental Action Plan (NEAP) through its ESW and supported the drafting of the country's Environmental Law. Through the Sustainable and Participatory Energy Management Project, the Bank contributed successfully to the enhancement of the capacity of local communities to manage the exploitation of their forests in a sustainable manner, supported the creation of a protective zone around a biosphere reserve, and promoted alternative fuels and improved stove efficiency. However, support for environmentally sustainable development in the Senegal River Basin, which covers much of Senegal's agriculture, provided through the Global Environmental Fund (GEF), and Bank support to reverse the loss of biodiversity started late in the period under review and it is too soon to have had a discernable impact.

3.37 *Summary.* Real GDP growth rebounded and was higher than during the previous decade. But, per capita GDP growth in the decade under review is below that of many WAEMU countries. Macroeconomic stability improved with notable progress toward fiscal consolidation underpinned by improved tax revenue performance. But the positive response of investments and exports to the devaluation has not been sustained and a strong private sector-based economic expansion has not been achieved. Total factor productivity was small. Aspects of the business environment have improved, but the investment climate faces many constraints. At the sector level, progress has been most significant in water supply, sanitation, and telecommunications, where services have increased, the regulatory framework has improved, and privatization has been successful. Progress has been modest in the transport sector and less than satisfactory in the energy sector. In agriculture, the liberalization of the groundnut sector is not yet fully implemented. Based on these results, the outcome of the Bank's program in support of the growth objective was moderately satisfactory.

Table 10. Objective 1—Summary Outcome Rating

Objectives	Outcome
Rapid, Sustainable Economic Growth	Moderately satisfactory
• Macroeconomic Stability	• Satisfactory
• Private Sector Development	• Moderately satisfactory
• Infrastructure Development	• Moderately satisfactory
• Agriculture and Rural Development	• Moderately satisfactory

Objective 2: Capacity Building and Development of Social Services

3.38 The second major objective of the Bank's program was to promote capacity building and the development of social services. Bank strategy was to help increase access to services, improve their quality, and enhance gender and regional equity, with a focus on education, health, population and nutrition, and basic infrastructure. In recent years, emphasis has been placed on helping Senegal make progress toward achieving the related MDGs by 2015.

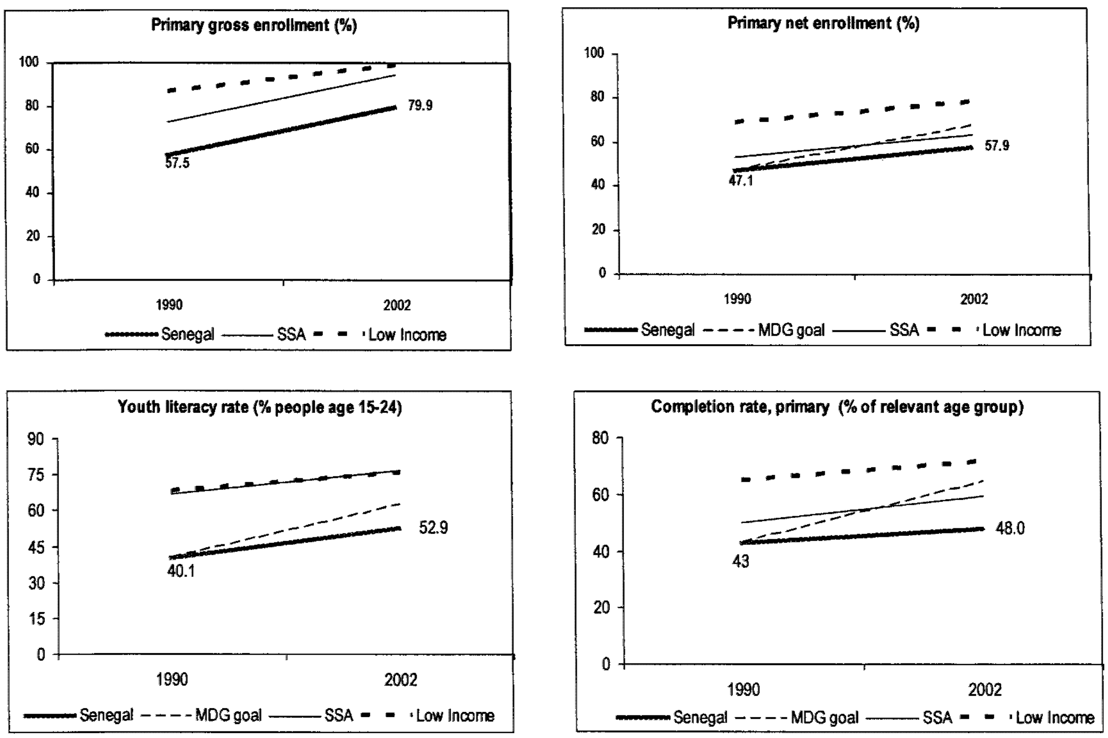
EDUCATION

3.39 The Bank's interventions in education have reflected three major strands: support for technical/vocational skill development, support for primary and secondary education, and policy reform along with targeted support for higher education. Bank support focused on helping Senegal achieve universal primary education and the related MDG of gender parity.

3.40 Progress has been uneven. Gross primary school enrollment increased from 58 percent in 1990/91 to 80 percent in 2002/03, while the average net enrollment increased from 47 percent to 58 percent and the ratio of girls to boys almost doubled. Secondary school enrollment also rose, though at a more moderate rate. However, Senegal continues to lag behind low-income countries and SSA on most access indicators (Figure 1) and is unlikely, at this pace, to reach the MDG of universal primary education by 2015 although it has the potential to achieve gender parity. Significant deficiencies remain in the average level of academic achievement and primary school enrollment rates across all age groups are much lower in rural areas. As the 2006

World Development Report illustrates disparities in years of schooling between rural and urban areas are among the highest in SSA.[19] Furthermore, the productivity of public resources spent on education is low, with high dropout and repetition rates. In 2003/04, primary completion rates were 53 percent for boys and 43 percent for girls, lower than the averages for SSA. Consequently, youth literacy rates have remained low, although they have improved in recent years.

Figure 1. Senegal—Education Sector Performance



Source: World Bank, World Development Indicators, 2005; African Development Indicators, 2005.

3.41 Bank support contributed to the gains Senegal made in education, although with varying degrees of effectiveness. The Second Human Resources Development Project (FY93) supported the construction of classrooms and public awareness campaigns for girls' education, which helped increase primary school enrollment. But it was less effective in enhancing the quality of education, as few students benefited from textbooks and little attention was paid to instructional issues. The Higher Education Project (FY96) aimed to increase efficiency and cost effectiveness in higher education, but its major component, improving the university library, had little bearing on the project development objectives. As noted in the CEM and PER, with only about 2 percent of the student population, higher education continues to receive a disproportionate share of the education budget, at about 24 percent in 2003[20] which limits the availability of resources needed for improvements in primary education and progress toward the MDG. The Pilot Female Literacy Project (FY97) used an innovative community-based approach that became a model for other countries, instructional manuals and books were procured in local languages, and income-generating activities were integrated into the project. The number of beneficiaries largely exceeded project targets; but monitoring and evaluation mechanisms were not well developed and coordination was inadequate, thus limiting the impact of the project.

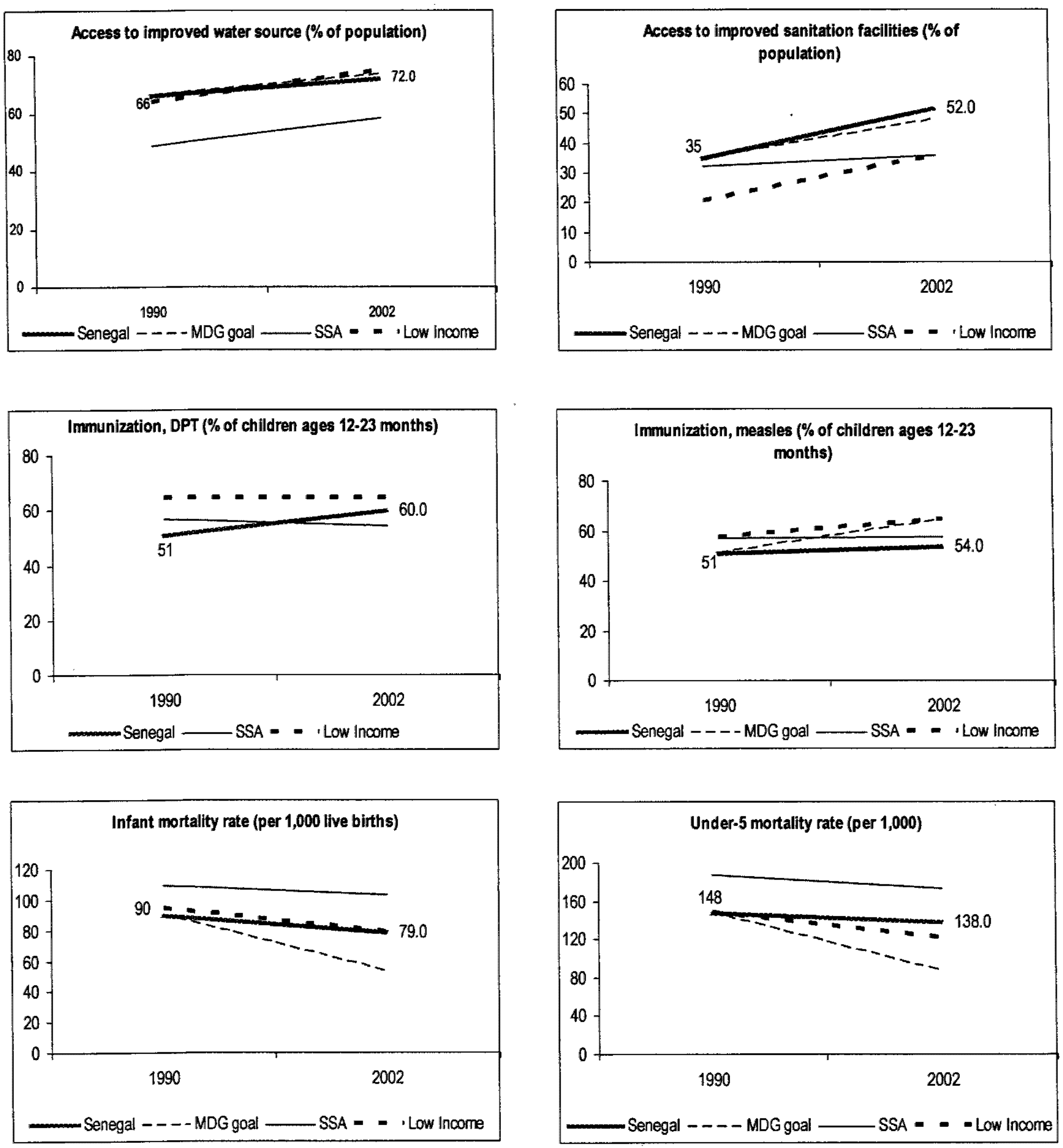
3.42 The Bank moved to a sector-wide approach with the Quality Education for All (QEFA, FY00), but at a time when Senegal was undergoing a major political transformation with a democratic change in government. The new government was initially hesitant about the program it inherited, leading to long implementation delays. QEFA has only now reached the end of its first phase, and it is too early to assess whether it has reached its objectives. In spite of a relatively active lending program in education, only recently, in the FY03 CEM and FY05 PER has the Bank comprehensively analyzed the key issues in the sector.

HEALTH, NUTRITION, AND POPULATION

3.43 Since the 1990s, Senegal's health, nutrition and population indicators, including life expectancy, infant and child mortality, and fertility, have improved. Senegal has also maintained one of the lowest rates of HIV/AIDS prevalence in Africa, estimated at 1 percent of the adult population in 2002, thanks in part to an open and effective government response in the early years of the HIV/AIDS crisis. In recent years, however, many of the positive trends have slowed considerably (Figure 2). Most notably, under-five and infant mortality have been declining at an annual rate of 1.1 and 1.4 percent respectively, significantly less than the 4.4 percent annual decline needed to reach the child and infant mortality MDGs. There are major inequities in access to primary health services between urban and rural areas, and particularly for the poor. Whereas about 80 percent of the urban population lives within 30 minutes of a health facility, only 42 percent of the rural population does. While fertility has fallen to 5 children on average, it is about 4 for a woman in urban areas and 6 for a woman in rural areas. The poorest 20 percent of the population have under-five mortality rates twice those of the richest 20 percent.[21] Malnutrition remains a serious problem among the poorest segments of the population,[22] although the proportion of underweight children and the prevalence of stunting for the country as a whole compare favorably with SSA averages. Government expenditure on health has increased in recent years but remains modest, averaging 1.7 percent of GDP in 2000–03, compared with 1.2 percent in the second half of the 1990s. In its 2003 evaluation of progress toward the MDGs, the UNDP concluded that while Senegal can achieve the HIV/AIDS MDG, it is unlikely at the current rate of progress to reach most other health-related MDGs.[23]

3.44 Bank support included projects aimed at reducing malnutrition and child mortality, improving maternal health, and combating malaria, HIV/AIDS, and other endemic diseases. The Community Nutrition Project (FY95) supported efforts to reverse the deterioration in the nutritional status of vulnerable groups, but the objectives of improving food security and sanitation services in poor rural areas were not achieved. The FY02 Nutrition Enhancement Project addresses similar issues, with a focus on improving the growth of children (under three years) in poor urban and rural areas through a community-based growth and nutrition program.

Figure 2. Senegal—Health Sector Performance



Source: World Bank Database and African Development Indicators, August 2005.

3.45 The Endemic Disease Project (FY97) failed to achieve its objectives. Government ownership was weak, the project was designed in isolation from a health sector program that was being developed, and was at odds with the government's program at the operational level[24]. The HIV/AIDS Prevention and Control Project (FY02) emphasizes a multisector approach but faces the challenge of coordination and implementation, especially at the decentralized level.

3.46 With the Integrated Health Sector Development Project (FY98) the Bank moved to a sector-wide approach to help improve access to health services, but with mixed progress. Bank support contributed to the construction and rehabilitation of health centers, which helped increase the number of functioning primary health care facilities; but access to and utilization of health centers have not expanded to the extent expected, particularly in rural areas. This slow progress reflects in part limited availability of staff, imbalances in their geographic distribution, and lack of access to essential medicines. In addition, public expenditure has favored secondary and tertiary hospitals and urban areas. The Bank promoted the establishment of district health centers as a way to redirect resources to rural areas and primary care, but was not effective in reaching the rural poor owing in part to weak capacity at the local level. As in education, a comprehensive review of issues in the health sector was carried out only in the FY03 CEM and FY05 PER.

ACCESS TO INFRASTRUCTURE SERVICES

3.47 One objective of the Bank's program was to expand access of the population to improved water and sanitation services. Another was to help provide more affordable, reliable, and safe public transportation services and improve the quality of urban mobility in Dakar. Progress has been uneven. In the water subsector, in 2004, 83 percent of the urban population had ready access to clean water, compared with 78 percent in 2000. By contrast, in rural areas the share of the population with access to safe water increased only from 56 to 58 percent, although this compares favorably with the average for SSA. The cost of public and private urban transport, notably for the poor, has not yet been significantly reduced. Much of the fleet is aged; overall traffic management is poor; and the licensing system for minibus and taxi operators does not function adequately. In rural areas, the number of communities with access to all-weather roads remains limited.

3.48 The Bank contributed to efforts in these areas through water supply projects that supported large investments in the sector, including subsidized connections for lower-income consumers in urban areas, but paid limited attention to the rural areas.

3.49 In the transport sector, an Urban Transport Reform Technical Assistance Project (FY97) helped set up an urban transport management authority, the first of its kind in SSA, that provided a comprehensive framework to address urban transport issues. However, the privatization of the public transport company (SOTRAC) was not achieved; and efforts to increase competition in the sector and improve its financing through greater involvement of stakeholders were unsuccessful. The technical assistance project was followed by a large APL in FY00 aimed at improving urban mobility in Dakar with special attention to the urban poor. Implementation of the APL has suffered serious delays.[25] The new government disagreed with the institutional reforms supported by the program and instituted under the technical assistance project. Instead of pursuing the privatization of SOTRAC, it created another bus company in which the state holds 90 percent of the shares. The leasing component [26] also faced major difficulties. First, the minibus operators, part of a sector notorious for its informality, were supposed to pay a monthly lease; in any case, their capacity to pay depends on operating conditions such as traffic density, competition, and the physical conditions of the roads, none of which are good. Finally, there were unresolved problems, such as withdrawing old vehicles from service and establishing an adequate mechanism for technical control of private bus fleets. Since mid-2005 many of these issues have been addressed and the leasing component has moved forward.

3.50 The APL suffered from several weaknesses in the Bank's approach. First, although the Bank endeavored to achieve participatory solutions to the problems, the consultative process missed some key leaders who could have helped secure ownership of the reforms after the 2000 elections. Second, the Bank was overly optimistic in expecting local collectivities and private operators to make voluntary contributions to help finance the urban transport sector in the absence of any tangible or immediate benefits. Similar over-optimism sustained the hope that minibus operators would demonstrate an effective demand for leased new vehicles in the absence of measures to improve profitability, to regulate the sector adequately, and to improve the physical infrastructure.

3.51 Bank support for rural transport consisted of efforts to increase the number of district capitals with access to all-weather roads under the Second Transport Sector Project (STSP, FY99); and to improve community roads under the National Rural Infrastructure Project (PNIR, FY00). As noted (para. 3.29), the STSP has had long implementation delays and cuts in the road maintenance component. With the support of PNIR community roads have been rehabilitated in 17 rural communities (out of 320 communities), but evidence is limited on the ability of these communities to maintain the roads.

3.52 *Summary*: Progress toward the Bank's second set of objectives has been uneven. Progress was most significant in primary school enrollment, including that of girls, but progress in improving outcomes has been slower: completion rates are low, and illiteracy remains high. In addition, there was no progress in reforming higher education. In health, access to and utilization of health facilities remains inadequate, especially among the poor and in rural areas. Access of the urban population to water and sanitation services improved significantly, but the rural population has benefited very little from improvements in infrastructure services. Based on these results, the outcome of Bank support was moderately satisfactory.

Table 11. Objective 2—Summary Outcome Rating

Objectives	Outcome
Capacity Building and Development of Social services	Moderately satisfactory
• Raise access, improve efficiency and effectiveness of education system	• Moderately satisfactory
• Improve access and quality of health services	• Moderately satisfactory
• Improve access to basic infrastructure services	• Moderately unsatisfactory

Objective 3: Improving the Living Conditions of Vulnerable Groups

3.53 The third major objective of the Bank's program was to help improve the living conditions of vulnerable groups. Bank support focused on helping to improve the situation of women, promote rural social protection, and strengthen local institutions. The Bank's strategy emphasized decentralization of public services, community-driven development, and the use of social funds.

3.54 Between 1994 and 2001, Senegal made notable progress in reducing the incidence of poverty, which fell by more than 10 percentage points (Table 12). Nonetheless, as noted in the pro-poor growth study, the growth elasticity of poverty, as measured by the national poverty line, was -0.95, pointing to the need to pay attention to patterns in the incidence of growth[27] (Table 13). As the study shows, led by robust non-agricultural growth in the second half of the 1990s, much of the poverty reduction was in urban areas. In rural areas where the vast majority of the poor live, the decline in the incidence of poverty was less pronounced.[28]

Table 12. Senegal—Incidence of Poverty

	1994–95	2001–02		1994–95	2001–02
Below the poverty line			Geographic distribution		
• Total population	67.9	57.1	• Dakar	56.4	42.0
• Total households	61.4	48.5	• Other urban	70.7	50.1
			• Rural	71.0	65.2
			Inequality		
			• Gini coefficient	32.6	34.2

Source: Senegalese authorities.

Table 13. Growth—Poverty Elasticities

National poverty line-GDP growth elasticity[a]	
Country	**Early 90s to early 2000s**
Vietnam	-1.41
El Salvador	-1.04
Uganda	-1.04
Ghana	-1.19
India	-2.38
Tunisia	-1.79
Bangladesh	-1.56
Senegal	**-0.95**
Brazil	-0.78
Burkina Faso	-2.00
Bolivia	-0.73
Romania	-2.03

a. National poverty lines differ across countries. Figures are based on country case studies.

Source: Pro-Poor Growth in the 1990s: Lessons and Insights from 14 Countries. World Bank. June 2005.

IMPROVING THE SITUATION OF WOMEN

3.55 The main objective of the Bank's program in relation to women has been to help improve their access to assets, education, health and family planning services, and infrastructure services. Bank support included two operations primarily geared toward women.[29] There has been no ESW specifically on gender, although the FY95 Poverty Assessment and other analytical work addressed gender issues.[30]

3.56 Indicators (Table 14) point to gains in literacy, education, and political representation. But while the gains are particularly significant in primary school enrollment, retention of girls in school and their admission to subsequent cycles are low. At 70 percent in 2002, female illiteracy remains very high and compares unfavorably to the SSA average of 42 percent. Maternal mortality, estimated at 510 per 100,000, continues to be high, although it is below the SSA average. Strong disparities remain between urban and rural areas, with women in the rural areas experiencing limited improvements in their conditions.

Table 14. Senegal—Selected Gender Indicators, 1990–2002

		Senegal		Sub-Saharan Africa	
		1990	2002	1990	2002
Fertility rate, total (births per woman)		6.2	4.9	6.1	5.2
Maternal mortality rate (per 100,000 live births)		1200	510[a]	..	870
Life expectancy at birth, (years)	Female	51.7	54.1	51.6	46.6
Life expectancy at birth, (years)	Male	47.5	50.6	48.4	45.1
Illiterate females as share of female pop 15+ (%)	Female	81.4	70.3	59.7	42.4
Illiterate males as share of male pop 15+ (%)	Male	61.8	51.0	40.2	27.5
School enrollment, primary, (% gross)	Female	48.6	76.6	66.1	87.6
School enrollment, primary, (% gross)	Male	66.4	83.1	80.2	101.6
School enrollment, secondary, (% gross)	Female	11.2	15.8	19.9	29.9
School enrollment, secondary, (% gross)	Male	21.3	22.8	24.9	36.2
Ratio of girls to boys in primary and secondary education (%)		68.5	87.1	79.0	83.5
Proportion of seats held by women in national parliament (%)		13.0	17.0	9.4	12.7

Source: WBdatabase, UNDP Human Development Reports and UN Statistics division.
Note: [a] Figure is for 2000.

3.57 The contribution of Bank support has been mixed. Its community-based programs were effective in targeting women and improving their access to nutrition enhancement and literacy programs; and the consistent emphasis on girls' education was instrumental in increasing girl's enrollment in primary school. In health, Bank support helped to expand prenatal coverage and increase the proportion of births attended by skilled health staff. But as in other areas, the benefits of the Bank's program were concentrated in urban areas. Efforts to improve access of women to rural credit and saving are ongoing, but there has been little progress in this area.

RURAL SOCIAL PROTECTION

3.58 The Bank's strategy in social protection evolved from an early focus on safety nets to the current emphasis on reducing rural poverty. Its main objective has been to help increase access of the poorest groups to basic social services, infrastructure, and microfinance.

3.59 Investment in human capital of the rural poor has been modest and, with poor access to roads, electricity, and telecommunications, their participation in the expanding economy has been limited. There is evidence that Senegal's microfinance system has grown in recent years,[31] but microfinance services in rural areas are still limited. Senegal's second PRSP Progress Report for 2004 reported that policies to improve the living conditions of vulnerable groups received limited attention, including with regards to the development of infrastructure benefiting the poorest segments of the population.

3.60 The key operations supported by the Bank in this area are APLs in their initial phases, the Social Development Fund Project and PNIR, both FY00 projects, which are concentrating on construction of schools and health posts in response to the priorities of participating rural communities. The social fund is also supporting the expansion of microfinance services to rural areas; and PNIR is supporting improvements and maintenance of community roads. These projects are supporting activities that are highly relevant to the needs of the poor, and evidence suggests that both are making satisfactory progress toward their development objectives, but they represented a relatively small fraction of the Bank's program.

CAPACITY OF LOCAL INSTITUTIONS

3.61 The focus of Bank support in this area has been on helping to build the capacity of representative local governments and communities to enable them to plan and manage their own development programs and mobilize the necessary resources through increased local revenues and fiscal transfers.

3.62 Senegal's record on decentralization is mixed so far. Some deconcentration, or administrative decentralization, has taken place, although it remains small in scale and weak in implementation. But fiscal decentralization has been far more limited. Fiscal transfers have been well below the level commensurate with the new expenditure assignments despite increases in recent years. And, though improving, technical and managerial capacity at the local level remains weak.

3.63 Most of the Bank's program[32] in this area is ongoing. Progress has been slow and variable. Through the Urban Development and Decentralization (UDD) Project, the Bank helped municipalities carry out a financial and organizational audit and undertake adjustment programs covering staffing and resource mobilization. As a result, many municipalities have learned how to prepare and implement investment programs, and maintain and manage their assets. The project was highly successful, although it created parallel institutional arrangements and financing mechanisms, which bypassed the regular ones for transferring funds to municipalities.

3.64 In rural communities, both PNIR and the social fund are supporting capacity building efforts. The PNIR relies on existing institutions and works within the existing administrative framework for the transfer of funds, thereby reinforcing the decentralization process. The social fund operates in many of the same rural areas as the PNIR and often in the same villages, but relies on nongovernmental agencies. These different approaches to community development are not unique to Senegal; but, as noted in the IEG evaluation of the effectiveness of Bank support for community-driven development, "piloting with different institutional arrangement makes sense if the purpose is to study which would work best before scaling up. But supporting different arrangements side by side over large areas on a long-term basis does not send the right signals to the borrower and neither does it augur well for long-term institutional development."[33]

3.65 *Summary*: Progress toward the objectives of Bank support has been slow and variable. Female illiteracy and maternal mortality remain high despite improvements in recent years, and there has been little progress in raising the incomes of women and increasing their access to credit and saving. Significant progress was made in strengthening the capacity of municipalities and the use of social funds is helping to devolve responsibility and budgetary control to rural communities. But rural poverty remains high, and capacity at the local level is inadequate. The outcome of Bank support for improving the living conditions of vulnerable groups was moderately satisfactory.

Table 15. Objective 3—Summary Outcome Rating

Objectives	Outcome
Improve the Living Conditions of Vulnerable Groups	Moderately satisfactory
• Improve situation of women	• Moderately satisfactory
• Rural Social Protection	• Moderately satisfactory
• Strengthened decentralized Institutions	• Moderately satisfactory

3.66 **Overall Rating**: The overall outcome of the Bank's program in Senegal over the period FY94–04 is rated *moderately satisfactory*. The Bank's strategy was relevant to Senegal's development situation and the program has had some success, most notably in helping to stimulate economic growth. However, outcome has been less than fully satisfactory in most areas, as summarized in Table 16.

Table 16. Overall Outcome Rating

Objectives	Outcome
Overall	Moderately satisfactory
• Rapid, Sustainable Economic Growth	• Moderately satisfactory
• Capacity Building and Development of Social Services	• Moderately satisfactory
• Improving the Living Conditions of Vulnerable Groups	• Moderately satisfactory

Sustainability and Institutional Development Impact

3.67 *Sustainability:* The sustainability of the benefits of Bank support is subject to several risks, the most important of which emanates from the exchange rate. A terms of trade shock, real appreciation of the euro against other currencies, or cumulative inflation in the CFA zone at a rate faster than in the euro zone or other trading partners could make the current rate unsustainable. Maintenance of the fixed exchange rate regime in the face of these trends could lead to another period of economic decline. Senegal is also vulnerable to external factors such as locust invasion and droughts. Finally, capacity at the local level may not improve sufficiently, which would impede the delivery of services to the poor. Most of the benefits of Bank support are considered resilient to these risks. At the macro level, the current fixed exchange rate to the euro puts pressure on all CFA countries to control inflation through fiscal policy and on the BCEAO, the regional central bank, to manage a tight monetary policy. If successful, these policies will continue to stabilize the CFA economies. The government has demonstrated commitment to prudent macroeconomic policies; progress toward fiscal consolidation is likely to continue. The government is also aware of the need to promote agricultural growth and output diversification to lessen Senegal's vulnerability, and has made agriculture and rural development its top priority in the PRSP. However, the political commitment to decentralization expressed through the PRSP has not yet translated into an adequate transfer of resources to the local communities, although Senegal has in place the legal framework for decentralization. On balance, sustainability is rated *likely*.

3.68 *Institutional development impact*: The World Bank Governance Indicators 1996–2004 show that Senegal compares favorably to the SSA average on all dimensions of governance, in particular on the measures of "government effectiveness," "regulatory quality," and the "rule of law." In the past few years, however, Senegal's ranking on these three measures have either declined or stagnated. Only recently has the Bank begun to address, through the PRSCs, the need for strong institutions to ensure improved allocation and efficient use of public resources. In FY02, the Bank launched the Distance Learning Center Project to help enhance the capacity of decision-makers to plan and manage development policies. A well equipped center providing access to high-quality training has been established and the utilization rate of the center has increased. But demand from the public sector has been relatively low and, after two years of operation, the business plan was revised and courses were aimed toward private sector managers rather than senior government staff, compromising the objective of training high-level decision-makers toward improved decision-making. At the sector level, progress was achieved in strengthening institutional capacity in the water, telecommunication, and road sectors, while progress has been slower in the health and education sectors[34] where, since the move to SWAp, the technical aspects of Bank-supported programs have been mainstreamed into the relevant government departments. At the local level, social funds are strengthening local information systems and local participation but the Bank's focus on nongovernmental agencies outside of decentralized institutions is not consistent with the Bank's objective to develop strong local governments. Finally, as in many other countries in SSA, the Bank's reliance on project implementation units has had the effect of draining capacity from line ministries, and distorting incentives. Based on these results, the institutional development impact of the Bank's program during the period 1994–2004 is rated *modest.*

NOTES

1. "Halving severe poverty by 2015 will require annual growth of more than 7 percent." See *Can Africa Claim the 21st Century,* p.2, World Bank, 2000.

2. See "Sources of Growth in Sub-Saharan Africa," IMF Working Paper, WP/04/176.

3. See "Growth and Convergence in WAEMU Countries," IMF Working Paper, WP/04/198.

4. Lending consisted of the Economic Recovery Credit (FY94) and the Trade Reform and Competitiveness Credit (FY01); and ESW of a CEM (FY03) and a PER (FY05).

5. It has been estimated that if the G-8 debt cancellation proposal is implemented, Senegal could benefit from debt reduction of about US$1 billion in NPV terms, which will further improve its debt indicators (IMF, 2005).

6. See "Senegal: Public Expenditure Review," December 2004.

7. One condition for reaching the completion point required Senegal to maintain increases in the rate of child immunization against the most prevalent communicable childhood diseases, which by FY04, had not been implemented and for which a waiver was subsequently provided.

8. These are: Private Sector Adjustment and Competitiveness Credit (FY95), Private Sector Capacity Building Project (FY95), Trade Reform and Competitiveness Credit (FY01), Private Investment Promotion Project (FY03), and Private Sector Adjustment Credit (FY04). In addition to the Challenge of Integration (FY98), Bank ESW included the Diagnostic Trade Integration Study (FY03) and the Investment Climate Survey (FY04). These were complemented by FIAS studies and surveys.

9. Global Monitoring Report. The World Bank, 2005.

10. See *Governance Matters III: Governance Indicators 1996-20004,* World Bank, 2004.

11. These are: La Société Nationale des Eaux du Sénégal (SONES), the state-asset holding company, La Sénégalaise des Eaux (SDE), a private water supply company, linked to the State through SONES by a lease contract and a performance contract; and L'Office National d'Assainissement du Sénégal (ONAS) responsible for the management of the sewage service.

12. Bank support included the closed US$100 million Water Sector Credit (FY95), and the ongoing US$125 million Long Term Water Sector Project (FY01).

13. Credit is also due to Agence Française de Développement, one of the other external partners involved, in bringing successful French experiences with lease contracting (affermage) to bear in the debate.

14. See Project Appraisal Document for an Electricity Sector Efficiency Enhancement Project in Support of Part of the First Phase of the Electricity Sector Efficiency Enhancement Program, World Bank, April 25, 2005.

15. The ministry was concerned about militant opposition to privatization, especially from some of the SENELEC trade unions, which had already acquired a reputation for sabotaging installations in previous conflicts.

16. Senegal's experience was not isolated, however. IEG assessment of the World Bank Group's support for private sector development in the power sector in the 1990s

found few positive outcomes in the Africa Region to report, noting that economic crises and government resistance prevented sustainable power reforms to take hold. See *Power for Development: A Review of the World Bank Group's Experience with Private Participation in the Electricity Sector*, World Bank, International Finance Corporation, and Multilateral Investment Guarantee Agency, 2003.

17. Rehabilitation of main roads has been reduced from a planned 244 km. to 129 km.; repair of existing earth roads from 400 km. to 172 km.; rehabilitation of 313 km. of earth roads has been dropped, as has the construction of 600 km. of new earth roads. In its comments on the draft CAE, the Government noted that the implementation delays were due more to a technical problem rather than to cost under-estimates.

18. These included the Agriculture Sector Adjustment Loan (FY95), the Agriculture Export Promotion Project (FY98), and the Agriculture Services and Producer Organizations Project (FY99).

19. See World Development Report 2006: Equity and Development, Table A4, P.285.

20. See "Senegal: Policies and Strategies for Accelerated Growth and Poverty Reduction: A Country Economic Memorandum," April 2003, World Bank, p.107, and "Senegal: Public Expenditure Review" December 2004, p. 39.

21. See "Senegal: Public Expenditure Review," December 2004.

22. The FY05 PER also reports that underweight prevalence among the poorest 20 percent is twice that of the richest 20 percent, stunting prevalence among the poorest 20 percent has deteriorated to three times the level of the richest 20 percent.

23. See "Suivi des Objectifs du Millénaire au Sénégal," PNUD, 2003.

24 The Government disagreed that the Endemic Disease Project was designed in isolation from the integrated health sector development program (PDIS) but noted that they were weaknesses (i) at the level of coordination between the two projects, and (ii) in the implementation of institutional reforms that were to accompany the two projects.

25. The APL credit took nearly a year to become effective. In the first three years of implementation, only 4.7 percent of the committed amount was disbursed. There has since been some acceleration, but by September 2004, disbursement was still under 10 percent and the project was rated as unsatisfactory.

26. Under this scheme operators receive subsidized credit in return for meeting basic technical, managerial, and operational requirements, and forming themselves into professional associations.

27. See "Pro-Poor Growth in the 1990s: Lessons and Insights from 14 Countries." World Bank, June 2005. Calculations based on Ravallion and Chen (1997) suggest that the growth elasticity of poverty, as measured by the number of individuals below the US$1-a-day international poverty line may be higher. But, these calculations are based on extrapolations between 1991 and 1994.

28. See: "La Pauvreté au Sénégal: de la dévaluation de 1994 à 2001-2002." Version préliminaire, janvier 2004, Banque Mondiale.

29. These are: Pilot Female Literacy Project (FY97) and Social Development Fund Project (FY01). In addition, the Community Nutrition Project (FY95) and ongoing projects in education and health have important gender components.

30. See, for example, "Rural Women in the Sahel and their Access to Agricultural Extension Sector Study," World Bank, June 1995.

31. The 2005 FSAP reports that the microfinance sector in Senegal has experienced strong growth in recent years.

32. This included, in addition to the social fund project and PNIR, the Urban Development and Decentralization Program (FY98), which closed in FY04.

33. See "The Effectiveness of World Bank Support for Community-Based and -Driven Development: An IEG Evaluation," IEG, February 2005.

34. This finding is consistent with findings of the recent IEG evaluation of capacity building in Africa, which found that Bank support for capacity building in both the health and education sectors has been less successful than in roads. See "World Bank Support for Capacity Building in Africa," IEG, March 2005.

4. Contributions

World Bank

4.1 The Bank played a major role in Senegal's economic recovery. Following the devaluation the Bank moved quickly to support efforts to stabilize the economy and helped the government control inflation. The program that followed addressed reforms needed to promote an outward-looking economy with private sector-based exports as the basis for long-term economic growth. Substantive analytical work was undertaken to support this. At the sector level, the Bank's approach in the water supply and sanitation sector was well adapted to Senegal's socio-economic context. Bank support in health and education adopted a sector-wide approach that provided a long-term policy framework, which also helped to enhance the effectiveness of aid in the sectors; and the social fund development programs were directly relevant to the needs of the poor.

4.2 The positive aspects of Bank support were, however, mitigated by shortcomings and setbacks in other areas. The poverty focus of Bank lending came late in the period and there was a strong bias in favor of urban areas. In the education and transport sectors, the Bank launched two large lending operations during an election period rather than wait to establish ownership with the new government. This proved counter-productive, especially in the transport sector, in view of the priorities of the new government. The Bank's unwillingness to consider alternatives in the privatization of the groundnut sector in the 1990s contributed to the limited progress in reforming this sector. Recent changes in the Bank's approach in the groundnut and electricity sectors represent learning and appear to have improved prospects in both sectors. The Bank supported two concurrent projects with similar objectives in community driven-development that used quite different approaches. The lack of coordination of these projects within the Bank and the limited attempt to forge synergies during implementation created confusion within the government. Furthermore, in cross-cutting areas such as environment the Bank has not been prominent in the policy dialogue, preferring to focus on individual operations.

Government

4.3 During 1994–99, the government's commitment to the economic recovery program and subsequent reforms helped to lay the basis for Senegal's economic growth. The government also provided strong leadership for the successful liberalization in the water sector. The government engaged in extensive consultations with civil society in developing its Ninth Economic and Social Development Plan, which provided a basis for the formulation of the FY98 country assistance strategy. Under increased political opening it initiated political reforms including, in particular, launching the legal framework for decentralization, that are providing opportunities for increased participation at the local level. On the other hand, the government was slow to move in critical areas such as the privatization of SENELEC and SONACOS, which failed; and in higher education, which continues to absorb a large share of the education budget.

4.4 The change of government in 2000 created a number of difficulties in the dialogue with the Bank. In the infrastructure sector there were long implementation delays as the new authorities debated policy options and priorities that led to modification or cancellation of project components. This government also launched large infrastructure projects such as the construction of a new airport that had not been included in the 2002 PRSP. In higher education, there were basic policy differences with the Bank; in health, a rapid turnover of ministers; and in decentralization, a lack of government leadership. On the positive side, the new government has demonstrated commitment to maintaining macroeconomic stability although, recently, budgetary discipline and fiscal transparency were breached with large transfer payments to SONACOS and SENELEC; it prepared, in a broad participatory process, the PRSP, and has began to tackle needed structural reforms in the electricity and groundnut sectors while continuing to liberalize the telecommunications sector.

Other Donors

4.5 Senegal benefited from the continued support of other donors. Key bilateral donors were France, Japan, Germany, and USAID, who together accounted for about 62 percent of Senegal's net ODA receipts during the period. France, Senegal's largest donor, has remained influential in the country's economic management with technical assistance in virtually all areas of economic activity. Its development bank arm, the French Development Agency (AFD) Group, supported government efforts in decentralization, education, and competitiveness of the economy. USAID is in the final phase of a 10-year assistance strategy (1998–2007) focusing on health, private sector development, decentralization, and education. In addition to health and education, Japan's assistance also focused on improving access to water and promoting agricultural development; Germany's new assistance strategy emphasizes poverty reduction in rural areas, socio-economic development in the Casamance region, and job creation for urban youth.

4.6 During the period under review Senegal completed two programs supported by the International Monetary Fund's Poverty Reduction and Growth Facility (PRGF) and its predecessor, the Enhanced Structural Adjustment Facility. A PRGF approved in April 2003 is ongoing. Interviews with staff indicate that the division of responsibilities between the IMF and the Bank has worked well, with the Fund taking the lead in the policy dialogue on macroeconomic policies and in monitoring macroeconomic performance. In addition, both PRGFs have included structural conditionality in electricity and groundnut sector reforms, which have a direct bearing on macroeconomic stability and growth as well as on poverty reduction, but with mixed results.[1]

4.7 The European Union (EU), African Development Bank (AfDB) and the United Nations Development Program (UNDP) also maintained their long-standing relations with Senegal. The EU led the dialogue in health and public finance management, and has been active in promoting decentralization and good governance.[2] The EU has also been a major player in the groundnut sector. The AfDB focused on agriculture and rural development, health, education, and private sector development, cooperating with IDA in adjustment lending, but reports low disbursement rates. The UNDP emphasized civil society participation and governance, with much of the support for the newly established anti-corruption commission expected to come from the UNDP.

Exogenous Factors

4.8 During the period under review Senegal had to manage a range of exogenous factors. The political conflict in Côte d'Ivoire resulted in reduced economic activity in the WAEMU region, although it did not lead to widespread political instability in the region as initially feared. A severe drought caused GDP growth to contract sharply in 2001, but in the following year, with the return of rains, agricultural production rebounded leading to a strong growth recovery. In 2004, Senegal experienced locust swarms that affected many rural households with grain losses and caused damage to livestock pastures in some regions. The euro strengthened against the U.S. dollar, but Senegal's real effective exchange rate remained stable, owing to fiscal consolidation efforts and the BCEAO's tight monetary policy. And Senegal's terms of trade have also been broadly stable, following a sharp improvement in 1994. Finally, on December 2004, the government and the main leader of the separatist rebellion movement in the Casamance region signed a peace agreement to end the long-standing conflict in the country. This agreement and the detailed talks that followed on issues such as disarmament and reintegration of ex-combatants generated genuine hope for the return of peace, which could help unleash the region's agricultural potential.

NOTES

1. With regard to the liberalization of the groundnut sector, for example, a recent evaluation of the Senegal's program by the Independent Evaluation Office of the IMF notes that over the years programs have applied various types of conditionality with little lasting effect. See: "Evaluation of the Prolonged Use of IMF Resources, Volume II: Report on the Case Studies," Independent Evaluation Office, IMF, 2002.

2. Despite repeated attempts, the CAE team was unable to discuss with staff of the EU its assistance program and relations with the World Bank.

5. Lessons and Recommendations

Lessons

5.1 Three lessons emerge from this assessment. *First, when the Bank makes a conscientious effort to reach consensus with the government on the approach and pace of reforms it gets better outcomes.* The Bank used a flexible and gradual approach to increasing private provision of water with significant progress in the sector, by contrast with the lack of progress in the power sector, where the Bank moved ahead in supporting the government's detailed approach to privatization, even though the Bank had legitimate concerns about the government's proposed approach. Moreover, these concerns and the risks were not communicated clearly to the Board. Other examples of poor outcomes, where the Bank failed to reach prior agreement with the government on basic institutional approaches, include projects in transport and health.

5.2 *Second, donor agreement on major reforms is essential to the success of those reforms.* Where collaboration and cooperation were good, as in municipal development for example, the Bank was able to achieve better outcomes. On the other hand, lack of cooperation among major donors in the groundnut sector in the 1990s sent conflicting signals to government and may have been an important factor in the lack of progress in the sector. As donors expressed concerns about limited Bank consultations related to the triggers of the first PRSC, this may diminish the effectiveness of the reforms and reduce synergies around the PRSP process.

5.3 *Third, an emphasis on infrastructure is insufficient unless there is adequate attention to the linkages between urban and rural areas.* The Bank's support was weighted toward infrastructure (about 40% of commitments), particularly urban interventions; there were too few activities to bolster rural infrastructure. The lack of analytical work also inhibited the Bank's ability to focus on key rural interventions and, over the period under review, the decline in poverty rates in rural areas, where the majority of poor live, was much lower than the decline in the urban areas.

Recommendations

5.4 The Bank will continue to have a key role in helping the government tackle reforms and reduce poverty. Based on the evaluation of its program over the past decade, IEG recommends that the Bank emphasize the following[1]:

- *Provide support for rural development and rural-urban linkages.* This includes more emphasis than in the past on increasing rural access to infrastructure, particularly roads and electricity, and on addressing inefficiencies and inequities in rural access to education and health services. In addition, it implies support for agricultural exports through promoting economic integration within the WAEMU and ECOWAS and improving the environment for private investments.
- *Continue to strengthen capacity and governance at multiple levels.* In addition to providing support to the government at the central level for expenditure management and accountability, increased support is needed at the local level to strengthen the capacity of local governments and local institutions to manage investments and to deliver local services.
- *Enhance donor coordination.* The APLs and sector-wide approaches may provide good platforms for Bank and other donors to continue to work together, but beyond this, the Bank should explore the scope for enhancing multi-donor buy-in on programmatic lending, as has been done in other countries with some success (for example, in Uganda). This would involve reaching explicit agreement among participating donors on the scope, approach, and specific timing of reforms supported under Bank lending and, to the extent that the donor community was speaking with a coherent voice, could lead to better progress on these reforms.

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1. The Government also formulated some recommendations on the Bank's program in Senegal. It stated that:

(i) The Bank should help Senegal implement its microfinance development policy, especially the regulatory and institutional framework, through a comprehensive national program;

(ii) In the health sector, the Bank could assist in the fight against malaria, which has the highest mortality rate of all diseases in Senegal;

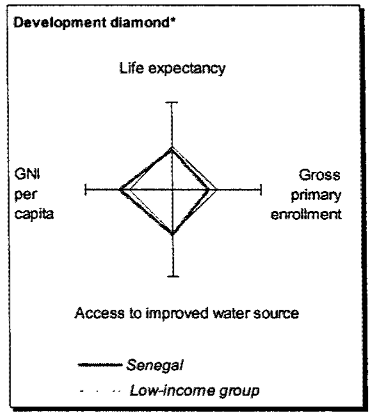
(iii) Bank support could encompass the agricultural sector through support for the development of insurance mechanisms that could help mitigate the impact of terms of trade shocks and natural calamities on farmers' incomes;

(iv) In the future, Bank lending should focus much more on rural areas with a view to helping attenuate problems of population concentration in urban areas.

Annex A. Statistical Tables

Annex Table 1: Senegal at a Glance

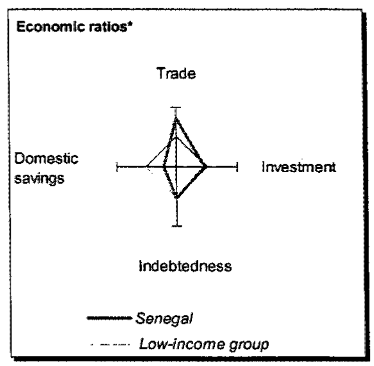
POVERTY and SOCIAL	Senegal	Sub-Saharan Africa	Low-income
2003			
Population, mid-year *(millions)*	10.0	703	2,310
GNI per capita *(Atlas method, US$)*	550	490	450
GNI *(Atlas method, US$ billions)*	5.6	347	1,038
Average annual growth, 1997-03			
Population *(%)*	2.3	2.3	1.9
Labor force *(%)*	2.4	2.4	2.3
Most recent estimate (latest year available, 1997-03)			
Poverty *(% of population below national poverty line)*	57	..	..
Urban population *(% of total population)*	50	36	30
Life expectancy at birth *(years)*	52	46	58
Infant mortality *(per 1,000 live births)*	79	103	82
Child malnutrition *(% of children under 5)*	23	..	44
Access to an improved water source *(% of population)*	78	58	75
Illiteracy *(% of population age 15+)*	61	35	39
Gross primary enrollment *(% of school-age population)*	75	87	92
Male	79	94	99
Female	72	80	85



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

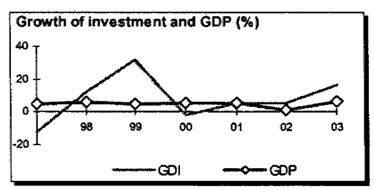
	1983	1993	2002	2003
GDP *(US$ billions)*	2.5	5.4	5.0	6.5
Gross domestic investment/GDP	12.8	13.7	18.5	20.1
Exports of goods and services/GDP	31.7	22.2	30.1	28.4
Gross domestic savings/GDP	-1.9	7.7	8.8	8.0
Gross national savings/GDP	-6.3	4.4	12.6	13.8
Current account balance/GDP	-18.8	-10.6	-5.9	-6.3
Interest payments/GDP	1.7	0.4	1.3	1.0
Total debt/GDP	83.8	69.2	77.5	64.1
Total debt service/exports	11.3	9.1	11.4	9.9
Present value of debt/GDP	..	..	47.9	..
Present value of debt/exports	..	..	125.4	..

	1983-93	1993-03	2002	2003	2003-07
(average annual growth)					
GDP	2.1	4.9	1.1	6.5	5.9
GDP per capita	-0.7	2.3	-1.3	6.0	3.7
Exports of goods and services	1.5	7.2	-1.7	0.5	4.9

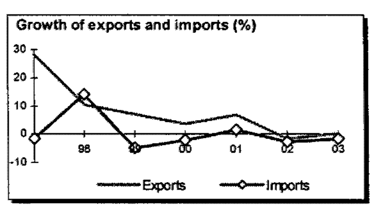


STRUCTURE of the ECONOMY

	1983	1993	2002	2003
(% of GDP)				
Agriculture	21.5	19.0	15.0	16.8
Industry	15.5	19.1	21.6	21.2
Manufacturing	10.6	13.0	13.8	12.8
Services	63.0	61.9	63.4	62.0
Private consumption	83.9	77.5	76.7	77.4
General government consumption	18.0	14.8	14.5	14.6
Imports of goods and services	46.4	28.2	39.8	40.5



	1983-93	1993-03	2002	2003
(average annual growth)				
Agriculture	1.2	2.4	-19.9	19.2
Industry	3.3	6.7	9.5	4.6
Manufacturing	3.3	5.9	10.1	0.3
Services	2.1	5.1	4.8	4.1
Private consumption	1.6	1.2	-0.2	2.7
General government consumption	1.7	7.3	1.2	8.3
Gross domestic investment	4.7	10.0	5.4	16.4
Imports of goods and services	1.0	1.8	-2.6	-1.6



Source: <http://sima.worldbank.org/data/OTables/aag.htm>, March 14, 2005.

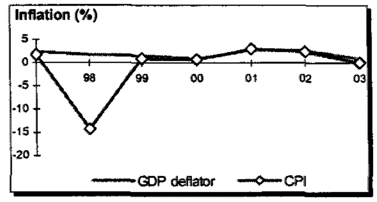
Note: 2003 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

ANNEX A
STATISTICAL TABLES

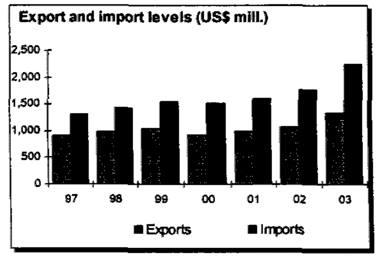
PRICES and GOVERNMENT FINANCE

	1983	1993	2002	2003
Domestic prices				
(% change)				
Consumer prices	11.4	-1.0	2.3	0.0
Implicit GDP deflator	8.9	-1.4	2.7	0.8
Government finance				
(% of GDP, includes current grants)				
Current revenue	18.8	16.8	19.0	19.6
Current budget balance	-4.0	0.2	5.4	5.5
Overall surplus/deficit	-8.1	-4.0	-3.0	-3.0



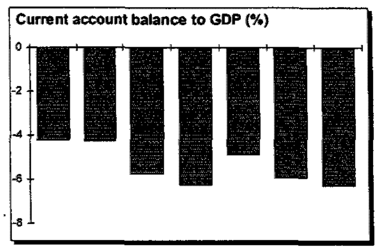
TRADE

	1983	1993	2002	2003
(US$ millions)				
Total exports (fob)	606	719	1,066	1,332
Groundnut products	170	47	69	61
Phosphates	48	43	174	168
Manufactures	160	164	250	304
Total imports (cif)	1,042	1,235	1,775	2,247
Food	265	348	335	410
Fuel and energy	239	124	284	387
Capital goods	164	159	317	325
Export price index *(1995=100)*	62	56	87	87
Import price index *(1995=100)*	53	61	83	83
Terms of trade *(1995=100)*	117	90	104	105



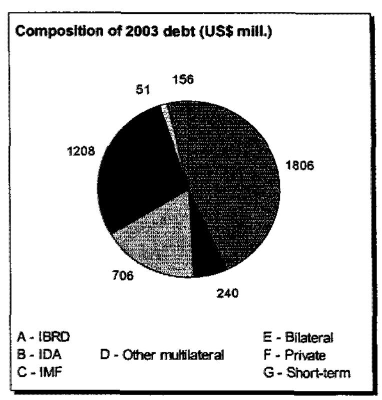
BALANCE of PAYMENTS

	1983	1993	2002	2003
(US$ millions)				
Exports of goods and services	955	1,272	1,518	1,847
Imports of goods and services	1,312	1,674	2,004	2,628
Resource balance	-358	-401	-486	-780
Net income	-103	-191	-184	-92
Net current transfers	-6	15	373	464
Current account balance	-467	-578	-298	-408
Financing items (net)	414	466	368	342
Changes in net reserves	53	112	-70	67
Memo:				
Reserves including gold *(US$ millions)*	23	15	579	689
Conversion rate *(DEC, local/US$)*	381.1	283.2	697.0	580.1



EXTERNAL DEBT and RESOURCE FLOWS

	1983	1993	2002	2003
(US$ millions)				
Total debt outstanding and disbursed	2,078	3,760	3,904	4,167
IBRD	86	52	0	0
IDA	183	918	1,578	1,806
Total debt service	117	127	220	237
IBRD	10	16	0	0
IDA	3	10	16	24
Composition of net resource flows				
Official grants	108	299	190	190
Official creditors	274	101	93	83
Private creditors	58	-6	1	1
Foreign direct investment	-35	-1	93	..
Portfolio equity	0	6	0	0
World Bank program				
Commitments	59	40	45	46
Disbursements	32	46	114	107
Principal repayments	6	15	6	13
Net flows	26	31	108	95
Interest payments	7	11	10	12
Net transfers	19	20	98	83



Annex Table 2: Senegal—Economic and Social Indicators 1994–2004

	Senegal											Senegal	Low Income	Sub-Saharan	Benin	Cote d' Ivoire	Ghana	Mali
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Average 1994-2004						
Health and Sanitation																		
Immunization, DPT (% of children ages 12-23 months)	57.0	80.0	70.0	59.0	50.0	60.0	52.0	52.0	60.0	73.0	..	61.3	61.2	52.0	74.7	57.5	75.0	50.9
Improved water source (% of population with access)	..	..	..	..	..	..	..	..	72.0	..	..	72.0	75.1	58.2	68.0	84.0	79.0	48.0
Improved sanitation facilities (% of population with access)	..	..	..	..	..	..	..	..	52.0	..	..	52.0	35.6	36.0	32.0	40.0	58.0	45.0
Life expectancy at birth, total (years)	..	..	..	52.3	..	..	..	..	52.3	52.3	..	52.3	58.3	46.7	53.0	45.7	56.4	42.0
Mortality rate, infant (per 1,000 live births)	..	84.0	..	..	..	..	80.0	..	..	78.0	..	80.7	79.1	101.0	96.0	114.0	63.3	125.7
Population, total (million)	8.1	8.3	8.5	8.8	9.0	9.3	9.5	9.8	10.0	10.2	10.5	9.3	2,133.4	642.8	6.1	15.4	19.1	10.6
Urban population (% of total)	43.0	43.8	44.5	45.2	46.0	46.7	47.4	48.2	48.9	49.6	50.3	46.7	28.9	33.6	41.5	43.3	42.9	29.6
Population growth (annual %)	2.7	2.7	2.8	2.9	2.9	2.8	2.6	2.5	2.4	2.3	2.1	2.6	2.0	2.4	2.6	2.5	2.2	2.4
Education and Human Capital																		
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..	..	..	..	..	39.3	..	..	39.3	61.0	59.3	33.6	48.1	54.1	19.0
School enrollment, preprimary (% gross)	..	..	..	..	2.9	3.0	3.7	3.3	3.4	..	..	3.3	24.0	..	5.7	3.0	40.5	1.7
School enrollment, primary (% gross)	..	..	..	..	68.6	72.0	74.1	75.3	79.9	..	..	74.0	92.9	86.5	96.0	76.6	79.5	53.7
School enrollment, secondary (% gross)	..	..	..	..	16.7	17.0	17.3	18.7	19.4	..	..	17.8	40.9	26.2	24.1	23.7	37.2	15.9
Growth and Wealth																		
GDP growth (annual %)	2.9	5.2	5.1	3.3	4.5	6.2	3.0	4.7	1.1	6.5	6.2	4.4	5.2	3.5	4.8	1.8	4.4	5.4
GDP per capita growth (annual %)	0.1	2.4	2.3	0.4	1.5	3.3	0.4	2.1	-1.3	4.0	4.0	1.7	3.2	1.0	2.2	-0.7	2.1	2.8
GDP per capita, PPP (current international $)	1,181	1,228	1,255	1,303	1,348	1,407	1,481	1,560	1,592	1,648	1,745	1,432	1,776	1,666	945	1,525	1,881	804
GNI per capita, Atlas method (current US$)	590	550	530	530	510	500	490	480	460	540	670	532	385	514	395	715	347	261
Gross capital formation (% of GDP)	18.5	16.7	18.5	17.8	19.8	20.6	18.5	18.1	18.5	20.1	21.0	18.9	21.7	18.1	18.2	12.0	23.1	23.1
Gross domestic savings (% of GDP)	11.8	11.1	12.2	11.2	13.1	13.5	8.6	8.6	8.8	8.0	10.0	10.6	19.0	17.1	5.0	21.7	8.9	11.6

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	Senegal											Senegal	Low Income	Sub-Saharan	Benin	Cote d' Ivoire	Ghana	Mali
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Average 1994-2004						
Production and Trade																		
Agriculture, value added (% of GDP)	18.8	20.2	20.6	19.8	18.0	18.6	19.4	21.7	15.7	17.6	17.0	18.9	27.9	18.4	36.2	24.5	36.6	43.7
Industry, value added (% of GDP)	21.0	19.8	19.4	20.2	20.4	20.5	20.6	19.3	20.1	19.8	19.7	20.1	26.2	30.1	14.2	21.2	24.6	20.8
Services, etc., value added (% of GDP)	60.2	60.0	59.9	60.0	61.7	60.9	60.1	59.0	64.2	62.6	63.4	61.1	45.9	51.5	49.6	54.3	38.8	35.5
Exports of goods and services (% of GDP)	34.9	34.5	29.5	29.2	30.3	30.8	29.9	30.7	30.6	28.5	27.8	30.6	18.3	30.7	16.1	42.0	36.0	26.0
Imports of goods and services (% of GDP)	41.6	40.1	35.8	35.8	37.0	38.0	39.8	40.4	41.7	41.5	40.5	39.3	21.0	31.7	28.5	32.7	49.9	37.1
Current account balance, excluding current official transfers	-9.9	-8.6	-7.3	-7.7	-7.4	-7.5	-8.5	-6.3	-8.0	-8.6	-8.7	-8.0	..	..	-4.3	-0.6	-4.0	-8.9
Government Finances																		
Total debt service (% of exports of goods and services)	17.1	16.8	19.1	17.4	20.7	14.5	14.3	12.3	11.6	8.7	..	15.3	16.3	12.9	8.3	22.2	20.7	11.8
External debt (% of GDP)	100.3	86.4	79.7	84.4	83.6	79.4	78.5	75.6	77.5	64.3	..	81.0	..	60.5	73.8	125.5	100.8	115.6
Total expend. and net lending (% of GDP)	21.0	19.6	21.0	19.0	20.1	20.9	20.0	22.1	20.8	22.6	23.4	21.0	--	27.0	19.8	20.8	28.9	23.8
Current expenditure, total (% of GDP)	15.8	14.2	13.2	12.4	11.3	12.0	13.2	15.5	13.8	14.2	13.7	13.6	..	..	..	16.7	..	..
Govt. revenue, excluding capital grants (% of GDP)	18.3	18.3	17.4	17.4	17.4	17.5	18.5	18.0	19.2	19.8	19.7	18.3	12.7	23.2	16.2	18.3	21.8	17.0
Overall fiscal balance, excluding all grants (% of GDP):d	-6.1	-3.2	-4.4	-2.0	-3.3	-3.5	-2.0	-4.4	-1.8	-3.5	-5.5	-3.5	..	-4.2	-4.2	-3.0	-9.8	-8.6
Inflation, consumer prices (annual %)	32.0	8.4	2.8	1.8	1.1	0.8	0.7	3.0	2.3	0.0	0.5	4.9	..	..	7.3	6.1	27.1	4.6
Real effective exchange rate (period average index, 2000 = 100)	105.2	114.0	114.8	107.2	109.6	107.0	100.0	101.8	104.7	107.6	107.6	107.2	..	101.6	98.8	104.0	122.1	..
Official exchange rate (LCU per US$, period average)	555.2	499.1	511.6	583.7	590.0	615.7	712.0	733.0	697.0	581.2	528.3	600.6	..	..	600.6	600.6	4,460.8	600.6

Source World Bank internal database (August 2005), except for Real Effective Exchange Rate, provided by the IMF: September 2005.

Annex Table 3: Senegal—Lending Program, Proposed versus Actual, FY95–04

Project name	Proposed FY	Proposed IDA amount	Actual FY	Actual IDA amount
Private sector Adjustment and Competitiveness SECAL	1995		1995	40
Agriculture SECAL	1995	45	1995	50
Water Sector, Water supply and sanitation	1995		1995	100
Community Nutrition I	1995		1995	18
Private Sector Capacity Building	1996		1995	13
Private Agriculture Development and Irrigation	1996		Dropped	
Energy II	1996		Dropped	
Higher Education	1996		1996	27
Pilot Female Literacy	1996		1996	13
Natural resources Management	1996		Dropped	
Economic Management SECAL	1997		Dropped	
Vocational and Professional Education	1997		Dropped	
Endemic Disease	new		1997	15
Sustainable and Participatory Energy Management	new		1997	5
Urban Transport Reform TA	new		1997	7
Regional Power	new		1997	11
Urban IV	1998		Dropped	
Energy Sector Adjustment	1998	100	1998	100
Integrated Health Sector Development	1998	50	1998	50
Agricultural Export Promotion	1998	8	1998	8
Urban Development and Decentralization Program	1998	75	1998	75
Agricultural Services and Producers Organizations Program	1998	47	1999	27
AG. Sector Investment. (APL)	1999	30	Dropped	
Energy Sec. Inv. Pro (APL)	1999	30	Dropped	
Transport II	1999	55	1999	90
Urban Transport II	1999	15	Dropped	
Private Sector Dev.	1999	35	Dropped	
Long Term Water Sector	2000	40	2001	125
Trade Reform Adj.	2000	35	2001	100
Quality Education for All	2000	20	2000	50
Urban Mobility Improvement Program	new		2000	70
National Rural Infrastructure	new		2000	29
Public Service Info-Systems Modernization	new		2000	10
AFTKL: Distance Learning Center- LIL	new		2000	2
Social Development Fund	2000	20	2001	30
Nutrition Enhancement Program	new		2002	15
HIV/AIDS Prevent. & Control	new		2002	30
Private Investment Promotion Project	2003	46	2003	46
Private Sector Adjustment Credit	2004	35	2004	45
Energy Sector Investment Credit	2004	50	2005	
Rural electrification	2004	15	2005	
Casamance Post-conflict Credit	2004	10	2005	20
Coastal and Marine Biodiversity	2004	2	2005	10

Source: World Bank internal database, April 2005.

Annex Table 4: Senegal—Planned Versus Actual Economic and Sector (ESW) FY94–05

Timing	Planned	Actual
FY94-97	• Poverty Assessment (FY95) • Public Expenditure Review (FY95) • Public Investment Review (FY95) • Medium-term Strategy for the Transport Sector (FY97	• Private Sector Assessment • Country Environmental Strategy Paper • Stabilization, Partial Adjustment and Stagnation • An Assessment of Living Conditions (FY95)
FY98-00	• Intensive Support to the Senegalese "Think-thank" in *Finalizing the Rural Sector Strategy* (FY97) • Public Expenditure Review (FY98) • Rural Poverty Alleviation (Food Security) (FY98) • The Fiscal Costs of Trade Reform (FY98) • The Challenge of International Integration (FY98) • Financial Sector Review (FY99) • *Support for Strengthening the Poverty Monitoring System* (FY99) • Social Risks and Women in the City of Dakar (FY99)	• The Challenge of International Integration (FY98) • Financial Sector Review (FY99)
FY01-04	• Country Economic Memorandum (FY03) • Country Financial Accountability Assessment (FY03) • Country Procurement Assessment Review (FY03) • Decentralization and Civic Engagement (FY03) • Water Resources Management (FY03) • Diagnostic Trade Integrated Systems (FY03) • Fisheries Sector (FY04) • Investment Climate Review (FY04) • Rural Social Protection Review (FY04)	• Regional Integration Assistance (FY01) • Country Framework Report (FY02) • Building a secure, sustainable and modern retirement-income systems (FY02) • Country Economic Memorandum (FY03) • Country Financial Accountability Assessment (FY03) • Country Procurement Assessment Review (FY03) • Decentralization and Civic Engagement (FY03) • Diagnostic Trade Integrated Systems (FY03) • Investment Climate Review (FY04) • Managing risks in rural Senegal: A Multi-sectoral Review of Efforts to reduce vulnerability (FY06) • Public Expenditure Review (FY05)

Source: Image Bank, August 2005.

Annex Table 5: Senegal—Rating for Senegal and Comparator Countries)

Annex Table 5a: Senegal-Rating for Active Projects

Region	No. of Projects	Net Comm Amt	No. Act Problem Proj	% Act Problem Project	No. Potential Prob Proj	% Potential Prob Proj	No. Proj At Risk	% At Risk	Comm At Risk	% Commit at Risk
Senegal	15	632	1	7	0	0	1	7	45	7
Benin	6	196	2	33	2	33	4	67	116	59
Ghana	16	1,024	3	19	0	0	3	19	293	29
Cote d Ivoire	0	0	0		0		0		0	
Mali	11	478	3	27	1	9	4	36	112	23
AFR	338	17,152	70	21	26	8	96	28	4,584	27
World Bank	1,355	95,075	170	70	53	20	223	90	12,825	78

Source: World Bank internal database as of September 14, 2005.

Annex Table 5b: Senegal—IEG Ratings FY94-04

	Total Evaluated ($M)	Total Evaluated (No)	Outcome % Sat ($)	Outcome % Sat (No)	Inst Dev Impact % Subst ($)	Inst Dev Impact % Subst (No)	Sustainability % Likely ($)	Sustainability % Likely (No)
Senegal	907	29	76	76	45	41	52	48
Benin	413	26	89	81	41	46	78	70
Cote d'Ivoire	1,757	26	63	54	21	35	62	50
Ghana	2,451	59	63	63	37	36	47	40
Mali	808	27	78	74	29	33	64	58
Africa	31,000	850	69	61	32	32	47	42
World Bank	222,264	2,950	79	73	47	42	69	60

Source: World Bank internal database as of September 14, 2005.

Note: Figures refer to exit fiscal years.

Annex Table 5c: Senegal—Projects by Fiscal Year

Fiscal year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
No. of Proj	12	17	16	14	16	18	20	21	21	18	14	15
Net Comm Amt	389	608	544	378	561	678	718	948	851	777	687	632
No. Prob Proj	4	1	3	1	1	2	0	4	6	1	3	1
# Proj At Risk	7	5	8	1	1	2	0	4	6	2	3	1
% At Risk	58	29	50	7	6	11	0	19	29	11	21	7
Comm At Risk	262	206	403	16	27	41	0	181	274	160	210	45
% Commit at Risk	67	34	74	4	5	6	0	19	32	21	31	7

Source: World Bank internal database as of September 14, 2005.

Annex Table 6: Senegal—Closed and Active Projects since FY94

Proj ID	Project Name	Approval FY	Latest DO	Latest IP	Latest Risk Rating	Proj Status	Date, Rev Closng	Sector Board	IBRD/IDA Amt	IEG Outcome	IEG Sustainability	IEG ID Impact
P002366	Transport SIL LI	1999	S	S	..	Active	30/06/2006	Transport	90.0			
P002367	Agr. Services & Prod. Orgs	1999	S	S	M	Active	31/12/2005	Rural Sector	27.4			
P002369	Integrated Health Sector Development	1998	S	S	M	Active	30/06/2005	Health, Nutrition and Population	50.0			
P041528	Long Term Water Sector	2001	S	S	M	Active	31/12/2007	Water Supply and Sanitation	125.0			
P041566	Social Development Fund	2001	S	S	..	Active	31/12/2006	Social Protection	30.0			
P047319	Quality Education For All	2000	S	S	M	Active	31/12/2005	Education	50.0			
P051609	Private Investment Promotion	2003	S	S	M	Active	31/12/2008	Private Sector Development	46.0			
P055472	Urban Mobility Improvement Program	2000	U	S	S	Active	31/12/2007	Transport	70.0			
P057996	National Rural Infrastructure	2000	S	S	..	Active	31/12/2005	Social Development	28.5			
P069207	Casamance Emergency Reconstruction Su	2005	S	S	S	Active	31/05/2008	Rural Sector	20.0			
P070541	Nut Enhancement Program	2002	S	S	M	Active	15/07/2006	Health, Nutrition and Population	14.7			
P074059	HIV/Aids Prevention And Control	2002	S	U	M	Active	30/09/2007	Health, Nutrition and Population	30.0			
P080013	Private Sector Adjustment Credit	2004	S	S	M	Active	31/12/2005	Private Sector Development	45.0			
P085708	Rural Electric Service	2005	..	..	..	Active	30/06/2009	Energy and Mining	29.9			
P086480	Girmac SIL	2005	S	S	S	Active	01/06/2010	Rural Sector	10.0			
P074065	PRSC 1	2005	..	..	..	Closed	31/12/2005	Economic Policy	30.0			
P046768	Sust. Part. Engy. Mgmt.	1997	HS	S	M	Closed	31/12/2004	Environment	5.2			
P002365	Urban Development And Decentralization	1998	S	S	M	Closed	31/12/2004	Urban Development	75.0	Highly Satisfactory	Likely	High
P046648	Regional Power	1997	S	S	M	Closed	30/06/2003	Energy and Mining	10.5	Satisfactory	Likely	Substantial
P067498	Public Serv. Info-Systems Modernization	2000	S	S	S	Closed	30/06/2004	Global Information/ Communic. Tec.	10.2	Moderately Satisfactory	Non-Evaluable	Modest

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Proj ID	Project Name	Approval FY	Latest DO	Latest IP	Latest Risk Rating	Proj Stat	Date, Rev Closng	Sector Board	IBRD/IDA Amt	IEG Outcome	IEG Sustainability	IEG ID Impact
P069198	Aftkl: Distance Learning Center - LIL	2000	S	S	M	Closed	30/04/2004	Education	2.1	Satisfactory	Non-Evaluable	Substantial
P041567	Endemic Disease	1997	U	U	S	Closed	30/06/2004	Health, Nutrition and Population	14.9	Unsatisfactory	Unlikely	Modest
P002346	Water Sector (Bd Fy95)	1995	S	S	N	Closed	30/06/2004	Water Supply and Sanitation	100.0	Highly Satisfactory	Highly Likely	High
P051610	Ag. Export Promotion	1998	S	S	M	Closed	30/06/2004	Rural Sector	8.0	Satisfactory	Non-Evaluable	Substantial
P002373	Higher Education	1996	S	S	S	Closed	30/06/2003	Education	26.5	Highly Unsatisfactory	Unlikely	Negligible
P035621	Pilot Female Literacy	1996	HS	S	M	Closed	28/02/2003	Education	12.6	Satisfactory	Likely	Substantial
P055471	Trade Reform And Competitiveness	2001	S	S	M	Closed	30/09/2002	Economic Policy	100.0	Satisfactory	Likely	Substantial
P051357	Energy Sector Adjustment	1998	S	S	S	Closed	31/01/2002	Energy and Mining	100.0	Unsatisfactory	Unlikely	Modest
P002376	Priv. Sctr. Cap. Bldg	1995	S	S	M	Closed	31/10/2001	Private Sector Development	12.5	Moderately Satisfactory	Likely	Modest
P035615	Community Nutrition I	1995	S	S	N	Closed	30/06/2001	Health, Nutrition and Population	18.2	Moderately Satisfactory	Non-Evaluable	Modest
P044383	Urban Transport Reform TA Project	1997	S	S	M	Closed	30/06/2001	Transport	6.6	Moderately Satisfactory	Likely	Substantial
P002356	Ag SECAL	1995	S	S	N	Closed	09/01/1998	Rural Sector	49.6	Moderately Satisfactory	Uncertain	Substantial
P002364	P.S. Adjustment & Co	1995	S	S	..	Closed	30/06/1996	Economic Policy	40.0	Satisfactory	Likely	Substantial
P035592	Economic Recovery Credit	1994	S	S	..	Closed	27/12/1995	Economic Policy	28.2	Satisfactory	Likely	Modest
P002342	Transport Sector SECAL	1991	..	..	..	Closed	30/12/1999	Transport	68.7	Satisfactory	Likely	Modest

Source: World Bank internal database, August 8, 2005.

Annex Table 7: Senegal—Bank Budget by Cost Category FY94–05 (in USD millions)

Country or Region	Cost Category	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY94–05	Percent (FY94–05)
Senegal	Project Supervision	1,103	845	1,225	1,036	1,168	1,015	1,192	1,361	1,812	1,908	1,893	1,903	16,461	42
	Lending	722	1,893	1,218	1,516	1,695	1,397	1,513	604	737	641	1,230	1,368	14,534	37
	Country ESW	230	201	272	259	486	148	209	620	568	773	963	675	5,406	14
	Other	76	192	101	186	191	76	287	167	345	357	185	522	2,685	7
	Total Services	2,131	3,130	2,817	2,997	3,540	2,637	3,201	2,752	3,463	3,679	4,270	4,467	39,086	100
AFR	Project Supervision	39,500	35,423	35,903	35,752	36,084	32,610	37,142	30,972	37,670	40,961	43,269	49,757	455,045	27
	Lending	34,319	37,278	32,060	26,767	27,575	23,605	28,971	25,492	30,934	31,098	43,588	38,309	379,995	22
	Country ESW	27,949	19,725	17,869	16,343	21,961	22,383	30,975	21,786	34,402	37,052	40,401	36,035	326,880	19
	Other	6,589	8,147	7,092	8,606	10,270	9,394	48,100	66,130	79,829	90,810	98,557	115,051	548,575	32
	Total Services	108,358	100,572	92,924	87,468	95,891	87,991	145,188	144,380	182,834	199,920	225,816	239,152	1,710,494	100

Source: World Bank internal database, August 8, 2005.

Annex Table 8: Senegal—World Bank's Senior Management

Year	Vice President	Country Director	Resident Representative/ Country Program Coordinator
1998	Jean-Louis Sarbib	Mahmood A. Ayub	Cadman A. Mills*
1999	Jean-Louis Sarbib	Mahmood A. Ayub	Cadman A. Mills*
2000	Callisto Madavo	Mahmood A. Ayub/ John McIntire*	Cadman A. Mills/ Mary A. Barton-Dock
2001	Callisto Madavo	John McIntire*	Mary A. Barton-Dock
2002	Callisto Madavo	John McIntire*	Mary A. Barton-Dock
2003	Callisto Madavo	John McIntire*	vacant
2004	Gobind Nankani	Madani M. Tall*	Iradj Alikhani

Source: World Bank Group Directory.
* In Dakar

Annex Table 9: Senegal—World Bank Commitments by Sector Board FY98–04 (in USD millions)

Sector Board	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total (1994–2004)
Water Supply and Sanitation		100						125				225
Transport	4			7		90	70					170
Economic Policy	25	43						100				168
Health, Nutrition and Population		18		15	50				45			128
Energy and Mining				11	100							111
Private Sector Development		13								46	45	104
Education			39				52					91
Rural Sector		45	3	2	8	27						85
Urban Development					75							75
Social Protection								30				30
Social Development							29					29
Global Information/Communication Technology							10					10
Environment				5								5
All Sector Boards	29	219	42	39	233	117	161	255	45	46	45	1,230

Source: World Bank internal database, March 14, 2005.

Note: Includes IBRD and IDA Amt.

	..	..	..	..	..
			26.4	..	24.6
	..	..	..	..	..
				43.7	
				75.5	78.3
	64.8	..	..	..	71.5
	..	..	62.9	63.8	..
	..	..	..	..	72.8
	10.8	..	8.7	9.9	12.7
	73.7	..	80.7	81.5	87.2
	..	..	..	..	81.1
	21.6	19.6	20.9	21.7	22.6
	57.6	62.8	58.8	58.8	65.5
	94.8	..	..	..	79.1
	147.6	..	..	..	122
			..	537.7	
Incidence of tuberculosis (per 100,000 people)	174.1	190.4	202.9	213.9	225.2
Number of children orphaned by HIV/AIDS					
Prevalence of HIV, total (% of population aged 15-49)				*2.1*	2.1
Tuberculosis cases detected under DOTS (%)	..	..	..	..	..
Goal 7: Ensure environmental sustainability					
Access to an improved water source (% of population)	63.8	..	..	..	*75.1*
	20.4	..	..	..	*35.6*
	0.8	0.8	0.8	0.8	..
	28.9	..	..	26.1	..
	3.5	3.5	3.7	3.9	*4.1*
Nationally protected areas (% of total land area)					--
Goal 8: Develop a global partnership for development					
Aid per capita (current US$)	13.1	14	9.7	9.2	13.8
Debt service (% of exports)	..				
Fixed line and mobile phone subscribers (per 1,000 people)	6.3	9.4	14.8	25.4	55.8
Internet users (per 1,000 people)	0	0	0.3	3.7	16.2
Personal computers (per 1,000 people)		1.3	2.5	4.5	6.9
Unemployment, youth female (% of female labor force ages 15-24)					
Unemployment, youth male (% of male labor force ages 15-24)					
Unemployment, youth total (% of total labor force ages 15-24)					
Other					
Fertility rate, total (births per woman)	4.7		4	..	3.6
GNI per capita, Atlas method (current US$)	360	310	370	380	440
GNI, Atlas method (current US$) (billions)	630.2	595.4	762.1	832.1	101[illegible]
Gross capital formation (% of GDP)	21.1	21.5	21.1	21.3	22.[illegible]
Life expectancy at birth, total (years)	56.2		58.2	..	58.[illegible]
Literacy rate, adult total (% of people ages 15 and above)			..	..	6[illegible]
Population, total (millions)	1767.9	1925.8	2052.6	2174.8	2297.[illegible]
Trade (% of GDP)	29.7	34.1	36.9	41.8	44.[illegible]

Source: World Development Indicators database, April 2005. Figures in italics refer to periods other than those specified

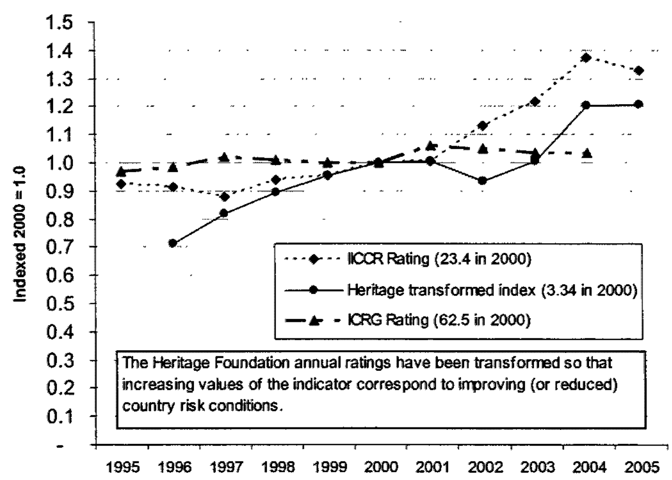
Annex B: Overview of International Finance Corporation's (IFC) Operations in Senegal

1. **Summary:** IFC's strategy and operations in Senegal have supported the Bank's strategy, which over the last 10 years has had a strong private sector focus. IFC has contributed to private sector development by investing in small and medium enterprises (SMEs) and, to the extent reforms were implemented and opportunities arose, by considering investments in larger projects in agriculture, fishing, industry, tourism, financial markets, and private infrastructure. Since 1994 IFC has committed 16 investment operations with 11 companies for about US$48 million in Senegal. Twelve operations supported small projects,[1] processed mainly through the since-phased out Africa Enterprise Fund (AEF)/Small Enterprise Fund (SEF) programs.[2] IFC also supported five donor-funded technical assistance and advisory service (TAAS) projects for about US$1.0 million and eight assignments through the Foreign Investment Advisory Service (FIAS). These thirteen advisory assignments were focused on improving the investment climate, build regional capacity in the financial sector, and on attracting investment to the power sector.

Table 1: IFC commitments (FY94-04) in Senegal—as a percent of GDP and FDI—are high, relative to SSA

	Senegal	WAEMU w/o Senegal	Sub-Saharan Africa
Commitments/GDP	0.10%	0.13%	0.07%
FDI/GDP	1.7%	1.9%	2.3%
Commitments/FDI	6.1%	6.7%	3.2%

Figure 1: Three independent country risk ratings show that Senegal's business climate improved from high risk to the threshold of medium risk by 2004



- Institutional Investor Country Credit Rating (IICCR)
- The Heritage Foundation/Wall Street Journal Index of Economic Freedom (Heritage)
- International Country Risk Group (ICRG).

2. Because of two larger investments, IFC's commitments in Senegal, as a percentage of Gross Domestic Product (GDP) and Foreign Direct Investment (FDI) flows, were higher than the average for the Sub-Sahara Africa (SSA) region, but lower than the average for the West African Economic and Monetary Union (WAEMU)[3], excluding Senegal (Table 1).[4] But over the FY01-04 period, IFC could not find new investments due to the rela-

tively low level of private investment and FDI in the country, in turn due to the Government of Senegal's (GoS) slow progress in implementing economic reforms despite the apparent readiness of local and international financial institutions to fund large viable private sector projects. However, the gradual improvement in Senegal's business climate should result in more opportunities for IFC.

3. IFC's efforts to support the SME sector in Senegal using direct funding and through financial intermediaries have not been effective, either because the SMEs supported generally performed poorly, or because IFC's products were uncompetitive. IFC could have a strong role in the SME sector if it is able to develop competitive products and build capacity for the financial intermediaries to identify and fund good SME investments.

A. The business climate and private sector development

4. **Senegal's business climate has improved and its GDP has grown faster than the regional average:** Senegal, located in Francophone West Africa with a population of about 10 million, is the second-largest economy in WAEMU and one of 12 countries that adopted the CFA Franc (CFAF).[5] As shown in Figure 1, Senegal's business climate has shown steady improvement over the last 10 years from being high risk, reaching the lower range of medium risk in 2004,[6] and its economy has performed relatively well. GDP grew at an average annual rate of 4.2 percent (1994-2003), or 1.5 percent in per capita terms, more than for the WAEMU and the SSA region, as detailed in Table 2. Economic growth came primarily from construction, public works, commerce, services, transportation, telecommunication, and manufacturing.[7]

Table 2: IFC portfolio data and economic indicators

Portfolio data, FY94-04	Senegal	WAEMU (8 countries)	% of WAEMU	Sub-Saharan Africa (48 countries)	% of SSA	All IFC (128 countries)	% of All IFC
Number of approvals	17	94	18.1%	581	2.9%	2,495	0.7%
Total approvals amount ($m)	65	430	15.1%	3,206	2.0%	35,456	0.2%
Number of commitments	16	85	18.8%	457	3.5%	2,028	0.8%
Total net committed amount ($m)	48	340	14.0%	2,023	2.3%	24,575	0.2%
Macroeconomic data CY94-03, unless noted							
Aggregate GDP ($m)	47,049	277,788	16.9%	3,349,563	1.4%	63,976,084	0.1%
Average country GDP ($m)	4,705	3,472	3rd Largest	6,978	15th Largest	49,594	77th Largest
Average GDP per capita ($/yr)	441	316	2nd Highest	492	14th Highest	2,122	94th Highest
Average GDP growth (% pa)	4.2%	3.9%	4th Highest	3.3%	13th Highest	3.7%	33rd Highest
Average country Population (m)	9.2	8.5	4th Highest	13.2	19th Highest	37.6	61st Highest
Aggregate FDI ($m)	779	5,135	15.2%	76,592	1.0%	1,556,690	0.1%
Average country FDI ($m)	78	64	3rd Largest	160	16th Largest	1,207	82nd Largest
Average FDI to GDP ratio (%)	1.7%	1.9%	4th Highest	2.3%	21st Highest	3.3%	99th Highest
Average Gross Fixed Capital Formation (GFCF) to GDP ratio (%)	17.2%	15.9%	17.50%	N/A	N/A	N/A	N/A
Average Private GFCF to GDP ratio (%)	10.5%	9.6%	N/A	N/A	N/A	N/A	N/A
Average Public GFCF to GDP ratio (%)	6.7%	6.3%	N/A	N/A	N/A	N/A	N/A
Average Exports of goods and services to GDP ratio (%)	30.5%	30.5%	30.7%	N/A	N/A	N/A	N/A
IICR period average, CY94-04	23.9	18.3	Least risk	19.9	12th safest	N/A	N/A
IICR improvement, CY94 vs. CY04	11.0	3.3	Best	0.7	6th best	N/A	N/A

5. **Private sector investment relative to GDP has been stagnant and obstacles to private sector development persist:** Despite improvements in the business climate, private investment has stayed constant at nearly 11 percent of GDP since 1999 and FDI, which averaged 1.7 percent of GDP since 1994, was low compared to 1.9 percent and 2.3 percent of GDP for WAEMU and SSA, respectively (Table 2). Also, compared to WAEMU, where FDI investment has trended up, FDI in Senegal has been flat (Figure 2). Lackluster investment levels

may be explained partly by administrative barriers to business.[8] Furthermore, the cost of and access to financing are "major" or "very severe" obstacles to business growth, according to most respondents to a 2003 World Bank Group (WBG) survey (Table 3).[9] The survey showed that nearly 70 percent of SMEs are likely to fund new investments with their own funds (Table 4) and that anti-competitive practices are a constraint. This is consistent with the long-standing dominance by a small number of favored private—including foreign-owned firms—and public sector firms in most major sectors of the economy. This sort of rent-seeking behavior has been sustained by the *conventions speciales* granted by the government, which restricts entry and domestic competition.[10]

Tables 3 and 4: Financing is perceived as being a major constraint, especially for smaller firms

Top 10 constraints to firm investment in Senegal
% of firms identifying problem as "major" or "very severe" obstacle

		Averages for comparison	
	Senegal	*Sub-Saharan Africa*	*All countries*
1. Cost of financing	65	63	39
2. Access to financing	55	48	32
3. Tax rates	51	61	41
4. Anti-competitive practices	49	38	32
5. Tax admin.	48	47	34
6 Corruption	40	47	39
7. Customs & trade regs.	37	35	22
8. Transportation	36	25	13
9. Econ/reg policy uncertainty	31	41	43
10. Electricity	31	51	26

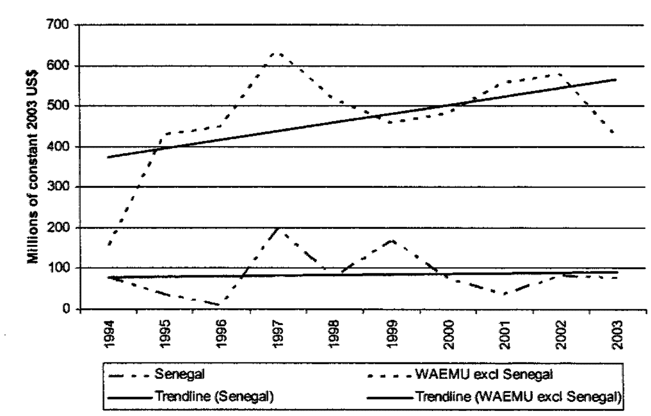
Source: WBG - Private Sector Development

Smaller firms in Senegal are more likely to identify "access to" and the "cost of" financing as "major" or "very severe" obstacles to business

Firm size	All sizes	Small	Medium	Large
Number of employees		1-49	50-249	250+
Indicator	Percentage of firms identifying indicator as a major or very severe obstacle to business.			
Access to financing (%)	55	61	43	41
Cost of financing (%)	65	67	62	61
Smaller firms are more likely to use internal funds, less likely to have an overdraft facility and need more collateral				
New investment from internal funds (%)	70	72	72	50
New investment from banks (%)	18	15	22	43
Firms with an overdraft facility (%)	59	50	77	96
Collateral needed for a loan (% of loan)	123	130	140	82

6. Funding for viable large projects is available, but financing for SMEs is more limited: Senegal received over US$5.0 billion in official development assistance (ODA) from 1994 to 2004, and although declining at US$43 per capita in 2003, it is still high relative to other SSA countries. Funding for private sector projects is available from IFC and other International Financial Institutions (IFIs).[11] IFC has lost at least one committed project to an IFI that offered better terms than IFC and, according to IFC staff, IFIs are eager to participate in larger IFC investments. According to the Financial System Stability Assessment Update prepared jointly by the WB and IMF in 2004, local banking sector is strong and liquid and, with few lending opportunities that meet its criteria, often competes to lend to Senegal's largest corporations. The assessment also reports that local banks generally do not lend to SMEs but that micro-credit institutions are strong and growing their business faster than commercial banks.[12] However, continued rapid growth of the microfinance sector may be limited if follow-up local currency financing is not available after the initial capital and funding of the micro enterprise entities is loaned out.

Figure 2: FDI in Senegal has been stagnant, in contrast to other countries in the region

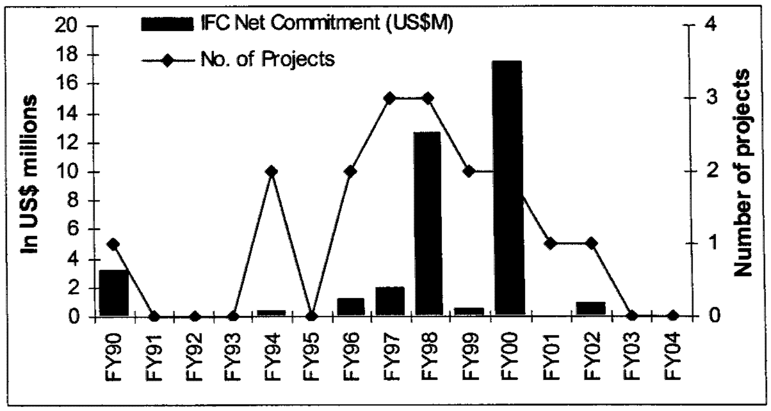


B. IFC operations in Senegal

7. Since 1994 IFC has supported only 16 (mostly small) projects in Senegal. IFC has also assisted the private sector in other ways: Of the 16 projects that IFC supported, 12 were small (eight were under the AEF/SEF umbrella) with IFC financing of less than US$1.5 million (Table 5). Two larger projects were in the cement and power sectors. In the financial sector, IFC committed three guarantees to facilitate local currency financing. IFC approved two new projects in Senegal from FY01 to FY05. Only one small project was committed in the FY01-04 period (Figure 3). IFC also provided five donor-funded TAAS projects, worked jointly with the WB and through FIAS, and advised the GoS on ways to improve the investment climate (Table 6). FIAS' work, according to the 2003 Senegal CAS, helped set the reform agenda for PSD. IFC's five TAAS operations helped build capacity in the financial sector and supported two studies on Senegal's power sector. One power study was used in Senegal's second attempt to privatize SENELEC, the public power utility, and IFC's involvement in the sector played a role in the approval of the Kounoune power project in FY05 and two new TAAS assignments.

Figure 3: IFC's Senegal commitments, have been mostly small

Senegal – IFC Commitments by amount and number of projects (FY90-04)



8. The number of evaluated projects in Senegal is too small to support relative cross-country outcome analysis: Of IFC's 16 operations in Senegal in the 1994-2004 period, four met the criteria for inclusion in the population for evaluation sampling and one was evaluated based on IEG-IFC guidelines. IEG-IFC, however, reviewed all 16 operations committed since 1994 and made rating judgments on nine projects.[13] IEG -IFC found that about two-thirds of SME projects—mostly belonging to African Enterprise Fund (AEF) and Small Enterprise Fund (SEF) programs—performed poorly both from a development and an investment outcome standpoint. Problems included the inability to deal with competition and declining commodity prices, poor site selection, and corporate governance. Non-SME oriented projects in the real sector generally performed well. Since IEG-IFC does not include AEF and SEF investments in its project evaluations, relative cross-country outcome analysis is not possible.

Table 5: Between 1994 and 2004, 75% of IFC projects in Senegal were in small projects

		Senegal				Other WAEMU countries			
	Commited amount	Number of commitments	%	Amount committed	Average amount committed	Number of commitments	%	Amount committed	Average amount committed
				US$ millions				US$ millions	
Small	Upto US$1.5 million	12	75%	6.8	0.6	38	55%	16.4	0.4
Medium	US$1.5 to 5.0 million	2	13%	5.1	2.5	18	26%	55.8	3.1
Large	Over US$5.0 million	2	13%	35.7	17.8	13	19%	220.5	17.0

9. IFC's SME experience in Africa was not unique: In the mid-1990s IFC set up various programs to assist SMEs. In 1997 IFC opened an office in Dakar specifically to support SMEs in Senegal and six nearby countries[14] as part of the Extending IFC's Reach program that established SEF to supplement the AEF in designated SSA countries. The generally poor performance of AEF/SEF projects[15] contributed to IFC's 2001 decision to phase-out direct SME investments and was part of a shift in IFC's SME financing strategy to use wholesaling and financial intermediaries and focus on capacity building.[16]

10. IFC had a strong role in projects: IFC's additionality in Senegal was strong. In the financial sector, IFC committed partial guarantees to facilitate local currency loans. In the power sector, IFC funded Senegal's first independent power plant (IPP). The Kounoune power project, approved in April 2005 (yet to be committed), was a direct consequence of IFC's advisory work in the sector. IFC has attracted other lenders to complete the financing plan for larger real sector projects.

11. IFC's financial market operations in Senegal targeted SMEs: According to the Financial System Stability Assessment Update prepared jointly by the WB and IMF in 2004, SMEs in Senegal have difficulty securing commercial bank funding because they have insufficient collateral[17] and poor quality accounting records, and they lack transparency. IFC's experience in Senegal has been that SMEs have little appetite for foreign exchange risk. To reach SMEs, IFC has offered partial risk guarantees in three financial sector operations, one each in the leasing, microfinance, and banking sectors. Other instruments, such as CFAF loans, have not been possible because there is no CFAF swap market. In the financial sector, despite its three attempts and demonstrated funding need by SMEs, IFC has been unable to develop a competitive product. IFC did support one TA project to improve the financial sector's ability to analyze and supervise SME investments.

Table 6: FIAS assistance was aimed at improving investment climate

Fiscal year	Project type	Description
1994, 2001	Incentives	Assisted in the rationalization of the investment incentive framework, analyzed the tax burden on enterprises and the efficiency of current fiscal incentives, and assisted the Government in implementing the recommendations.
1996	Investment policy	Reviewed the investment incentives and the EPZ regime, as well as custom procedures affecting foreign direct investment.
1999, 2000, 2003	Administrative Barriers	Conducted a study of administrative barriers to investment, disseminated the results, assisted in the development of an implementation plan, and updated the initial study.
2000, 2001	Institutions	Reviewed the draft Decree on the creation of the Investment and Export Promotion Agency and advised the government on the creation of the Investment Promotion Agency

C. Challenges and Opportunities:

12. Challenges and opportunities: Although, as mentioned above, "access to financing" is cited as a major constraint to business growth, large viable projects and large corporations do get funding on competitive terms from local banks, which are strong and liquid or from foreign institutions. IFC's niche in Senegal is likely to be in complex, possibly first-of-a-kind projects that require IFC's unique expertise, TA, and possibly WB/IDA assistance. An example, nearly three years of TA preceded the recent approval of the Kounoune power project that will be supported with an IDA partial risk guarantee and funding from IFC and other institutions. Given the continuing financing constraints faced by SMEs in Senegal, IFC could have a strong role in the sector if it is able to build capacity for SME lending and develop competitive products for the financial sector. IFC's ability to grow its portfolio in Senegal will depend largely on IFC's ability to develop innovative financing products to support the SME sector, and Government of Senegal's progress in adopting reforms. The up-sizing and re-focus of IFC's local office to develop new business, close cooperation with the WB, and willingness to support capacity building and reforms with TA will ensure that IFC can respond quickly to the needs of private sector.

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1 For the purpose of this Country Evaluation Note, small projects involve an IFC commitment of US$1.5 million or less. Total commitments for small projects was nearly US$7 million

2. AEF (1988) and SEF (1996) were established by IFC with dedicated staff to finance small projects which would not normally be considered for IFC funding because of their small size. In the 1999-2001 period, they were phased out as not sustainable, and IFC's investment support for SMEs has since been channeled through financial intermediaries. Other programs established to assist SMEs, Africa Project Development Facility (APDF) and Africa Management Services Company (AMSCO), were set up in the late-1980s to raise financing and build capacity, respectively. IEG-IFC has evaluated AEF, APDF, and AMSCO programs. The reports can be found on IEG-IFC's website: www.ifc.org/oeg.

3. WAEMU was created in January, 1994, after the 50 percent devaluation of the CFA Franc, with seven members: Benin, Burkina Faso, Cote d'Ivoire, Mali, Niger, Senegal, and Togo. Guinea Bissau joined WAEMU in May 1997.

4. Where available, IEG-IFC has used the same source of economic data as the CAE.

5. CFA Franc was initially pegged to the French Franc and since 1999, to the Euro.

6. Countries with an Institutional Investor Country Credit Risk Rating (IICCR) of 30 to 45 are considered to be medium risk. In March 2005, Senegal's IICCR was 31. Senegal is still a frontier country, according to IFC strategy. The lack of an impartial judiciary and legal system, inefficiencies in the financial sector, high tax rates, corruption, and infrastructural bottlenecks are challenges that Senegalese firms continue to face, according to a 2003 WBG survey.

7. According to WB figures, the average sectoral (value added) shares for agriculture, industry, and services in Senegal for the 1994-2003 period were: 19 percent, 20 percent, and 61 percent. respectively. Comparable figures for SSA were: 19 percent, 30 percent, and 51 percent. The dominance of the service sector sets Senegal apart from the rest of SSA and WAEMU countries.

8. A 2003 update to FIAS' 1999 Administrative Barriers study found that the Government of Senegal had totally, or partly, implemented only 40 percent of the 34 measures recommended by FIAS.

9. Investment Climate Survey (http://rru.worldbank.org).

10. World Bank, Senegal-Policies and Strategies for Accelerated Growth and Poverty Reduction (Washington, D.C.: April 2003)

11. These IFIs include: Société de Promotion et de Participation pour la Coopération Economique (Propraco), a subsidiary of the French Development agency, AFD, specializing in venture capital; European Investment Bank (EIB); the African Development Bank (AfDB), and USAID.

12. International Monetary Fund, Financial System Stability Assessment Update (Washington, D.C.: April 2005)

13. Some IFC projects in Senegal involved multiple investments. Others did not reach early operating maturity.

14. Cape Verde, Guinea, Guinea Bissau, Mauritania, Mali, and The Gambia.

15. Based on the findings of an IEG-IFC evaluation of AEF that was completed in February 2000. The evaluation concluded that nearly half of the projects evaluated were viable and had significant development impacts. On the other hand, the AEF program was costly, requiring a cross-subsidy to cover losses after operating expenses. As of the date of the evaluation, interest collection rates were low relative to those of IFC in general, although in line with expectations at the outset of the program, and equity returns were negative. IFC's Strategic Directions paper in 2001, noted that direct investment in SMEs were "a relatively expensive and ineffective way to reach smaller companies".

16. IFC, IFC Strategic Directions (Washington D.C., March 2001). IFC's 2005 Strategic Directions paper states, "IFC's strategy is to increase the access of SMEs to long-term financing by helping domestic banks downscale into SME lending, creating credit bureaus that provide information on small-scale borrowers, and expanding the use of leasing and other intermediaries as an SME financing tool".

17. Table 4 suggests that the collateral problem is more severe for SMEs.

Annex C: List of Persons and Organizations Met

MINISTRY OF ECONOMY AND FINANCE

H.E. Mr. Abdoulaye Diop	Minister of Economy and Finance
Mr. Sogue Diarisso	Director, Forecasting and Statistics Office
Ms. Maguette Kane Diop	Director, Money and Credit Department
Mr. André Ndecky	Deputy Director, Department of Economic and Financial Cooperation (DCEF)
Mr. Sakhali Ndiaye	Deputy Director, Debt and Investment Department
Mr. Mamour Ousmane	Division Chief, Mixed Commissions, DCEF
Ms. Aissatou Fall	Chief, America Bureau, DCEF
Mr. Diatourou Ndiaye	Program Officer, Infrastructure, DCEF
Mr. Massar Wagué	Program Officer, Urban Development, DCEF
M. Amady Gnagna Cissé	Program Officer, Environnement, DCEF
Mr. Malao Ndaw Ndiayé	Program Officer, Decentralization, DCEF
Mr. Papa Meissa Diop	Advisor, DCEF
Mr. Thierno Seydou Niane	Coordinator, Monitoring Unit, Poverty Reduction Unit
Mr. Abdou Salam Thiam	Forecasting and Statistics Office

MINISTRY OF INFRASTRUCTURE, EQUIPMENT AND TRANSPORT

H.E. Mr. Mamadou Seck	Minister of Infrastructure, Equipment and Transport

MINISTRY OF EDUCATION

H.E. Mr. Moustapha Sourang	Minister of Education
Mr. Gaye,	Director, Planning and Reform of Education Department (DPRE)
Mr. Sada Ndiaye	Director, General Administration and Equipment (DAGE)

MINISTRY OF HEALTH

Mr. Youssoupha Ba	Director, General Administration and Equipment (DAGE)
Dr. Mame Cor Ndour	Manager, IDA Credits

MINISTRY OF JUSTICE

Professor Serigne Diop	Minister of State for Justice
Mr. Mouhamed Seck	Directeur de Cabinet

ANNEX C
LIST OF PERSONS AND ORGANIZATIONS MET

Mr. Déthié Ndiaye	Director General, Administration and Equipment (DAGE)
Mr. Mountaya Ndiaye	Expert, Institutional Development and Project Management
Mr. Ibrima Ndoye	Chief, Monitoring Unit, DAGE
Mr. Ibrahima Samb	Technical Advisor
Mr. Eric Legrand	Technical Advisor, French Technical Assistance

MINISTRY OF TOURISM

Mr. Douda Diop	Directeur de Cabinet du Ministre de Tourisme
Mr. Elimane Sy	Civil Administrator

MINISTRY OF AGRICULTURE

Mr. Mame Ndiobo Diene	Director of Analysis, Forecasting and Statistics (DAPS)

AGRICULTURAL EXPORT PROMOTION PROJECT

Mr. Nicolas Venn	Expert Exporters Organization

AGRICULTURE RESEARCH INSTITUTE (ISRA)

Dr. Papa Abdoulaye Seck	Director General

SONACOS (NATIONAL OILSEEDS COMPANY OF SENEGAL)

Mr. Abdou Khadim Guèye	Chief Executive Officer

MICROFINANCE

Mr. Mamadou Touré	Director General, Credit Mutuel du Sénégal

NATURAL RESOURCES MANAGEMENT PROGRAM

Mr. Youssou Lo	Coordinator
Mr. Alassane Manadou Thiam	Administration and Finance Manager
Mr. Pape Allasane	Fuel Management Specialist

INVESTMENT PROMOTION AND MAJOR PROJECTS AGENCY (APIX)

Ms. Aminata Niane	Director General
Mr. Hamath Sall	Deputy Director General

EXECUTIVE COUNCIL OF URBAN TRANSPORT OF DAKAR (CETUD)

Mr. Latyr Ndiaye	Director General
Mr. Ousmane SY	Transport Engineer
Mr. David Sagna,	Economist
Mr. Baye Samba Lo	Procurement Specialist

Mme Thérèse Byll Ndao	Management Assistant

TRANSPORT SECTOR PROGRAM

Mr. Sagar Dramé	Coordinator
Ms. Salimata Sall Dembélé	Financial Expert

MUNICIPAL AGENCY FOR DEVELOPMENT

Mr. Mohamadou Kabir Sow	Director General
Mr. Massar Sarr	Principal Civil Administrator

ENERGY SECTOR

SENELEC (National Electricity Company of Senegal)

Mr. Samuel Sarr	Director General

Senegalese Agency for Rural Electrification

Mr. Aliou Niang	Director General

Electricity Regulatory Authority

Mr. Alioune Fall	President

WATER SECTOR

Mr. Mouhamed Fadel Ndaw	Coordinator, Long-Term Water Supply Project
Mr. Frédéric Renaut	Director General, Senegal Water Agency (SDE)

NUTRITION ENHANCEMENT PROGRAM

Dr. Biram Ndiaye	National Coordinator
Ms. Khadidiatou Dieng	Nutrition Advisor

HIV/AIDS PREVENTION AND CONTROL PROGRAM

Dr. Ibra Ndoye	Executive Director

SOCIAL DEVELOPMENT FUND AGENCY (AFDS)

Ms. Khadiata Lo Ndiaye	Director General
Ms. Ndiaye Cowa Mbaye	Monitoring and Evaluation Unit

CONSEIL NATIONAL DU PATRONAT DU SENEGAL (CNP, PRIVATE SECTOR GROUP)

Mr. Papa Nalla Fall	President, Economic Commission
Mr. Ludovic Nguessan	Program Officer, Productivity and Competitiveness

ANNEX C
LIST OF PERSONS AND ORGANIZATIONS MET

PRIVATE INVESTMENT PROMOTION PROJECT

Mr. Mabousso Thiam	Manager

AGETIP

Mr. Ibrahima Ndiaye	Director General
Mr. Ibou Anas Gaye	Director for Development

DISTANCE LEARNING CENTER

Mr. Mor Seck	Director

PUBLIC SERVICE INFO-SYSTEMS MODERNIZATION PROGRAM

Mr. Mouhamed Tidiane Seck	Director General
Mr. Sada Wane	Coordinator

CENTER FOR THE STUDY OF POLICIES FOR DEVELOPMENT (CEPOD)

Mr. Aliou Faye	Director

RESEARCH CENTER IN APPLIED ECONOMICS (CREA)

Dr. Ahmadou Aly Mbaye	Professor, Faculty of Economics and Management, Université Cheikh Anta Diop, Dakar

ANTI-CORRUPTION COMMISSION

Mr. Abdoul Aziz Ba	President
Mr. Moustapha Gueye	Permanent Secretary
Mr. Mamadou Diop	Member
Mr. Cherif Mbodj	Member
Mr. Abdoulaye Sakho	Member
Mr. Moustapha Tall	Member

FORUM CIVIL/NATIONAL TRANSPARENCY INTERNATIONAL SECTION

Mr. Mouhamed Mbodj	General Coordinator
Mr. Moctar Fall	Deputy General Coordinator
Mr. Amadou Lamine Dial	Program Officer
Mr. Abdou Sidy Sy	Executive Committee Member
Mr. Mbarhane Fall	In charge of Economic Governance

CONGAD (NGO UMBRELLA ORGANIZATION)

Mr. Amacadou Diouf	Vice-President, CONGAD
Mr. Malamine Tamba	Executive Director, CONGAD
Mr. Khalipha Ababacar Cissé	
Mr. Ibrahima Aliou Sall	Economist, CONGAD

Mr. Djibril Niang	Fédération Sénégalaise des Clubs UNESCO
Dr. Dansokho Mamadou	Research Officer, Faculty of Economics and Management Université Check Anta Diop
Mme Aissatou Sall Diallo	Teacher, (Civil Society for the Fight Against Poverty)
Mr. Seckel Gning	National Confederation of Workers of Senegal (CNTS)
Mr. Mamou Ngalem	Resource Person, Environment Network, CONGAD
Mr. Ousmane Kebe	Rural Development Expert, CONGAD
Mr. Boubacar Seck	Head, Administration and Communication, CONGAD

LABOR UNIONS

National Confederation of Workers of Senegal (CNTS)

Mr. Mody Guiro	Secretary General, CNTS
Mr. Attoumane Diaw	Deputy Secretary General, CNTS
Mr. Mamadou Faye	Secretary in charge of Economic Affairs, CNTS
Mr. Abdoulaye Ndiaye	Secretary in charge of Research, Studies and Statistics, CNTS
Ms. Marième Sakho Dansokho	In charge of Education and Training, CNTS
Mr. Abdoulaye Diakhate	Road Transport Workers Union
Mr. Adama Ndiaye	Raod Transport Union Workers Union
Mr. El Hadji Fall	Water Sector Workers Union (SUTES/SDE)
Mr. Adama Ndiaye	Electricity Sector Workers Union (SYNTES)

National Union of Traders and Industrialists for Senegal's Economic and Financial Development (UNACOIDEFS)

Mr. Mustafa Diop	President
Mr. Ibrahima Lo	National Secretary General
Mr. Mame Bou Diop	Executive Committee

NATIONAL AGENCY FOR THE RECOVERY OF SOCIAL AND ECONOMIC ACTIVITIES IN CASAMANCE (ANRAC)

Mr. Pierre-Marie Bassène	Director General

CENTRAL BANK OF WEST AFRICAN STATES (BCEAO)

Mr. Seyni Ndiaye	National Director
Mr. Bolo Sanou	Director, International Relations
Mr. Samuel Meango	Deputy Director, International Relations
Mr. Mama Diakhoumpa	Deputy Director, Credit Department
Mr. Badiel Armand	Deputy Director, Department of Studies
Mr. El Hadj Mamadou Seck	Head, Department of Studies, National Agency
Mr. Papa Lamine Diop	Division Chief, International Relations
Ms. Diallo Barry	Payments Systems Department
Mr. Emmanuel Nana	Credit Department
Mr. TiendreBreogo Yamsékré	Department of Studies
Mr. Birame Sene	National Agency
Mr. Pierre Ndiaye	National Agency

ANNEX C
LIST OF PERSONS AND ORGANIZATIONS MET

AFRICAN DEVELOPMENT BANK (AFDB)

Mr. Gilbert Galibaka	Marco-Economist

AGENCE FRANÇAISE DE DEVELOPPEMENT (AFD)

Mr. Supera	Directeur, AFD/Dakar
Ms. Anne Marie Cabrit	Head of Evaluation Unit, Strategy Department, AFD/Paris
Mr. Jean-Claude Galandrin	AFD/Paris
Mr. Frédéric Lefebvre-Naré	Associate Director, Evalua
Ms. Delphine Rivière	Evalua

GTZ

Dr. Harald Tschakert	Regional Director

IMF

Dr. Lelde Schmitz	Division Chief
Mr. El Hadj Saidou Ba	Assistant Economist
Mr. Christian Jorz	Senior Economist
Mr. Stephane Rodet	Economist
Mr. Johannes Mueller	Advisor to the Director, African Department

JAPANESE INTERNATIONAL COOPERATION AGENCY (JICA)

Mr. Kiyofumi Konishi	Resident Representative
Mr. Kyato Ryuichi	Bureau Chief

EMBASSY OF THE NETHERLANDS

Mr. Jaap Jan Speelman	Head of Cooperation

UNDP

Mr. Albéric Kacou	Resident Representative
Mr. Luc Grégoire	Principal Economist
Mr. Mamadou Mbacké	In charge of National Program for Good Governance

UNICEF

Mr. Ian Hopwood	Resident Representative

UNIFEM

Ms. Seynabou Gueye Tall	Program Officer

USAID

Mr. Olivier C. Cardunner	Director
Mr. Bradley Barker	Technical Advisor, Health Population & Nutrition
Ms. Jennifer Adams	Chief, Health Bureau
Mr. Matar Camara	Child Survival Specialist, USAID
Dr. Elisabeth Benga-De	Reproductive Health Specialist, Health Office
Mr. Pape Sow	Chief, Education Bureau

WORLD HEALTH ORGANIZATION (WHO)

Dr. Yankalbe	Resident Representative
Dr. Farba Lamine Sall	Advisor, Health Economics

WORLD BANK

Mr. Madani M. Tall	Country Director
Mr. Iradj Alikhani	Country Program Coordinator, AFCSN
Mr. Jean-Louis Sarbib	Senior Vice-President and Head of Network, HDNVP
Mr. John McIntire	Sector Director, AFTSD
Mr. Cadman Atta Mills	Sector Manager, AFTP3
Mr. Christian Diou	Senior Municipal Engineer, Resident Mission
Ms. Awa Seck	Economist, Resident Mission
Mr. Matar Fall	Senior Sanitary Engineer, Resident Mission
Mr. Ndiame Diop	Economist, PRMTR
Ms. Martha Jarosewich-Holder	ET Consultant, AFTU2
Mr. Ousmane Dione	Senior Water Resources Management Specialist, Resident Mission
Mr. El-Hadj Adama Touré	Senior Agricultural Economist, Resident Mission
Mr. Ibou Diouf	Transport Specialist, Resident Mission
Mr. Julien Bandiaky	Economist, Resident Mission
Mr. Geraldo Martins	Senior Education Specialist, Resident Mission
Ms. Julia Van Domelen	Lead Social Protection Specialist, Resident Mission
Mr. Marc Jean Yves Lixi	Operations Officer, AFTKL
Mr. Demba Balde	Social Development Specialist, Resident Mission
Ms. Meskerem Mulatu	TTL, Education Project Team, AFTH2
Mr. Michel Perrault	Consultant, Education Project Team, AFTH2
Mr. Serge Theunynck	TTL, Social Development Fund Project, AFTH2
Ms. Françoise Perrot	Operations Officer, AFCSN
Mr. Quentin Wodon	Lead Poverty Specialist, AFTPM
Ms. Nancy Benjamin	Senior Country Economist, AFTP3
Mr. Jacques Morisset	Lead Economist, APTP4
Mr. Jan Walliser	Senior Economist, OPCCE
Mr. Eric Andre de Roodenbeke	Senior Health Specialist, AFTH2

Annex D: Management Action Record

IEG Recommendations Requiring a Response	*Management Response*
• *Provide support for rural development and rural-urban linkages.* This includes more emphasis than in the past on increasing rural access to infrastructure, particularly roads and electricity, and on addressing inefficiencies and inequities in rural access to education and health services. In addition, it also implies support for agricultural exports through promoting economic integration within the WAEMU and ECOWAS and improving the environment for private investments.	• *The recommendation is fully in line with the Bank's strategy in the period under review, notably the FY03-05 CAS. The approach suggested by OED is already being implemented. Specifically, support is provided for rural development and rural-urban linkages (PNIR, PPEA, PAC, AFDS, PSAOP, etc).* A number of Bank projects have had an impact on the poor in rural areas, and major accomplishments have been achieved under these operations, namely on household incomes, children's health, and access to essential services. The Bank has been a leader in improving capacity of local institutions under the AFDS, the PNIR and PAC programs, both at the local Government and local community levels. During the period under review, emphasis was placed on increasing rural access to infrastructure. For example, two OBA schemes supported by ongoing operations (the PIPP project in 2003, and the Rural Electricity project in 2004, which were prepared during the period under review) aim to improve rural access to energy and telecommunications. • *Support for agricultural exports* was promoted under PPEA. Some aspects of this project were rated HS in the ICR. It should be noted that the markets for Senegal's rural exports are as much within the WAEMU, as outside the WAEMU. Senegal and the WAEMU are already closely integrated. Bank support on trade issues was provided through preparation of an Integrated Framework which analyzed the contribution of trade integration to growth, and through a trade policy adjustment credit and the PIPP. During the period under review, the Bank also worked closely with the Government on improving the environment for export-oriented private investment and tourism.
• *Continue to strengthen capacity and governance at multiple levels.* In addition to providing support to the government at the central level for expenditure management and accountability, increased support is needed at the local level, to	• *Concur that support is needed at the local level to strengthen institutions and deliver local services. As noted in point 1, Bank program has put heavy emphasis on these areas during the period under review and will continue to do so.* The Local De-

IEG Recommendations Requiring a Response	Management Response
strengthen capacity of local governments and local institutions to manage investments and to deliver local services.	velopment project (CDD, which builds upon two operations being successfully completed) currently under preparation will provide support to a national program aimed at mainstreaming decentralization, strengthening capacity building for all actors involved in local development, and providing access to quality basic social and economic services to rural areas. The Bank's strategic choice has been to integrate capacity building initiatives within all programs in rural areas, as opposed to funding a more visible but probably less effective stand-alone capacity building operation.
• *Enhance donor coordination.* The APLs and sector wide approaches may provide good platforms for Bank and other donors to continue to work together, but beyond this, the Bank should explore the scope for enhancing multi-donor buy-in on programmatic lending, as has been done in other countries with some success (for example, in Uganda). This would involve reaching explicit agreement among participating donors on the scope, approach, and specific timing of reforms supported under Bank lending and, to the extent that the donor community was speaking with a coherent voice, could lead to better progress on these reforms.	• Experience in Senegal shows that the move to SWAPs has helped improve donor coordination in health and education (as well as other sectors covered by either SWAPs or APLs). • Donor coordination is receiving full attention in the rest of the program, including AAA and lending. In transport, major donors have co-financed both projects (PST1&2). In rural development, the Local Development project under preparation is developing a SWAP framework to harmonize donor assistance. A similar case of effective donor coordination can be made in PSD where the investment climate assessment was co-funded by USAID and France. • On programmatic lending, the Bank has worked very closely with the PRSP Secretariat and all development partners to ensure multi-donor buy-in and coordination of assistance through budget support. The scope of the PRSC was defined following close consultation with donors. Five working groups were created to cover areas of emphasis under PRSC-II to ensure donor collaboration on issues such as decentralization and vulnerable groups. Donors opted to select a few priority sectors for each of their planned budgetary operations, so as to avoid duplication. A close collaboration has also emerged in the definition of monitoring indicators used to evaluate the overall PRSP implementation. The Private Sector Adjustment Credit is another example of successful donor collaboration. Its program was the basis of a parallel DPL by ADB with harmonized conditionalities.

Annex E: Guide to IEG-WB's Country Assistance Evaluation Methodology

1. This methodological note describes the key elements of IEG's country assistance evaluation (CAE) methodology.[1]

CAEs rate the outcomes of Bank assistance programs, not the Clients' overall development progress

2. A Bank assistance program needs to be assessed on how well it met its particular objectives, which are typically a sub-set of the Client's development objectives. If a Bank assistance program is large in relation to the Client's total development effort, the program outcome will be similar to the Client's overall development progress. However, most Bank assistance programs provide only a fraction of the total resources devoted to a Client's development by donors, stakeholders, and the government itself. In CAEs, IEG rates only the outcome of the Bank's program, not the Client's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

3. The experience gained in CAEs confirms that Bank program outcomes sometimes diverge significantly from the Client's overall development progress. CAEs have identified Bank assistance programs which had:

- satisfactory outcomes matched by good Client development;
- unsatisfactory outcomes in Clients which achieved good overall development results, notwithstanding the weak Bank program; and,
- satisfactory outcomes in Clients which did not achieve satisfactory overall results during the period of program implementation.

Assessments of assistance program outcome and Bank performance are not the same

4. By the same token, an unsatisfactory Bank assistance program outcome does not always mean that Bank performance was also unsatisfactory, and *vice-versa*. This becomes clearer once we consider that the Bank's contribution to the outcome of its assistance program is only part of the story. The assistance program's outcome is determined by the *joint* impact of four agents: (a) the Client; (b) the Bank; (c) partners and other stakeholders; and (d) exogenous forces (e.g., events of nature, international economic shocks, etc.). Under the right circumstances, a negative contribution from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

1. In this note, *assistance program* refers to products and services generated in support of the economic development of a Client country over a specified period of time, and *client* refers to the country that receives the benefits of that program.

5. IEG measures Bank performance primarily on the basis of contributory actions the Bank directly controlled. Judgments regarding Bank performance typically consider the relevance and implementation of the strategy, the design and supervision of the Bank's lending interventions, the scope, quality and follow-up of diagnostic work and other AAA activities, the consistency of the Bank's lending with its non-lending work and with its safeguard policies, and the Bank's partnership activities.

Rating Assistance Program Outcome

6. In rating the outcome (expected development impact) of an assistance program, IEG gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. In other words, did the Bank do the right thing, and did it do it right. Programs typically express their goals in terms of higher-order objectives, such as poverty reduction. The country assistance strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development, and specify how they are expected to contribute toward achieving the higher-order objective. IEG's task is then to validate whether the intermediate objectives were the right ones and whether they produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator's task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

7. For each of the main objectives, the CAE evaluates the relevance of the objective, the relevance of the Bank's strategy towards meeting the objective, including the balance between lending and non-lending instruments, the efficacy with which the strategy was implemented and the results achieved. This is done in two steps. The first is a top-down review of whether the Bank's program achieved a particular Bank objective or planned outcome and had a substantive impact on the country's development. The second step is a bottom-up review of the Bank's products and services (lending, analytical and advisory services, and aid coordination) used to achieve the objective. Together these two steps test the consistency of findings from the products and services and the development impact dimensions. Subsequently, an assessment is made of the relative contribution to the results achieved by the Bank, other donors, the Government and exogenous factors.

8. Evaluators also assess the degree of Client ownership of international development priorities, such as the Millennium Development Goals, and Bank corporate advocacy priorities, such as safeguards. Ideally, any differences on dealing with these issues would be identified and resolved by the CAS, enabling the evaluator to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts, or avoided addressing key Client development constraints. In either case, the consequences could include a diminution of program relevance, a loss of Client ownership, and/or unwelcome side-effects, such as safeguard violations, all of which must be taken into account in judging program outcome.

Ratings Scale

9. IEG utilizes six rating categories for **outcome**, ranging from highly satisfactory to highly unsatisfactory:

Highly Satisfactory:	The assistance program achieved at least acceptable progress toward all major relevant objectives, <u>and</u> had best practice development impact on one or more of them. No major shortcomings were identified.
Satisfactory:	The assistance program achieved acceptable progress toward all major relevant objectives. No best practice achievements or major shortcomings were identified.
Moderately Satisfactory:	The assistance program achieved acceptable progress toward most of its major relevant objectives. No major shortcomings were identified.
Moderately Unsatisfactory:	The assistance program did not make acceptable progress toward most of its major relevant objectives, or made acceptable progress on all of them, but either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
Unsatisfactory:	The assistance program did not make acceptable progress toward most of its major relevant objectives, and either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
Highly Unsatisfactory:	The assistance program did not make acceptable progress toward any of its major relevant objectives and did not take into adequate account a key development constraint, while also producing at least one major shortcoming, such as a safeguard violation.

10. The **institutional development impact (IDI)** can be rated as: *high, substantial, modest,* or *negligible*. IDI measures the extent to which the program bolstered the Client's ability to make more efficient, equitable and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the institutional development impact of the program are:

- the soundness of economic management;
- the structure of the public sector, and, in particular, the civil service;
- the institutional soundness of the financial sector;
- the soundness of legal, regulatory, and judicial systems;
- the extent of monitoring and evaluation systems;
- the effectiveness of aid coordination;
- the degree of financial accountability;
- the extent of building NGO capacity; and,
- the level of social and environmental capital.

11. **Sustainability** can be rated as *highly likely, likely, unlikely, highly unlikely,* or, if available information is insufficient, *non-evaluable.* Sustainability measures the resilience to risk of the development benefits of the country assistance program over time, taking into account eight factors:

- technical resilience;
- financial resilience (including policies on cost recovery);
- economic resilience;
- social support (including conditions subject to safeguard policies);
- environmental resilience;
- ownership by governments and other key stakeholders;
- institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness); and,
- resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

Attachment 1: Comments from the Government

AKF/dcm 29.01.06

REPUBLIQUE DU SENEGAL
Un Peuple – Un But – Une Foi

MINISTERE DE L'ECONOMIE ET DES FINANCES

DIRECTION DE LA COOPERATION ECONOMIQUE ET FINANCIERE

N° 0 0 9 6 1 .....MEF/DCEF/DCM

Dakar, le 06 FEV. 2006

BANQUE MONDIALE
-7 FEV. 2006
ARRIVEE N° 0254/EIL

LE MINISTRE D'ETAT

OBJET : **Evaluation rétrospective de l'aide de la Banque Mondiale au Sénégal.**

REFERENCE : **V/L datée du 06 décembre 2005**

Monsieur le Chef de Division,

J'accuse réception du document en objet portant sur l'évaluation de l'aide de la Banque mondiale au Sénégal.

L'examen dudit document suscite de ma part certaines observations :

- au niveau du dernier paragraphe de la page 27, la phrase peut prêter à confusion car le document mentionne que « le Ministère de l'Energie et des Mines (MEM) ne voulait pas qu'au moins 51% du capital de la Sénélec soit cédé à un partenaire stratégique, alors que la Banque comme le Gouvernement espéraient que le partenaire allait non seulement payer...... » or le Gouvernement est représenté par le MEM et est par conséquent l'Etat ;

- à la page 29 du rapport, la deuxième phrase du premier paragraphe ne me paraît pas très explicite. En ce qui concerne la réalisation des routes, le retard s'explique surtout par un problème de choix technique plutôt que par une sous – estimation des coûts ;

A
Monsieur le Chef de Division
Evaluation des pays et relations régionales
Groupe Indépendant d'Evaluation de la Banque Mondiale

Banque Mondiale

FAX : 202 522 3124

- à la page 30, point 3.34 du document, remplacer les expressions « le transfert de la SONACOS à un opérateur privé » par « la privatisation de la SONACOS », « taxe à la consommation » par « taxe conjoncturelle d'importation (TCI) » et « surtaxation sur l'huile végétale » par « taxe spécifique sur l'huile végétale » ;

- à la page 35, premier paragraphe, le taux de 30% représentant la part des dépenses budgétaires sur le budget de l'éducation est à revoir, de même que la période et la source devraient être précisées ;

- à la page 37, point 3.45, il est vrai que l'intégration entre les deux projets a été insuffisante mais on ne peut pas affirmer que le projet a été développé indépendamment du PDIS. Toutefois, on note effectivement des faiblesses au niveau :

    - de la coordination entre les deux projets ;
    - au niveau de la mise en œuvre des réformes institutionnelles qui devraient accompagner les deux projets.

Certaines recommandations sont également formulées par la partie sénégalaise sur le financement de la Banque Mondiale au Sénégal :

- la Banque Mondiale devrait appuyer le Sénégal dans la mise en œuvre de sa politique de développement de la microfinance notamment pour le cadre réglementaire et institutionnel et à travers un vaste programme national d'autant plus que le secteur de la Micro finance constitue un des leviers de la lutte contre la pauvreté. Dans le secteur de la santé, l'appui pourrait se traduire également par une assistance dans la lutte contre le paludisme qui est une maladie dont le taux de mortalité est le plus important au Sénégal ;

- par ailleurs, l'aide pourrait aussi concerner le secteur agricole par un appui pour l'exploitation des services de l'assurance agricole qui contribuerait à atténuer l'impact de la chute des cours internationaux et certaines calamités sur les revenus des producteurs ruraux ;

- dans le futur, les prêts accordés par la Banque devraient davantage être concentrés dans le milieu rural en vue d'atténuer certains problèmes de concentration humaine que rencontre la zone urbaine.

Veuillez croire, **Monsieur le Chef de Division**, à l'assurance de ma haute considération.

Le Ministre d'Etat
Ministre de l'Economie
et des Finances

Abdoulaye DIOP

Attachment 2. Comments from the Government (Non-official English Translation)

Dakar, February 06, 2006

To:
The Division Chief,
Country Evaluations & Regional Relations,
Independent Evaluation Group
World Bank

Subject: Senegal Country Assistance Evaluation

Reference: Your letter dated, December 6, 2005

Mr. Division Chief,

I acknowledge receipt of the document referenced above on the evaluation of Bank assistance to Senegal.

I have certain observations to make on the review of the aforementioned document:

- In the last paragraph of page 27, the sentence can cause confusion as the document mentions that "the Ministry of Energy and Mines (MEM) did not agree that at least 51% of SENELEC's share capital should be offered for to sale a strategic partner, while the Bank and the Government expected that the partner would not only pay...", yet the MEM represents the Government and is therefore the State;

- On page 29 of the report, the second sentence of the first paragraph is not clear. As regards road construction, the delay is due more to a technique problem rather than to cost underestimates;

- On page 30, paragraph 3.34 (French version), replace the expressions "le transfert de la SONACOS à un opérateur privé (transfer of SONACOS to a private firm) » by "la privatisation de la SONACOS (privatization of SONACOS)», «taxe à la consommation (consumption tax)» by "taxe conjoncturelle d'importation (TCI) (temporary tax on imports)" and "surtaxation sur l'huile végétale (surcharge on vegetable oil) » by "taxe spécifique sur l'huile végétale (specific tax on vegetable oil)».

- On page 35, first paragraph, the rate of 30% representing the share of higher education in the education budget has to be re-examined, and the period and the source should be specified as well.

- On page 37, paragraph 3.45; it is true that the integration between the two projects has been insufficient but one cannot say that the project was designed in isolation from the Integrated Health Sector Development Program (PDIS). However, there were weaknesses (i) at the level of coordination between the two projects, and (ii) in the implementation of institutional reforms that were to accompany the two projects.

We also have some recommendations to make on the World Bank's assistance in Senegal:

- The World Bank should help Senegal implement its microfinance development policy, especially the institutional and regulatory framework, through a comprehensive national program, given that microfinance is a key instrument in the fight against poverty. In the health sector, the Bank could assist in the fight against malaria, which has the highest mortality rate of all diseases in Senegal;

- Moreover, Bank assistance could encompass the agricultural sector through support for the development of insurance mechanisms that could help mitigate the impact of terms of trade shocks and natural calamities on farmers' incomes;

- In the future, Bank lending should focus much more on rural areas with a view to helping attenuate problems of population concentration in urban areas.

Please accept, Mr. Division Chief, the expression of my highest consideration.

Abdoulaye DIOP
Minister of State
Minister of Economy and Finance

Attachment 3: Chairman's Summary

1. The Informal Subcommittee (SC) of the Committee on Development Effectiveness (CODE) met on February 27, 2006 to discuss the report entitled *Senegal: Country Assistance Evaluation*, prepared by the Independent Evaluation Group (IEG).

2. **Background.** The Senegal CAE reviewed the Bank's assistance to the country during the period of 1994-2004. Overall, IEG has rated the development outcome for the Bank's program objectives in Senegal as moderately satisfactory. The report noted that since 1994 Senegal initiated reforms which led to higher growth rates and poverty reduction, albeit mainly in urban areas. The Bank's program was relevant to the country's development and effective in supporting government efforts to improve the water supply system, increase primary school enrollment including girls' participation, and promote municipal development; but less effective in improving access of the rural poor to basic social and infrastructure services and in increasing their incomes. According to the IEG report, the main lesson emerging form the evaluation is that support for infrastructure development alone is not sufficient to promote growth and reduce poverty. Adequate attention also needs to be paid to linkages between rural and urban areas. Looking forward, the CAE recommended that the Bank program in Senegal focus on:
(i) rural development and urban-rural linkages, including more emphasis than in the past on rural access to infrastructure and addressing inefficiencies in rural access to health and education; (ii) support for agriculture exports through promoting regional economic integration and improving the business environment; (iii) strengthening capacity and governance at multiple levels; and (iv) enhancing donor coordination, possibly through enhancing multi-donor buy-in on programmatic lending.

3. Management welcomed the key messages coming out of the CAE and concurred with most of its conclusions and recommendations which, it argued, were in line with the Bank's strategy in the period under review and were already being implemented. Management also noted that there has been adequate focus on the rural sector in the last CAS and disagreed with some aspects of the report's assessment of the Bank's role in failed privatization attempts in the electricity sector and slow progress in liberalizing the groundnut sector. Senegalese authorities provided comments on the assessment, where they generally agreed with its findings and recommended additional focus on microfinance, the fight against malaria and rural development, including agriculture insurance.

4. **Main Conclusions and Next Steps.** The Subcommittee welcomed the CAE and broadly agreed with its findings and recommendations. Members stressed that lessons coming out of the IEG assessment need to be reflected in the upcoming country assistance strategy. Among the main issues raised by the members were: (i) the need to strengthen the link between rural and urban development and focus more on poverty reduction among rural population; (ii) better balanced presentation of other donors' contributions to growth and stability; (iii) importance of staying engaged and maintaining dialogue at times of political changes; (iv) additional efforts at improving donor coordi-

nation and harmonization. Management agreed with most of the IEG recommendations and welcomed the feedback from the Subcommittee, and will take it into account while preparing the upcoming joint IDA/IFC/MIGA country assistance strategy.

The following points were raised:

5. **Rural-urban links.** Members stressed the importance of addressing urban bias in the Bank's activities and the need for more emphasis on poverty reduction in rural areas, where the majority of the poor live. Several members asked whether there was any disconnect between the Bank's CAS and the country's PRSP, since the latter had emphasized the priority of agriculture and rural development. Management noted that looking at country circumstances and emerging needs, it felt that the mix of rural-urban investment was correct, especially taking into account the dominance of urban areas in terms of their share in the country's economic activity and impact on the well-being of rural population (e.g. importance of urban infrastructure financing for access to urban markets from rural areas). Members agreed with the importance of urban development and infrastructure as a driving force for growth, but stressed that more needs to be done, including analytical work, to establish better links to rural development. Management noted that the next country assistance strategy will be more informative on this aspect.

6. **Sustainability.** Some members were interested in the Bank's strategy to assist Senegal in maintaining sustainable growth rates necessary for reaching the MDGs. Management noted that the new PRSP anticipates growth levels necessary for achieving the MDGs and will be supported by the Bank and the donor community (including the Millennium Challenge Corporation). IEG added that sustainability depends on the project design complexity, institutional arrangements for implementation (e.g. PIUs) and government commitment: all issues not necessarily specific to Senegal. Management replied that it is trying to simplify project design and encourage mainstreaming PIUs, but also noted the need to be flexible, taking into account country circumstances and existing capacity.

7. **Dialogue.** Several members noted the decline in quality of dialogue with the clients following political changes in the country and expressed interest in how the Bank incorporates the understanding of the country's political economy and the impact of political cycles in its longer-term strategy. A member underlined the importance of synchronizing the approach to and pace of reforms with the government for better outcomes.

8. **Private sector development and governance.** A member felt that given the significant share (about sixty per cent of economic activity) of the informal sector and the country's low standing in a number of PSD and governance-related rankings (Transparency International Corruption Perception Index, Doing Business report, etc.), the "moderately satisfactory" assessment for the outcome of private sector development might be too generous. He added that the Bank and IFC could have done more to assist the government in improving the conditions for private business. IEG concurred that little progress has been achieved on governance and business climate, but also added that the rating on private sector development, in addition to business climate, includes other factors such as the outcomes on trade, privatization and financial sector–many of which were quite positive in Senegal. Among factors impeding development of the private sector and investment, several members mentioned lack of access to finance for SMEs and in-

dividuals and urged the Bank and IFC to accelerate efforts in developing appropriate financial products and institutions to address these issues.

9. **Lessons.** Members stressed the importance of lessons learned through the IEG assessment for informing the next country assistance strategy and strengthening the Bank's strategy for implementing the Africa Action Plan. A speaker noted that this CAE could have been used as an opportunity to go deeper into discussion of the Bank's ability to quickly adjust and respond to political changes, which was an issue in Senegal, negatively affecting the country's CPIA, portfolio, volumes of lending, etc. IEG replied that the issue of the Bank's response in turnaround situations had been raised in the CAE Retrospective, where it was noted that, unlike Senegal case, the Bank had been overly active whenever there was political change, often providing additional financing with little time to do the necessary analysis. IEG also added that drawing common lessons is difficult, since every country situation tends to be very different.

10. **Aid coordination and attribution.** Members supported the report's observation regarding the need to improve donor coordination and urged the Bank to take the lead in this direction, including building requisite government capacity. Some members felt that the report would have benefited from including more detailed information on other donors' activities. IEG replied that it had made extensive efforts to engage other donors, especially the EU, while preparing the report. Some speakers noted the infrequency of the consultative group process and asked what can be done in this regard. Management noted that coordination processes are in place and produce concrete results in Senegal (e.g. single unified comments on PRSP, basket funding for public financial management reforms, etc.). Some speakers felt that the report could have been more balanced in presenting the Bank's contribution to growth and macroeconomic stability, as well as certain sectoral achievements (e.g. telecom privatization, HIV-AIDS) -including proper acknowledgment of the role and input of other donors. IEG responded that the report notes that the Bank did not play a major role in the first round of reforms (including, in particular, telecom privatization) and that it does agree with the important role played by other donors, especially IMF.

11. **Risks**. Some members noted the important role of IFC in developing the country's exporting capacities and stressed that IFC needs to stay engaged in sectors that entail higher risks, but also have the potential of higher developmental impact (e.g. SMEs), and not limit itself to larger projects and TA. IEG-IFC noted that IFC is not avoiding risks, but rather tries to reduce them through its arsenal of projects, TA and corporate governance advice.

12. **Communication with Board**. A member noted that the Board needs to be better informed of the management's concerns to move forward with certain operations (e.g. energy privatization and communication about adjustment loan tranche release), in order to allow for proper discharge of its fiduciary responsibilities. IEG concurred that, in its view, some legitimate risks were not communicated in the tranche release memo to the Board at that time.

Pietro Veglio, Chairman