MEMBER COUNTRY PARTNERSHIP STRATEGY

(2013-2015)

SENEGAL

Supporting competitiveness enhancement, increased agricultural production and productivity for an emerging nation

Rabi'II 1434H (January 2013)

ISLAMIC DEVELOPMENT BANK GROUP

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Currency (December 31, 2012)

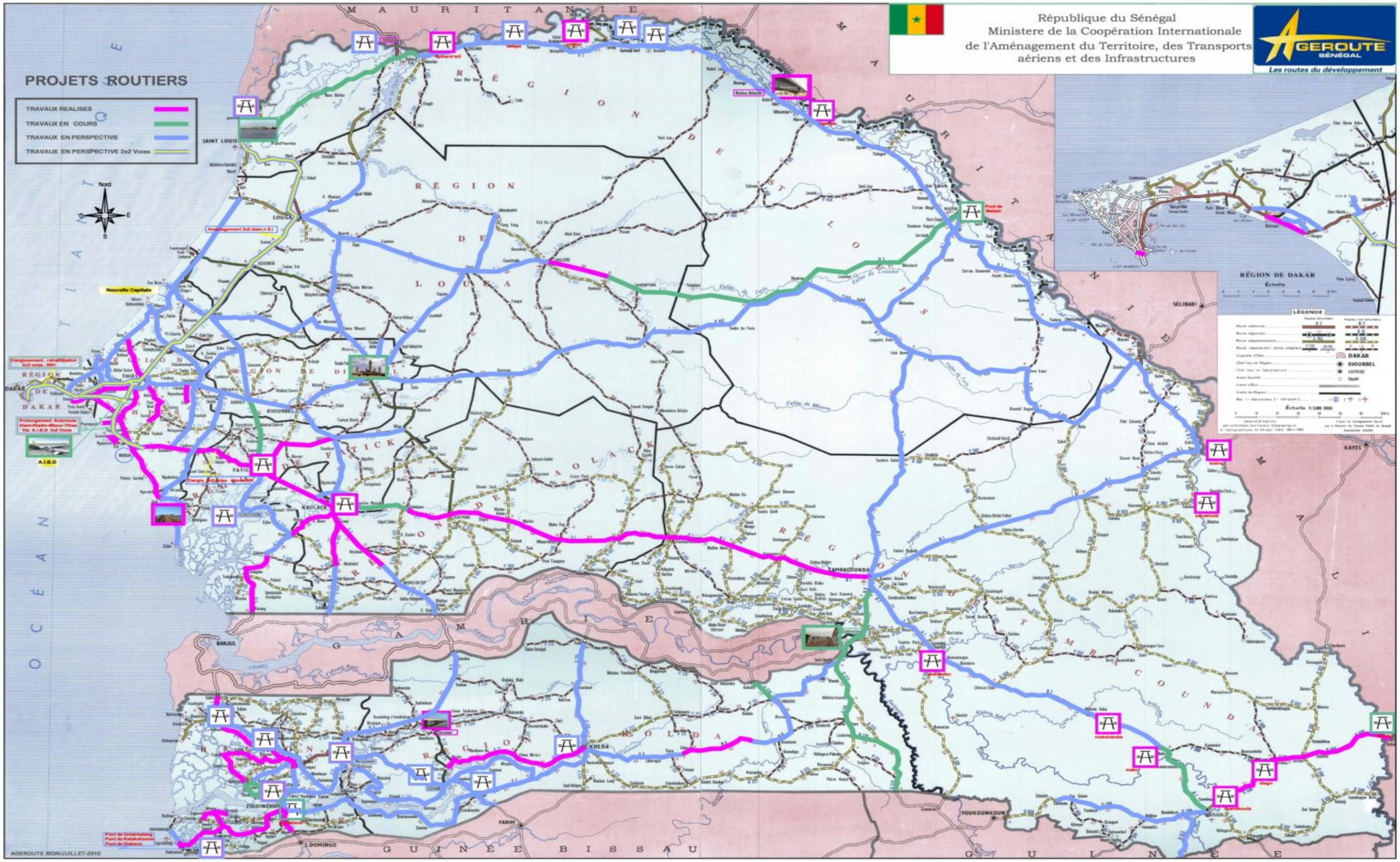
US$1 = FCFA 498.56
Euro 1 = FCFA 656
ID 1 =US$1.5

ACRONYMS AND ABBREVIATIONS

AFD	Agence Francaise de Development
AfDB	African Development Bank
AIBD	Aeroport International Blaise Diagne
APIX	Agency of Foreign Investment Promotion
ASEXPEX	Agency of Export Promotion
BADEA	Arab Bank for Economic Development in Africa
BER	Gross Enrolment Rate
BOAD	West African Development Bank
CFA f	Currency used in West Africa by French-speaking countries
DMC	Direction de Monnaie et de Crédit
DPES	Document des Politique Économique et Sociale
ECOWAS	Economic Community of West African States
EBID	ECOWAS Bank for Investment and Development
ESAM II	Senegal Household Survey II
ESP	Economic and Social Policy Paper
EU	European Union
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GOANA	Great Agricultural Offensive for Food Abundance
GoS	Government of Senegal
HDI	Human Development Index
HDR	Human Development Report
ICD	Islamic Corporation for the Development of the Private Sector
ICIEC	Islamic corporation for the Insurance of Investment and Export credit
IDB	Islamic Development Bank
IDBG	Islamic Development Bank Group
IFS	Islamic financial Services
IPP	Independent Power Producers
IRTI	Islamic Research and Training Institute
ISFD	Islamic Solidarity Fund for Development
ITFC	International Islamic Trade Finance Corporation
KV	Kilo Volts
LDC	Least Developed Countries
LDMC	Least Developed Member Countries
MCPS	Member Country Partnership Strategy
MDGs	Millennium Development Goals
MoE	Ministry of Education
MW	Mega Watt
OCR	Ordinary Capital Resources
OIC	Organization of Islamic Cooperation
OMVG	Organisation pour la Mise en Valeur Fleuve Gambie

OMVS	Organisation pour la Mise en Valeur Fleuve Senegal
PER	Primary Enrolment Rate
PPP	Public Private Partnerships
PSI	Policy Support Initiative
SHS	Solar Home Systems
SME	Small and Medium Size Enterprises
SSA	Sub Saharan Africa
SYTRAM	System of Multimodal Transport (in French)
TA	Technical Assistance
TAKKAL	Senegal Emergency Electricity Programme
UN	United Nations
USA	United States of America
USAID	United States Aid for International Development
VDN	Voie de Degagement Nord
WAEMU	West African Economic and Monetary Union
WEF	World Economic Forum

MAP OF SENEGAL



EXECUTIVE SUMMARY

Strategically located on the West African coast, Senegal is bordered by the Atlantic Ocean (531 km of coastline) and five other countries, (The Gambia, Mali, Guinea Bissau, Guinea and Mauritania). It is home to over 12 million people spread over an area of 197,700 KM^2 with population densities varying from 7 persons per KM^2 in Kédougou to 4,646 persons per KM^2 in the Dakar region.

Over the last three decades, economic growth has been trending gradually towards an average of 5% per annum. Over this period the economy has been growing close to its full potential growth with output gaps in the range of about ±0.5% for the period 1995 to 2010. Per capita GDP averaging just below US$ 1000 PPP for the period 2005-09 is among the highest in West Africa. Revenue collection in 2010 is estimated at 19.4% of GDP increasing from 18.6% in 2009 and with projections averaging 20.4% of GDP for the next three years, revenue collection is also among the highest in Sub Saharan Africa. **Remittances which amounted to about CFAf 722 billion in 2008** (12.1% of the GDP), were adversely affected by the global financial crisis in 2009 but regained momentum in 2010 and the projection for 2011 of CFAf 707 billion is above their pre-crisis level. However, as a percentage of GDP, remittances manifest a declining trend.

The Senegalese economy is dominated by the services and industry yet agriculture which contributes 7.2% of GDP is still the main source of income for 60% of the population, especially rural populations. A moderate private sector exists in this factor-driven economy that is challenged, among others, by the limited access to financing which, for three years in a row, is seen as the most problematic factor for doing business in Senegal. This binding constraint for private sector development is also recognized in the World Bank's "Doing Business Report 2010", where Senegal ranked 150 out of 183 in terms of access to credit. However, significant levels of value-added economic growth come from small and medium enterprise (SMEs) in manufacturing, public works and services, which account for 90% of the registered businesses**.**

On the social front, poverty has slowly declined in recent years but its depth remains a major concern. Social indicators are mixed but are better than the averages of Sub-Saharan Africa (SSA) and Least Developed Countries (LDC). In 2010, Senegal scored a Human Development Index (HDI) of 0.411 which is above the Sub-Saharan African average of 0.389 and is ranked 144 out of 169 countries.

As **a developing country, Senegal is confronted with a number of development challenges some of which constitute binding constraints to full and deepened economic development.** These include inadequate infrastructure (both transport and energy); high unemployment especially among educated youths, increasing salination of its fresh waters which is adversely affecting agricultural production, and a private sector that lacks depth. Despite these daunting challenges, Senegal also enjoys a number of opportunities (although a significant number of them are latent) that could be leveraged to address these challenges and release the economy's full growth potential. First and foremost, River Senegal has tremendous potential for hydro power which, when complemented by that of the neighboring River Gambia (within a regional integration framework) could significantly dent the energy deficit. In addition to these, Senegal sits on a solar belt that also offers it the opportunity to harness solar power. It also has regions with winds speed strong enough to generate wind energy. The River Senegal also offers tremendous potential for irrigation and increased agricultural production and this coupled with the fact that value chain enhancement of agricultural production has already set hold in the economy, and an enterprising population, means that the environment for creating jobs and exports exit. Senegal also enjoys unexplored potential in regional trade, being strategically located in the West coast of the continent. It is also a member of the Economic Community of West African States (ECOWAS) and West African Monetary Union (WAEMU) which offers it a market of about 500 million people which is forty times more than its national population.

The Government of Senegal's response to the challenges identified is its third set of poverty reducing strategies, DPES (ESPP), which is being implemented over the period 2012-2016. This is built around the vision of "*an **emergent** economy driven by a strong private sector and whose wealth is distributed equitably through effective citizen oversight, ensuring a harmonious and sustainable development*". The achievement of the strategy is anchored on the effective implementation of the three main pillars:

1. creating wealth and promoting economic opportunities for the promotion of productive employment and the structural transformation of the economy;
2. enhancing access to social services, social protection and sustainable development includes actions aimed at strengthening education, training, health and welfare of the people; and
3. strengthening the core principles of good governance and human rights which will mainly cover cross-cutting actions related to strategic management of sectoral policies, gender and equity, public administration and state reform, improved management of public finance, human rights and decentralization, among others.

The new government of Senegal installed in April, 2012 encountered a number of emergencies on taking office, including cash flow constraints, which required it to impose immediate measures to contain public spending by shrinking the size of the administration and postponing certain public investments, while maintaining those that are vital to the continued development of the economy such as energy, agriculture and social spending. Economic recovery is expected for the years 2012 (3.9%) and 2013 (4.4%) on which the government hopes to build its ambition of setting the economy on a 7% growth trajectory from 2014.

IDBG's support will mainly focus on pillar one and part of pillar two of DPES, and all the strategic interventions of the IDB Group will be aligned to those of the Government of Senegal as articulated in the DPES. The IDB Group's support in the MCPS will build upon the strong partnership that exists between the Bank Group and Senegal since it joined in 1976. Over this period, the Bank Group has approved a total of US$ 964 million for the country, of which 66% have been financed by IDB, 28% by ITFC, and 3% each by ICIEC and ICD. This portfolio is significantly diversified and covers all the major sectors of the economy: agriculture, education, health, public utilities, public administration, transport and communication. Most of the development finance went to transport followed by energy and then agriculture with the rest being of smaller amounts. In terms of modes of financing, the bulk of the financing was through Loans (51%) followed by Installment Sale at 28% and Leasing at 14%.

The core of this partnership strategy is informed by the confluence of IDB Group's key strategic thrusts and the strategic pillars of the DPES. IDBG identified nine strategic thrusts, of which six are key for the achievement of its Vision 1440H. The result is two MCPS pillars (enhancing competitiveness and increasing agricultural production and productivity) informed by reverse linkage opportunities and policy-analytic studies. Specifically the two pillars will be achieved through the following sectoral interventions: support energy infrastructure development to enhance the productivity and competitiveness of the economy; support multimodal transport infrastructure development to enhance competitiveness and regional integration; support the development of Integrated Agriculture through water resource (deep and surface) management, and the restoration of the degraded lands, aimed at improving and enhancing agricultural productivity to increase incomes and ensure food security (including the development of irrigated agriculture); and support private sector development through the promotion of access to Islamic financing by enhancing the capacity of the private sector to develop bankable projects through the creation of a Technical Assistance Fund which will help the SMEs and SMIs to reinforce their capacities and governance. These will be enabled by human and capacity development.

These pillars will be informed by reverse linkages and policy-relevant analytical studies. **Reverse Linkage** experiences in Senegal developed over the years which can be effective in responding to the development challenges will be shared with other member countries of the IDB facing similar challenges. Niger for instance, has identified skills in Micro Finance (as practiced by Credit Mutuel of Senegal) as an area of interest. On the other hand, expertise from other member countries could be used in Senegal. A study in this area will be undertaken to identify the opportunities as well as the most optimal way of exploiting them. **Policy-relevant analytical studies will also be undertaken** to support the effective implementation of the partnership strategy.

Prudent macroeconomic policies have enabled Senegal to stay on low debt distress risk and blending will characterize the indicative financing envelope. The amount of financing is informed by the absorptive capacity of Senegal, especially in the last 5 years and the amount of ordinary financing it can take as dictated by the Debt Sustainability analysis of the IMF. The financing envelope will amount on average to US$ 200 million per annum for the 4-year period (2012-2015) from the IDB Group, Specialized Funds and Programmes amounting to US$ 800 million. In addition, an average of US$ 140 million per annum is expected to be leveraged from other partners bringing the amount to US$ 560 million per annum. The total package will therefore amount to US$ 1.364 billion for the period.

The risks and uncertainties relating to the effective implementation of the MCPS include possible changes in the political orientation of the newly elected government. Economic risks include domestic exports which are highly dependent on the primary sector and one firm (*Industries Chimiques du Sénégal*), which represents 10% of all exports. Climate change has also led to changes in rainfall, high temperatures and strong winds affecting agriculture and also risks to the effective implementation of the Strategy. Social tensions observed recently, were tempered with peaceful presidential elections held in March 2012. However there is still a strong social expectation.

The implementation of the MCPS will be monitored using a Results Matrix which contains the goals, expected outcomes, outputs and interventions of the IDB Group to meet those set by the government. The MCPS will be subjected to annual implementation reviews to ensure the implementation of the Country Program is in line with the stipulations of the MCPS. A comprehensive Mid-term review will be undertaken at the end of 2013 to ascertain the program is on course and to institute remedial actions if necessary.

I. INTRODUCTION

1. This Member Country Partnership Strategy (MCPS) will form the foundation of the IDB Group's support to Senegal over the period 2012-2015. The IDB Group has prepared this partnership strategy through a participatory process including an extensive dialogue with the Government of Senegal (GoS) and its main other development partners. The proposed IDB Group strategy is based on both Senegal's own development strategy—DPES and IDB's strategic objectives and priorities as contained in the Vision 1440H.

2. The GoS and other development partners welcomed the consultative process leading to this MCPS and the potential it presents for strengthened future cooperation. The preparation of the MCPS has laid the basis for a strengthened dialogue on development priorities with the GoS, private sector and alignment with other development partners to facilitate aid harmonization and efficiency. The MCPS process thus provides an opportunity for creating a sector or thematic niche for IDB as a key partner in Senegal's development.

3. The MCPS identifies priorities for IDB support taking into account the most pressing binding constraints to economic development in Senegal (energy and transport) as identified through its national development strategies and IDB's comparative advantage. The proposed strategy for 2012-15 is selective, focusing on two pillars: enhancing competitiveness; and increasing agricultural productivity and value-chain enhancement, both of which are aimed at responding to the short, medium and long term needs of the Government and people of Senegal.

4. To transition to an emergent economy, it has to be competitive internationally by being able to produce and export goods and services at lower costs or higher value than its competitors does. This means that the cost of production which is significantly influenced by high transport and energy costs must be reduced by closing the infrastructure deficits. This is aimed at through the first pillar. Meanwhile, the second pillar will support the GoS to attend not only to the acute food shortage that is being experienced through the provision of trade finance to purchase strategic food and other items, but also build the medium to long term capacities to increase food production through efficient and effective water resource management. Future excess food production would be exported to neighboring countries through the roads developed in the first pillar.

5. The Government of Senegal will also be assisted in promoting and developing the Islamic finance industry to make the country a center of Islamic finance in West Africa by deepening capacity building exercise underway. Reverse linkage initiatives will be boosted and policy-relevant analytical Studies undertaken to support the effective implementation of the partnership strategy.

6. The structure of this MCPS Report reflects its design as a strategic partnership document to address a shared diagnosis of the challenges facing Senegal. Section II analyses recent economic and social performance and examines development challenges and constraints the country faces. Section III summarizes the GoS's strategy and reviews recent implementation while Section IV assesses IDB's past and current interventions in Senegal and describes involvement of other partners. Section V sets out the proposed IDB partnership strategy while Section VI presents the indicative financing, with the Monitoring and Evaluation of the strategy which includes a results matrix, reflecting the results based nature of the MCPS in presented in Section VII. Section VIII outlines the risks and uncertainties, and the conclusion and recommendations and contained in Section IX.

II. COUNTRY CONTEXT

2.1. Geography, History and Politics

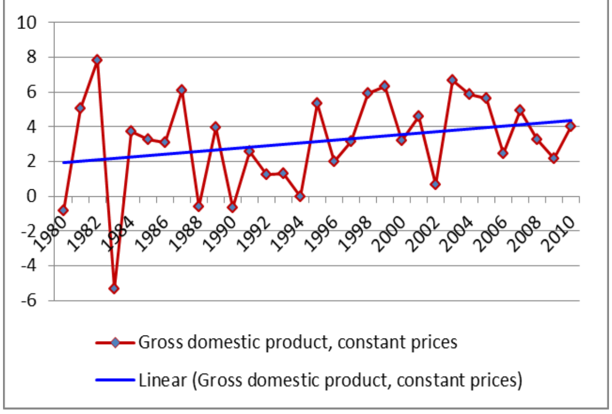
7. **Senegal is strategically located on the West African coast.** A coastal country in West Africa bordered by the Atlantic Ocean (531 km of coastline) and five other countries[1], Senegal is home to over 12 million people spread over an area of 197,700 KM^2. The population density varies from 7 persons per KM^2 in Kédougou to 4,646 persons per KM^2 in the Dakar region. Urbanization has also increased from 30% in 1970 to 46.8% in 2008. Senegal has a tropical climate with average annual precipitation ranging from 34 cm in Podor in the North to 155 cm in Ziguinchorr in the South West and the rains are usually delivered in the four-month period from June/July to September/October.

8. **Since independence in 1960, Senegal has been experiencing relative political stability with the promotion of democratic pluralism and the rule of law.** However political agitation over term mandate and constitutional amendments that were simmering underneath erupted in June 2011. This however, has not prevented the peaceful elections that led to a democratic change with the new elected President Macky Sall in March 2012. A secular republic that is ethnically diverse, Senegal has a Muslim majority with a democratic culture symbolized by a third successful transition in 2012 and the existence of a relatively free press alongside a very active civil society. This stability is associated with a rich and varied history, which makes Senegal a popular tourist destination. Yet, in the Cassamance region in the south, a conflict has been simmering intermittently for more than two decades now. In the past, difficulties emanating from rising food prices prompted social protests in the country but these did not have any traction and quietly died down.

2.2. Recent Economic Developments

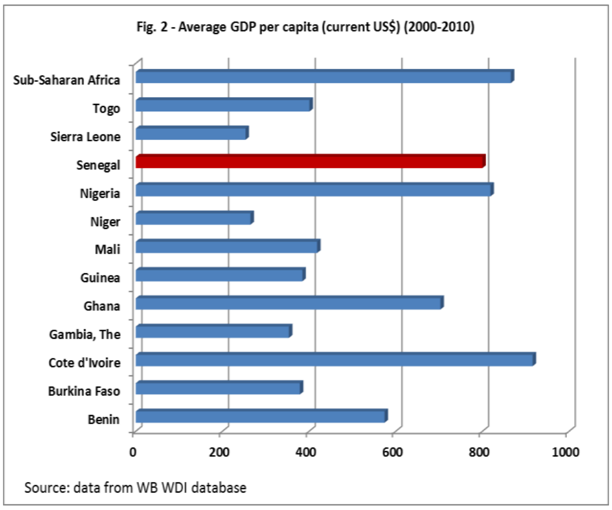
9. **Over the last three decades, economic growth has been trending gradually towards an average of 5%, as shown in Fig. 1.** Recovering from the effects of the global financial and economic crisis which saw the economy grew only at 3.7% and 2.1% in 2008 and 2009 respectively, the economy regained momentum in 2010 registering a growth rate of 4.2% with a projection of 2.6% for 2011, supported by energy sector reform, construction and chemical sectors (IMF June 2011).

Fig. 1 GDP growth, constant prices



10. **In the last decade economic growth has been close to full potential growth with output gap of about ±0.5% for the period 1995 to 2010 with a 4-year cycle.** However, in the six years prior to that, the economy performed below its full potential explained in part by the misalignment of the CFA franc. Given that the economy has been producing at close to its full potential, it means that Senegal needs to grow at a faster rate if it is to achieve the emergent-nation status it aspires to.

[1] The Gambia, Mali, Guinea Bissau, Guinea and Mauritania.



11. **Per capita GDP averaging just below US$ 1000 PPP for the period 2005-09 is among the highest in West Africa.** Fig. 2 compares Senegal's position relative to those of some neighbouring countries. Inflation which has not been worrisome in the past (averaging 1.5% per annum in the last decade), soared to more than 5% in 2007 and 2008, above the West African Economic and Monetary Union (WAEMU) target of 3%, before falling to -0.9% in 2009 due to falling oil and food prices. However because of the recent rises in global commodity prices, inflation is forecasted to rise to 3.4% in 2011. In the absence of renewed energy and food price pressures, inflation is projected to return to WAEMU historical trends (IMF June 2011).

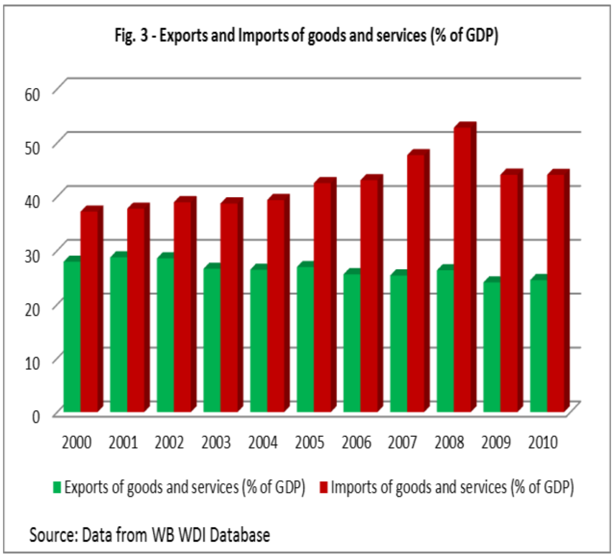
12. **Overall fiscal deficit in 2010 was 5.2% of GDP as a result of a shortfall in donor support.** Revenue collection in 2010 is estimated at 19.4% of GDP in 2010 increasing from 18.6% in 2009 with projections averaging 20.5% of GDP for the next three years. Expenditures in 2010 are 27.2% of GDP with projections averaging at about 28% for the next three years as well with overall fiscal deficit projections (including grants) of 6.5% in 2011, which then falls to 6.4% and then 3.3%in the following two years.

13. **Remittances which amounted to about CFAf 722 billion in 2008** (12.1% of the GDP) declined as a result of the global financial crisis to CFAf 592 billion in 2009 but recovered momentum to CFAf 685 billion in 2010 and the projection for 2011 of CFAf 703 billion are above their pre-crisis level. (See Table 1). However as a percentage of GDP, the flows of remittances manifest a declining trend.

Table 1. Remittances (Actuals and Projections)

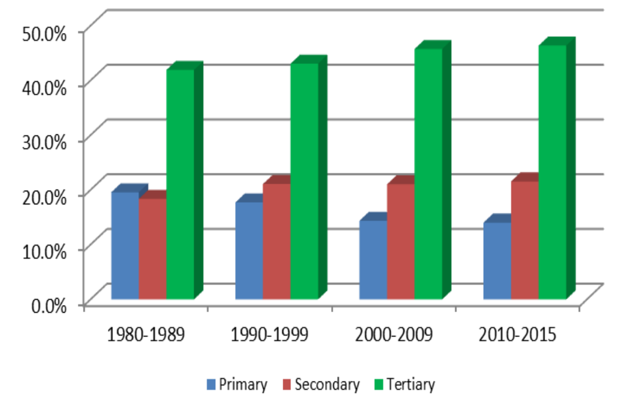
	GDP	Remittances	% of GDP
2008	5995	722	12.0
2009	6029	672	11.1
2010	6369	689	10.8
2011	*6816*	*719*	10.5
2012	*7328*	*731*	10.0
2013	*7745*	*735*	9.5
Source: Government of Senegal			

14. **Trade deficit has been widening but mainly due to Dakar being the transit port for landlocked neighboring countries of Mali and Burkina Faso while Cote D'Ivoire festered in political crisis. (See Fig. 3).** Recently, as import business shifted from Cote D'Ivoire to Senegal due to unrest, Senegal's trade deficit has been widening at an increasing rate such that by 2008 imports more than double exports. Contrary to increasing imports, export performance over the last decade was unremarkable by both world and Sub-Saharan Africa (SSA) standards. This mediocre export performance in Senegal over the last decade is a continuation of a trend of long-term secular decline in exports, both in terms of share of GDP as well as share of world export.



15. **The Senegalese economy is dominated by the services and industry sectors (see Fig. 4) with the latter growing fastest in the**

Fig. 4 - Decades-average shares of GDP (1980-2015)



last three decade. The primary sector represented 15.8% of GDP in 2009, while the secondary sector contributes 20.6% to GDP. The share on non-agriculture GDP has been increasing significantly and is projected to continue with this trend in the medium to long term. The tertiary sector is mainly driven by commerce, transport and telecommunications as well as real estate.

16. **Agriculture is still the main source of income for 60% of the population, especially rural populations and should be included in any strategy that has poverty-reducing dimensions.** This is despite the fact that its share to GDP is declining over time, from just under 20% in the 1980s to just above 10% in 2010, and is very sensitive to climate changes and volatility of world prices. The main crops grown are groundnut, cotton, cowpea, cassava, watermelon, sorghum, rice and maize. Crops yields are generally low and there is a room for improvement with the diffusion of best practices through sensitization activities (ANCAR - Agence Nationale de Conseil Agricole et Rurale).

17. Horticulture development, favoured by the sub-Saharan climate in Senegal's northern zone, has improved since the beginning of the 1980s including the exports of fruits and vegetables. The fishing sector which contributes 1.7% to GDP benefits from a long coastline (approximately 721 KM) and a productive continental shelf area of approximately 25,000 KM2. The sector is largely dominated by the artisanal sub sector. Industrial fishing consists of sardine, tuna and trawler harvesting (shrimp, mullet, sole, cuttlefish, etc.). A decrease in livestock contribution to GDP was mainly due to problems in the management of pastoral resources, including water resources, and the low value of livestock product. The livestock comprises approximately 3.1 million cattle and 8.7 million sheep and goats. Cattle are raised extensively and on a small scale. The dairy sector is expected to increase as a result of artificial and intensive insemination campaigns carried out in the recent past. Despite a significant livestock, Senegal remains a net importer of meat, particularly sheep (living) during major religious events. Meat imports were estimated in 2009 to 7.3 billion FCFA (USD 16.2 million) and the importation of milk to $ 68 billion (Euros 152 million). Poultry production has increased and has a great potential for growth.

18. **Agro-processing which is an important entry point for value-chain enhancement has declined from a decade average of 0.4% of GDP in the early 1980s and 1990s to 0.1% in the last decade, averaging at 0.22% for the period.** This is in part due to the increasing share of non-Agriculture GDP. On the other hand, manufacturing as a share of GDP averaging 12% in the 1980s, rose to 14% in the 1990s but started declining to 13.3% from 2000 to 2009 and is projected to decline further to 12% by 2015.

19. Following a strong and steady growth of about 11.2% in average in 2002-2007, the value added of the Construction sector declined by 4.6% in 2009 for the second year after a fall of 0.6% in 2008. There are several reasons for this: the government slowed the implementation of its construction projects, the enterprises of the sector faced difficulties due to the late payments by government and finally the contraction of the remittances by 8% due to the financial and economic crisis. In 2009, the construction sector contributed 4.1% to GDP. However, spurred by the resumption of the construction of great projects such as the new AIBD airport and the finalization of the Dakar-Diamniado highway in 2010, the sector grew by 4.5% and is estimated to have grown by 7.7% in 2011.

20. **Tourism, an important sector that creates jobs in the informal sector, has experienced a contraction due to a fall in the number of tourist arrivals resulting in** incomes generated by the services of accommodation and hotels falling significantly. Tourism continues to hold very high potential and the Government has launched a program to build new touristic sites and restore existing sites in order to make Senegal more attractive and more competitive.

21. **A moderate private sector exists in a factor-driven economy that is challenged by the lack of financing which, for three years in a row, was seen as the most problematic factor for doing business in Senegal.** In the World Economic Forum (WEF) Global Competitiveness Report 2010/11, Senegal scored an index of 3.7 out of 7 giving it a ranking of 104 out of 139 countries. This is a slight drop from an index of 3.8 and ranking of 92 out of 133 in 2009/10.

22. **Access to credit, a binding constraint for private sector development is also recognized in the World Bank's "Doing Business Report 2010", where Senegal ranked 150 out of 183.** Even though claims on the private sector of domestic credit as a ratio to GDP have been trending upwards, it is still below the early 1990 average. However it seems to be driving recent imports along with re-exports for neighboring countries. Non-Government domestic investments (including the private sector) have averaged about twice that of government and this is expected to stay the same in the medium term.

23. **On Islamic Finance** the government of Senegal has an ambitious plan to promote it and make the country an Islamic Banking hub in West Africa. As a result, the Ministry of the Economy and Finance is initiating a project to develop the appropriate legal framework needed to facilitate the development of Islamic banks in Senegal. The promotion of Islamic finance include: Islamic Banking, Takaful, Zakat, Awqaf and Microfinance. Meanwhile, IDB support to Senegal in supporting Islamic banking started in 1990 with the rehabilitation of the Islamic bank of Senegal. After a restructuring exercise, IDB's share in the capital of the Islamic Bank of Senegal amounts to ID 1.1 million representing 33% of the equity capital. The Bank has also supported capacity building to the Ministry of Economy and Finance in its quest to develop an Islamic finance regulatory framework. Currently the Bank is supporting the development of Islamic microfinance and promotion of WAQF.

24. **Capacity building** – in supporting the vision of Senegalese authorities to make the country an Islamic Banking hub in West Africa, the IDB approved in 2010, a TA capacity building of US 310,000 for the Ministry of Economy and Finance to undertake a study to review the existing legal framework in Senegal (or UEMOA since Senegal belongs to this monetary union), to identify the potential scope for developing an Islamic legal framework and preparing a draft Islamic Banking regulation and all other supporting regulations that meet the requirements of the concerned authority, with a view to regulate Islamic Banking and also to facilitate developments in the Islamic finance industry.

25. In developing a comprehensive approach towards empowering the poor and the ultra-poor, through **Islamic microfinance**, IDB financed a study on Microfinance in Senegal whose main objective is to prepare a feasibility study for establishing a new institution in Senegal or strengthening an established one. The study recommended the establishment of a new Islamic microfinance institution which

was well received by the major 3 Microfinance institutions although one of them *(Pamecas)* preferred to focus on its own project i.e. establishing a department for Islamic finance. However the other 2 institutions (Credit Mutuel Senegal and Alliance for Credit and Saving for Production (ACEP) are ready to study the project and eventually participate in the equity capital after a careful study of other alternatives.

26. An outcome of the TA financed by IDB to review the existing legal framework and the study on microfinance IDB will cooperate with the government of Senegal to establish an Islamic microfinance institution. IDB's efforts will include participation in the equity capital of the proposed organization and assisting in identifying strategic partners and potential shareholders as well as preparing a road map to tackle legal and fiscal issues for establishing the institution.

27. With regards to the development of **WAQF**, the government of Senegal is according a significant importance to the development of the sector which in line with IDB's objective of supporting investments in charity affairs and help serve the needy. In this case, the Bank Group will be supporting the government efforts during the MCPS implementation period. In these regards, the bank will be supporting plans to build a WAQF for education and the legal frame work.

28. **In Senegal, significant levels of value-added economic growth comes from small and medium enterprise (SMEs) in manufacturing, public works and services, which account for 90% of the registered businesses.** Given the fact that 60% of the output from the SMEs derived from the informal sector, SMEs access to medium- and long-term financing is very moderate. More lending to SMEs would deepen the market and help break down the systemic obstacles to credit. Furthermore, government has moved to expand the credit to SMEs by creating a deposit funds, *Caisse de Depot et de Consignation*, in order to mobilize long-term funds for SMEs.

29. Senegal as a member of West African Economic and Monetary Union (WAEMU), shares a CFA franc common currency, with seven other Francophone member countries[2]. It is also a member of the Economic Community of West African States (ECOWAS) and despite the Government's effort to meet the convergence criteria of the West African Economic and Monetary Union (WAEMU); successive crises have contributed to undermine its macroeconomic stability.

2.3 Social developments

30. **Poverty has declined in recent years but slowly and its intensity remains a major concern**. Despite the drop of 11 points resulting from the dynamics of growth between 1994 and 2005, poverty has worsened in certain areas including Louga and Fatick. Rural regions, where lack of basic infrastructure is relatively high, are those where poverty is more concentrated. This is true for Kolda, Ziguinchor, Diourbel and Kaolak which have both high poverty rates and least access to basic infrastructure, such as water and sanitation. Energy, particularly access to electricity also appears heavily skewed because regions with high rates of poverty are also those where access to electricity is lower.

31. **Social indicators mixed but are better than the averages of Sub-Saharan Africa (SSA) and Least Developed Countries (LDC).** Health indicators are still low for a public expenditure of USD 59 per capita in 2009 (above West Africa level of USD 43 but below SSA level of USD 75). Life expectancy of 56 years is above the SSA average but below the LDC average and infant mortality rate of 51/1000 live birth is significantly below those of its neighbours (Benin 75/1000, and Mali 101/1000) and child mortality rate of 93/1000 per live birth is also far lower than those of Guinea (142/1000), and Mali (191/1000) and the SSA and LDC averages of 130/1000 and

[2] These are Benin, Burkina Faso, Côte d'Ivoire, Guinea, Guinea Bissau, Mali, Senegal and Togo

119/1000 respectively. However the education indicators are below those of its neighbours. (See Table 2). In 2009, public expenditures on education are estimated at US$ 21 per student.

32. **In 2010, Senegal scored a Human Development Index (HDI) of 0.411 which is above the Sub-Saharan African average of 0.389 and is ranked 144 out of 169 countries.** Despite these mixed results, some MDGs including maternal and child health are unlikely to be achieved, if current trends are maintained.

33. **In Senegal, as in many developing countries, the probability of being unemployed decreases with the level of education**, as the proportion of the unemployed with primary, secondary and tertiary education are respectively 40%, 6% and 2,5%. According to the Senegalese Survey on households (ESAM II), the increase in unemployment is concentrated in the cities, especially in the Grand Dakar. Job creation is higher in the informal sector than in the formal sector.

34. **Senegal has a large emigrant population in Europe and North America**. The number of Senegalese living abroad is estimated at close to 2 million and those between the ages of 18 to 35 years old represent around 68% of the total.

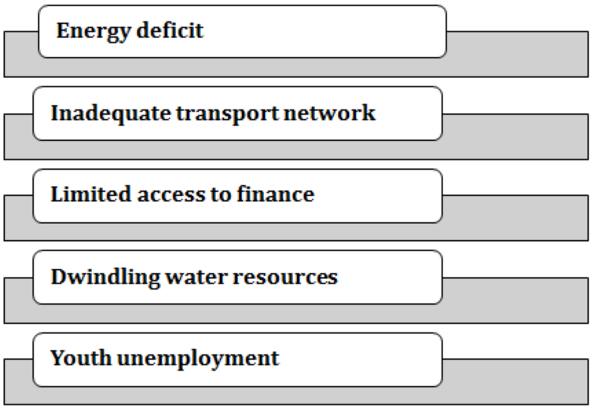
Table 2 – Social Indicators for Senegal relative to some neighbours

	Senegal	Benin	Guinea	Mali	Sub-Saharan Africa	Low Income countries
Health Indicators (selected)						
Fertility rate (births per woman)	5	5	5	7	5	4
Life expectancy at birth (years)	56	62	58	49	53	58
Infant Mortality rate (per 1,000 live births)	51	75	88	101	81	76
U5 Mortality rate (per 1,000)	93	118	142	191	130	119
Education Indicators (Select)						
Literacy rate (%)	50	42	39	..	..	61
Net School enrolment, Primary (%)	73	95	73	73	75	80
Sources: World Bank						

III. COUNTRY DEVELOPMENT STRATEGY

35. As a developing country, Senegal is confronted by a number of development challenges some of which pose as binding constraints to full and deepened economic development. Fig. 5 below presents some of these development challenges.

Fig. 5 - Development Context



36. Notwithstanding, it is endowed with a number of opportunities that could be leveraged to address these challenges. These opportunities are enumerated below. To respond to these development challenges, the Government of Senegal has formulated its third set of development strategies, *Document de Politique Economique et Sociale (DPES)* – Economic and Social Policy paper (in English), to address the challenges, relax the binding constraints and unlock the full development potential of the economy. This is presented in the third part of this section followed by an assessment of the strategies.

3.1 Major development challenges and binding constraints

37. **Senegal has identified inadequate infrastructure (both transport and energy) as the most significant binding constraint to its growth.** WB (2008) found that in Senegal, infrastructure contributes about 60% to total factor productivity in firms, of which almost 90% emanates from energy and transport. This is among the highest in Africa and it means that by relaxing the infrastructure constraint, a massive productivity of firms and through that, economic growth and sustainable development could be unleashed (See Fig. 6).

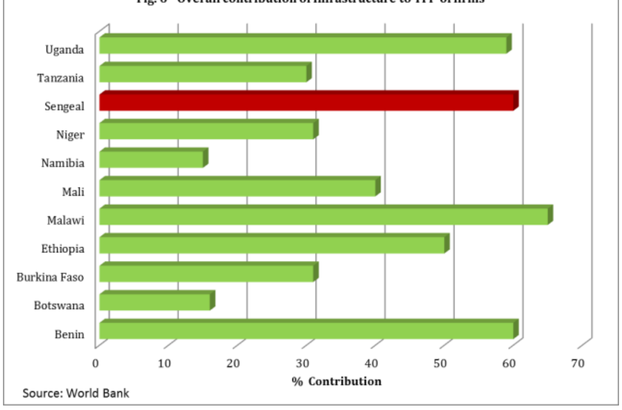


Fig. 6 - Overall contribution of Infrastructure to TFP of firms

38. **The chronic deficit that characterized the electricity sub-sector started more than a decade ago.** Staring from 2004, the excess demand for energy gradually increased reaching a peak of over 80 MW in 2006. (See Fig. 7). There have been marginal improvements declining in 2010 to 40 MW

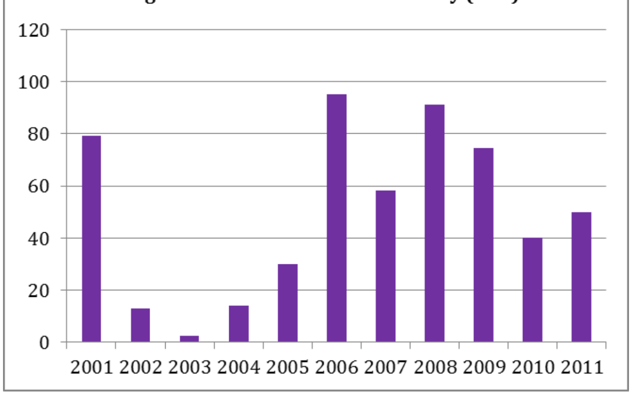


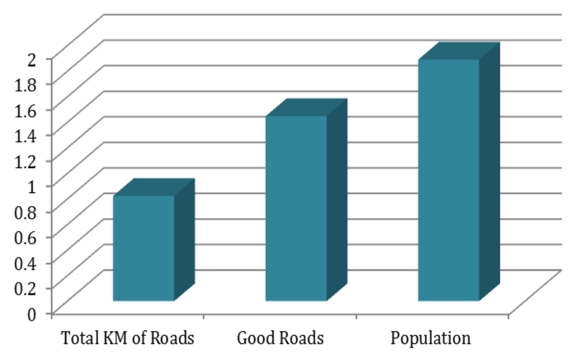
Fig. 7 - Excess demand of electricity (MW)

which then rose to 50MW in 2011. With demand growing between 7% and 10% (including latent demand) per annum, Senegal is expected to face a sharp deterioration of the imbalance by 2013, when the deficit is expected to increase to nearly 50% (about 256MW) of the projected demand resulting from the strong demand growth of between 7-10% per annum, if the status quo remains the same.

39. **The road transport infrastructure has improved in the last twelve years meeting the optimal levels needed.** The Paved roads

increased from 4,300 KM in 1997 to 5,240KM in 2009 to 5,305KM in 2010. Regarding unpaved roads, the quality of roads increased from 39.2% to 40.2% during the same period (2009/2010), representing an increase of 2.5%. With population growing at an average annual rate of 1.8% in the last 5 years, and the total KM of paved roads increasing at 1.2% per annum (of which the good roads have been increasing at 1.4% per annum) the KM of road per capita has been declining even as the road network and the quality of roads have been increasing. (See Fig. 8).

Fig. 8 - Average annual growth rates (%)



40. **High unemployment especially among educated youths is also a development challenge.** Despite the lack of more recent employment data, Authorities acknowledge the disconnect between formal university training and the demands of the labour markets coupled with the inadequacy of formal university training for non-government work has resulted in a large number of university graduates being unemployed. Mutual exclusions still exist between the Qu'ranic system, which has a strong presence in communities, and the modern classic system. This duality presents problems of exclusion. Hence the Government's program of "Modernization of Daaras" which is being supported by IDB.

41. **Water resource management is challenged by the increasing salination of Senegalese waters which underscores the need for irrigation.** The Cassamance River which is a veritable extension of the sea carries a heavy concentration of salt that invades the adjacent land. Similarly, wide areas in the Sine-Saloum have seriously deteriorated. In the Senegal River Valley, the irrigable potential exceeds 200,000 ha but has to be limited given the conditions for operation of the common structures envisaged by OMVS. The country's irrigation potential is about 340,000 ha but only 105,000 ha have been developed. Other challenges relating to the agricultural sector include inadequate rural infrastructure, and the lack of agricultural research and training.

42. **The private sector in Senegal has an atypical profile and comprises about thirty major enterprises that provide the bulk of tax revenue, more than 250,000 small and medium size enterprises 33,000 of which are registered, and the informal sector.** Although the national accounting statistics still lack the means to precisely measure key informal sector aggregates, it is estimated that this sector generates about half of the country's GDP, 90% of jobs and one-fifth of investments.

43. **The performance of the private sector has been uneven in Senegal as evidenced by the decrease in private investment and the relative stagnation of exports to GDP.** This lack of dynamism is also reflected at the micro level since labor productivity of manufacturing in Senegal, while high compared to neighboring countries, is estimated to have declined over the past two decades, and is today equivalent to one fifth or one third of those achieved in Korea and South Africa, respectively. Job creation has been minimal with unemployment and under-employment rates stagnating at around 40% of the labor force. Such performance needs to be turned around so that the private sector can play its expected pivotal role in the Poverty Reduction Strategy. Many surveys, diagnoses and studies have already helped to reach a consensus regarding the major constraints faced by the private sector in Senegal topped by the lack of access to finance. High taxes and inefficient administration, complex administrative procedures, lack of adequately-skilled staff and management skills

(including planning), limited market knowledge and lack of infrastructure are also significant constraints to private sector development.

44. **To enhance private sector development, the Government of Senegal is targeting to:** further increase productivity; boost the quality and product mix of Senegalese exports; increase productive innovations; promote supply chains integration; and expand human capital through education achievements and the use of expatriates in local production. The following list suggests a series of priorities for both the short and medium terms.

- To encourage competition in the formal industrial private sector, this lacks dynamism and adaptability to the new international environment.
- To support micro and small and medium enterprises, which account for more than half of the Senegalese economy.
- To optimize the perceived comparative advantage of the Senegalese economy in a few strategic sectors, and thus promote exports and/or job creation.
- To increase the level of skills and technology used by the private sector in Senegal.
- The last priority is to take advantage of the presence of many Senegalese abroad.
- Furthermore, to promote SMEs, the Senegalese Government plans to implement the SME orientation law in 2011 and to examine opportunities of PPPs with local authorities.

45. **On the legal front, the legal framework for private investment in Senegal, notably through PPP, is found to be suitable for infrastructure projects.** Indeed, the BOT law is often used (and amended when necessary) by the Government to operate new infrastructure projects (Dakar-Diamnadio Highway; International Blaise Diagne Airport; Container Terminal of the port of Dakar etc.). However, practical limits to the current framework have been identified. These are as follows:

- Lack of coherence, due to the diversity of the applicable laws;
- The limits of the applicability of the laws: which law applies to which area/situation/circumstance?
- Lack of practical instruments for the intervention of the private sector such as lend-lease instrument.
- Need for clear mechanisms for economic regulation in PPP sector.
- Need for mechanism of securitization of private investments, which would encourage the involvement of the private sector, notably for regional projects (i.e. OMVS, OWVG) whereby a guarantee of 1 (one) state would not be sufficient.
- In addition to the above, the existing legal framework was designed on ad hoc basis only to address the urgent need for financing, but is not necessarily suitable for a wide range of revenue generating sectors such as health care, higher education, urban and land development for social housing and commercial purpose, high value agriculture and agro-industries.

3.2 Opportunities to leverage

46. A number of opportunities exist in Senegal that could be leveraged to relax the binding constraints and release the economy's full growth potential. Some of these are presented below (see Fig. 9).

Fig. 9 - Opportunities

47. **Senegal has a latent potential to harness both solar and wind energy to diversify the energy sources and to help reduce the deficit mentioned above especially under Private Public Partnership (PPP) arrangements**. It has considerable potential for solar energy. Average daily solar irradiation is 5 kWh/m². Senegal's wind power potential is concentrated along the coast and in particular the section of the coast between Dakar and Saint-Louis.

48. **Senegal's wind power potential is concentrated along the coast and in particular the section of the coast between Dakar and Saint-Louis**. In a study carried out by the Senegal Meteorological Service, wind velocities of 3.7-6.1 m/s were observed in the 50 km-long coastal strip between Dakar and St. Louis. This provides good opportunity for wind energy tapping.

49. **River Senegal also offers potential for irrigation, transportation and hydro power.** Senegal has about 3 billion cubic meters per year of renewable groundwater resources, excluding those groundwater resources that overlap with surface water. Total water withdrawals in 1987 were 1.4 billion cubic meters, of which 92% is for agriculture, 3% for industry and 5% for domestic use. The Senegal River represents a significant hydroelectric potential estimated at 1200 MW and partially exploited at Manantali plant (200 MW) commissioned in 2002, providing electricity to Senegal, Mali and Mauritania via a 225 KV interconnection line. IDB participated in the financing of the Manantali hydropower project. Although the implementation of the project suffered major delays, positive impacts were noted on cost of electricity and regional power exchanges. Further developments including the second generation of OMVS hydropower projects (Felou 60 MW on-going, Gouina 100 MW) and OMVG projects should benefit from the first experience and lessons learnt inherent in regional projects.

50. **The hydro-electric potential of the River Gambia needs to be developed through the Sambangalou plant as a component of the OMVG energy program including interconnection network that will constitute a key link in the West African Power Pool (WAPP) Program, which contemplated the connection to the national power grids of West Africa**. This will open access to the immense hydroelectric potential of Guinea (6,000 MW with energy production potential of 26,000 GWh) to supply Senegal through the West African regional electricity market.

51. **Rural Senegal is heavily structured with a very dense network of local organizations (village groups, village associations, Economic Interest Groups – EIG) and powerful regional and national labour federations, translating a clear desire to have the grassroots level take charge of development**. These organizations are well positioned to effectively implement projects through participative and demand driven approaches.

52. **The dominance of services and industry sectors has set the basic fabric to spur on private sector development.** Senegal has an enterprising population that can be leveraged for wealth creation. Value chain enhancement of agricultural production has already set hold in the economy. What is needed now is to deepen and replicate this with deeper inter-sectoral linkages.

53. **Unexploited potential in regional trade**. Senegal's membership of both the West African Economic and Monetary Union (WAEMU) and the Economic Community of West African States (ECOWAS) offers tremendous opportunity for deepening regional trade. This gives it a potential market of about 500 million people if skillfully exploited, which is almost fifty times the current population of Senegal. Yet Senegal exports only 40% of its exports to, and 19% of its imports from the West African Region. A little more of its exports (about 5%) and imports (about 6%) go to or are from the rest of Africa. Yet, Senegal is well positioned to exploit regional trade for sustainable growth. (See Table 3).

Table 3. Direction of Trade

	Exports				Imports			
	Africa	West Africa	WAEMU	OIC	Africa	West Africa	WAEMU	OIC
2004	38.9	35.1	23.6		21.3	16.1	3.6	
2005	42.1	38.0	25.8		21.2	15.0	3.0	
2006	43.8	39.8	27.8		14.4	7.3	3.3	
2007	51.8	46.2	33.0		18.0	12.7	2.9	
2008	48.8	44.5	32.0		22.6	17.6	3.5	
Average	**45.1**	**40.7**	**28.4**		**19.5**	**13.7**	**3.3**	

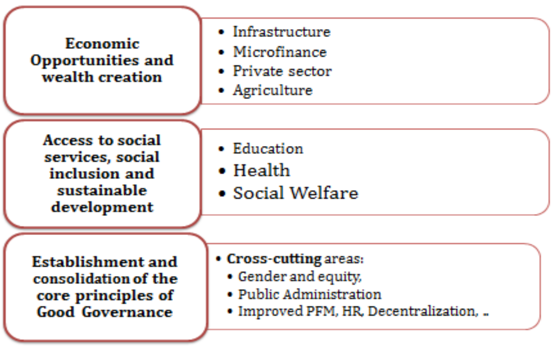
Source: ANSD, Government of Senegal

3.3 DPES - Economic and Social Policy Paper and Key Development Priorities

54. **In respond to the development challenges enumerated above and building on some of the opportunities also mentioned above, the Government of Senegal's third set of poverty reducing strategies, DPES (ESPP), which will be implemented over the period 2012-2016,** is built around the vision of *"an **emergent** Senegalese economy driven by a strong private sector and whose wealth is distributed equitably through effective citizen oversight, ensuring a harmonious and sustainable development*". The achievement of the strategy is anchored on the effective implementation of the three main pillars shown below on Fig. 10.

55. **The first pillar of creating wealth and promoting economic opportunities for the promotion of productive employment and the structural transformation of the economy** is to promote inclusive and balanced economic growth. This will be undertaken through the development of infrastructure to support production and productivity, the integrated development of food systems, agriculture and the rural economy and other services.

Fig. 10 – DPES 2012-2015



56. The importance of inclusive economic growth is also highlighted by the emphasis under this pillar of promoting microfinance as a tool for integrating vulnerable groups not served by the conventional financial system, into the process of wealth creation. The private sector will be promoted to serve as an engine for economic growth to generate decent jobs. It is therefore to promote economic growth, which builds on the economic potential of the country while involving the assets and resources of the poor, and to give them possibilities to live their valued life.

57. **With respect to the infrastructure deficit which is addressed under this pillar, the government of Senegal has embarked upon a public investment program in transport (estimated at € 3.4B) and energy for the period 2011-2015.** In the energy sector, the program aims to reduce the deficit in the sector by 2015, through increasing excess production of at least 10% and also to restore the financial balance of the power company SENELEC through its financial

restructuring and improving its operational status. The plan is structured around five (05) strategic fields: (i) the rapid expansion of production capacity in the short and medium term to reduce the energy deficit, (ii) reduce the heavy dependence of the sector vis-à-vis petroleum products, (iii) rehabilitation of existing plants to recover power of 30-50 MW, (iv) securing fuel supply and supporting critical investments in the sector through the creation of a fund and (iv) financial restructuring of SENELEC.

58. In the transport sector, government intends to build more than 80 roads and bridges to improve the road network in urban and rural areas, both in terms of geographical coverage and coating. Senegal intends also to renew the railway network and develop the maritime and air transport. It is building a new airport (partly financed by the IDB) and has already set up a national airline company, Senegal Airlines, in order to achieve its aspiration to make Senegal a hub in the sub-region.

59. **The second pillar of access to social services, social protection and sustainable development includes actions aimed at strengthening education, training, health and welfare of the people**. This will enable their effective participation in the process of wealth creation and by strengthening their skills and capacities to seize economic opportunities. The establishment of social safety nets for the vulnerable, targeted actions for specific groups such as women, youth, children and the management and prevention of disasters are also part of actions covered by this pillar.

60. **The third pillar to strengthen core principles of good governance and human rights** will mainly cover cross-cutting actions related to strategic management of sectorpolicies, gender and equity, public administration and state reform, improved management of public finance, human rights and decentralization, among others.

61. **IDBG's support will mainly focus on pillar one and part of pillar two.** The Government's Priority Action plan which outlines the main actions identified by areas of intervention in the five-year period 2012-2015 revealed a funding need of 5.749 billion FCFA (about U.S. $ 13 billion), with a financing gap estimated at 2209 billion FCFA (about US $ 4.9 billion) over five years. Infrastructure has been allocated 30% of resources, followed by social sectors (20.7%) and agricultural (11.9%).

3.4 Assessment of DPES

62. **The Government's strategy is an ambitious plan which covers most needs to enhance human development in Senegal.** This is all the more understandable, given that the diagnostic made in the development strategy document (DPES) indicate that shortcomings that the country faces abound. These include massive investments to maximize impact, especially in the context of a balanced, inclusive and shared development. For instance, it would be helpful if efforts to improve agricultural productivity through investment in water resource management are followed by construction of access roads from production areas to markets. Similarly, investments to improve energy supply would enhance the competitiveness of the private sector, a critical element in reaching the emergent nation aspirations, would justify the massive public investments needed.

63. **It is noteworthy that the Government has undertaken to harness underutilized and/or untapped segments of international financial assistance such as from emerging markets (including Islamic finance and the countries of the Coordination Group) and to use innovative structured schemes to finance investments[3].** While efforts were

[3]The financing of the new Blaise Diagne International Airport of more than US$ 400 million is funded under public private partnership and in 2010, the Government has mobilised more than US$640

noted and some progress already made by the Government, the full exploitation of this potential could be realized in the medium term[4].

64. **The DPES appears to suffer from the lack of updated data for establishing reliable baselines to identify achievable targets over the next five years.** This is especially true for data on poverty for which relatively more recent data is not available which would have helped to better understand simulation results obtained for the strategy and targeted efforts to be undertaken for the next five years.

65. **Although appearing very ambitious, the GoS' objectives deserve to be supported since they are designed to accelerate poverty reduction and achieving MDGs.** They are also consistent with the vision of the IDB which is also ambitious in its strategy towards attaining the MDGs. To be effective it will be useful for the IDB to establish a complementary package of interventions, which will affect and reinforce each other and make a difference on the ground.

million from China, Korea, India, Brazil and IDB Group

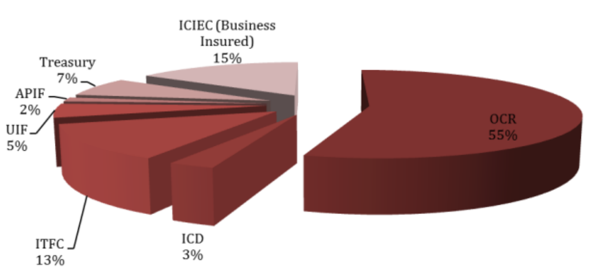
[4]The Government requested IDB to finance a TA for strengthening resource mobilization and promotion of PPP which is yet to be approved and once approved, its completion could reach end 2013

IV. IDB GROUP PARTNERSHIP STRATEGY

4.1. Past IDB Group interventions

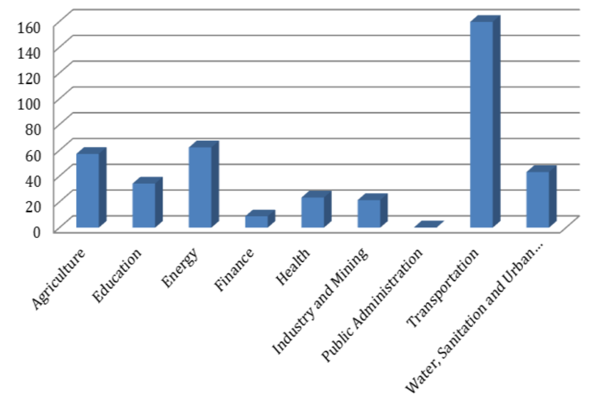
66. **Senegal joined the IDB in 1976 and since then, has a strong partnership with the Bank.** Over this period, the Bank Group has approved a total of US$ 964 million (as of September 2011) for the country consisting of US$ 621.76 million for 90 project financing activities, US$ 14.2 million for 7 Special Assistance operations, US$ 272.6 million for 28 foreign trade financing operations, US$ 24 million for private sector development, and US$ 31 million for insurance operations. Of these 66% are financed by IDB, 28% by ITFC, and 3% by ICIEC and ICD each. (See fig. 11).

Fig 11. IDBG Net Approvals (1396-1431H (ID M)



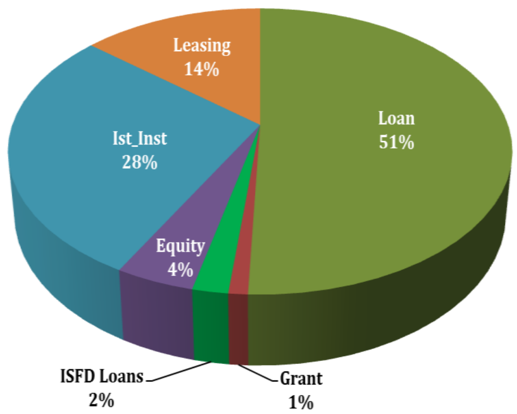
67. **The IDB portfolio in Senegal is significantly diversified and covers all the major sectors of the economy from agriculture, education, health, public utilities, public administration, transport and communication.** (See Fig. 12). Most of the development finance went to transport followed by energy and then agriculture with the rest being a motley of smaller amounts. These smaller amounts unfortunately take almost the same time and resources to manage as the much larger loans. It is therefore more prudent for the MCPS to target a smaller number of projects with higher amounts to minimize the cost to the Bank and at the same time give Senegal the time it needs to address the development challenges, of course within co-financing modalities. The dominance of infrastructure is accentuated by the recent approval of Euro 70 million to support the construction and equipment of the Blaise Diagne airport project. IDB has focused in recent years, on the energy sector where around US$100 million has been committed through combined modes of financing (ordinary financing and concessionary loan).

Fig. 12. Distribution of sectors in ID (M)



68. **In terms of modes of financing, the bulk of the financing is through loans (51%) followed by Installment sale at 28% and leasing at 14%.** (See Fig. 13). Istisna'a is not a preferred mode. In terms of number of projects, again there are more loans (54%) than any other followed by Grants (24%) and then installment sale (10%).

Fig. 13 - Mode of Financing



4.2 Lessons learnt

69. **Lessons learnt from the implementation of the three-year IDBG-GoS program will be very useful in the effective implementation of the MCPS.** In this regard, the following lessons as they relate to the program will also be of relevance to the MCPS.

- Need to identify some strategic directions for scaling up IDBG Resources
- Need to address the issue of resource mobilization stated in the Framework Agreement
- Need to enhance Portfolio Management

70. **In addition, the Country Assistance Evaluation conducted in 2007 pointed out that the main lessons learnt from IDB's intervention in the agriculture sector are reported in two post-evaluations.** These lessons indicate that the provision of irrigation infrastructure should be complemented with: (i) an effective agricultural support services structure to benefit from improved technology, including the use of high yielding varieties of seeds, fertilizers, and other inputs; (ii) the organization of training sessions to enhance organizational, technical and financial skills of beneficiaries, professional organizations, and local communities with the aim to enhancing, through participatory approach, crop production systems and improving farms management; (iii) an efficient role of agricultural credit to pre-finance timely agricultural inputs.

4.3 Interventions of other development partners

71. **Senegal receives support from a number of development partners.** France, USA, the European Union, the World Bank, Gulf Cooperation Council, United Nations, Islamic Development Bank, Kuwait Fund, BADEA are key among them. Their interventions are aligned with the national development priorities. They are involved in infrastructure development, agricultural production and capacity building in private sector development as well as public sector management. IDB has experienced successful co-financing schemes with the Arab Coordination Group members and AfDB in infrastructure projects. (See Table 4).

Table 4 – What partners are doing

	World Bank	AfDB	AFD	USAID	FRANCE	EBID	UN	GERMANY	IDB	EU	BOAD	GCC
Energy	✔	✔			✔	✔		✔	✔	✔	✔	✔
Transport	✔	✔	✔	✔	✔	✔		✔	✔	✔		✔
Agriculture	✔						✔		✔		✔	
Rural development	✔	✔			✔		✔		✔		✔	
Water/ Sanitation	✔						✔		✔	✔	✔	
Education & Health	✔		✔	✔			✔	✔	✔		✔	
Environment	✔			✔			✔	✔			✔	
Social	✔	✔			✔		✔			✔		
Private Sector	✔	✔	✔	✔	✔		✔		✔			
Capacity building		✔		✔	✔		✔					

Source: UNDP

4.4 Strategic Framework for aligning DPES to Vision 1440H

72. The IDB Group 1440H Vision envisions a dignified Muslim World characterized by a transformed human development landscape. This is because the Islamic notion of development goes beyond the conventional definition of economic development that only looks at income per capita. The Islamic notion of development is centered on the comprehensive development of the human person. This means that the IDB Group, in its interventions to foster development in its member countries must address in addition to economic growth and poverty reduction, other serious ills affecting the Muslim community such as health and education.

73. The IDB Group has identified nine strategic thrusts[5] of which six are key and more or less encompasses the strategic interventions through which member countries address their development challenges.

74. Senegal aspires to transform itself into an emergent nation through the implementation of its current development strategies built around the vision of "*an economy driven by a strong private sector and whose wealth is distributed equitably through effective citizen oversight, ensuring a harmonious and sustainable development*". The achievement of which will be through the implementation of pillars presented with the strategic anchor presented below.

75. The key strategic thrusts of the IDB Group and the strategic pillars of the DPES were instrumental in arriving at the two pillars of the partnership strategy between the IDB Group and the Government of Senegal: **enhancing competitiveness;** and **increasing agricultural productivity and value-chain enhancement.**

76. In as much as the Governance pillar is not directly included in the MCPS, the achievement of the other pillars will greatly enhance the achievement of the good governance goal. Fig. 14 illustrates this relationship.

77. The pillars are informed by reverse linkage opportunities and policy-analytic studies that will be exploited to enhance the implementation of the MCPS and through it, the national development priorities of Senegal.

[5] Reform IDB; Alleviate Poverty; Promote Health; Universalize Education; Prosper the People; Empower the Sisters of Islam without breaching the tenets of Islam; Expand the Islamic Financial Industry; facilitate Integration; improve the image of the Muslim World.

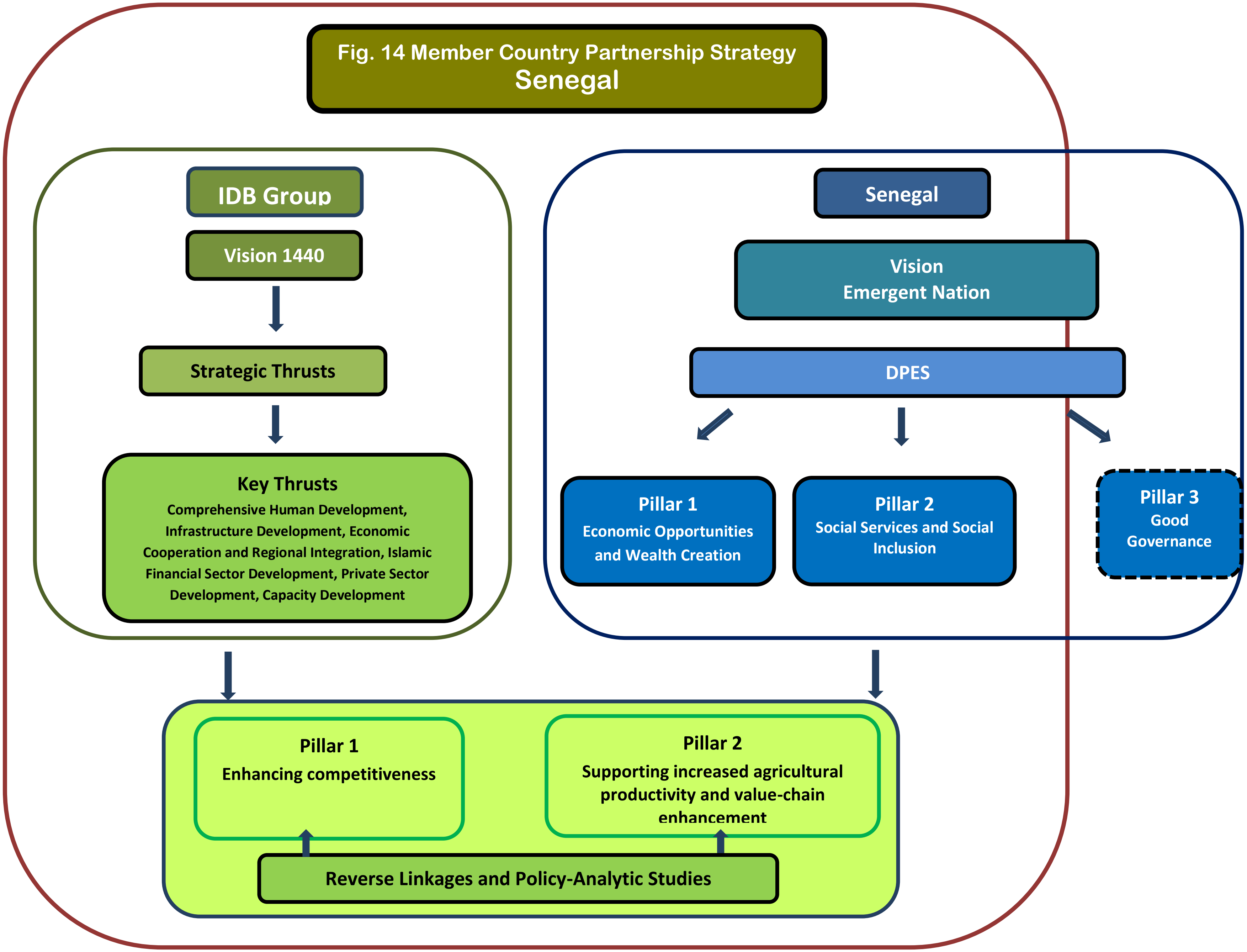


Fig. 14 Member Country Partnership Strategy
Senegal
IDB Group
Vision 1440
Strategic Thrusts
Key Thrusts
Comprehensive Human Development, Infrastructure Development, Economic Cooperation and Regional Integration, Islamic Financial Sector Development, Private Sector Development, Capacity Development
Senegal
Vision
Emergent Nation
DPES
Pillar 1
Economic Opportunities and Wealth Creation
Pillar 2
Social Services and Social Inclusion
Pillar 3
Good Governance
Pillar 1
Enhancing competitiveness
Pillar 2
Supporting increased agricultural productivity and value-chain enhancement
Reverse Linkages and Policy-Analytic Studies

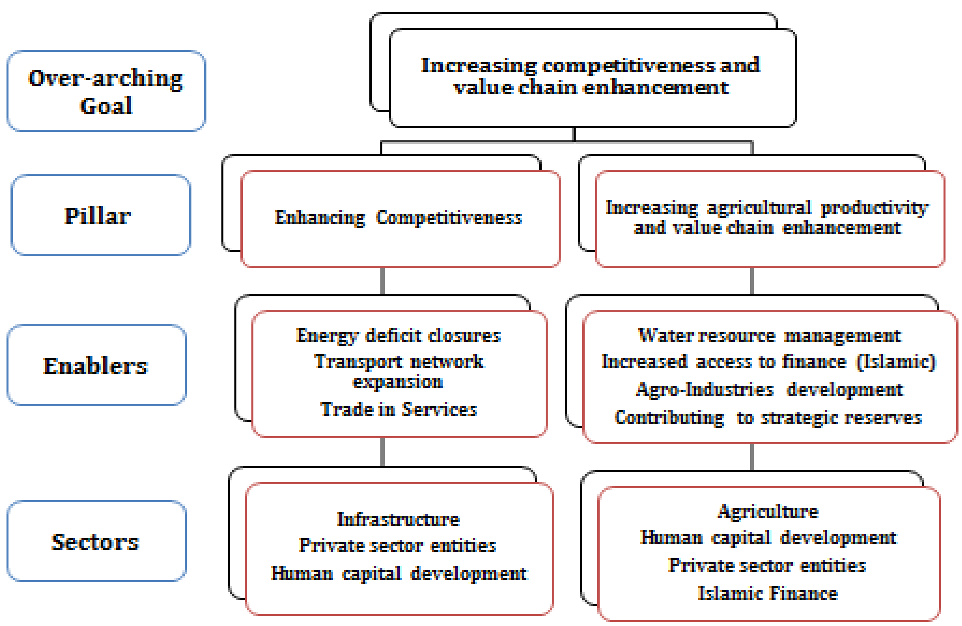
4.5 Areas of Focus by IDB Group

78. **Consultations between IDB Group and the Government of Senegal identified the following key areas of focus: energy, transport, agriculture and private sector development which is achievable through human capital development.** As a result, the partnership strategy will rest on two pillars: **enhancing competitiveness;** and **increasing agricultural productivity and value-chain enhancement (see Fig. 15)**; both of which are being aimed at responding to the short and medium term needs of the Government and people of Senegal.

79. To achieve an emergent status the economy has to be competitive this means that it must compete internationally by being able to produce and export goods and services at lower costs or higher value than its competitors. This also means that the cost of production which is significantly influenced by high transport and energy costs must be reduced by closing the infrastructure deficits. Meanwhile, the second pillar will support the GoS in addressing the acute food shortage that is being experienced through the provision of trade finance to purchase strategic food and other items while building the medium to long term capacities required to increase food production through efficient and effective water resource management. It is expected that future excess food production would be exported to neighbouring countries through the roads developed in the first pillar.

80. Specifically, the pillars will be achieved through the following sectoral interventions: supporting energy infrastructure development to enhance the productivity and competitiveness of the economy; support a multimodal transport infrastructure development to enhance competitiveness and regional integration, undertaken through the construction of roads, especially those that will open up the rural areas, aerial, rail and fluvial transport development; supporting the development of integrated agriculture through water resource (deep and surface) management, and the restoration of degraded

Fig. 15 - Strategic Anchor of MCPS



lands, aimed at improving and enhancing agricultural productivity to increase incomes and ensure food security (including the development of irrigated agriculture); and support private sector development through the promotion of access to Islamic financing by enhancing the capacity of the private sector to develop bankable projects through the creation of a Technical Assistance Fund that will help SMEs and SMIs reinforce their capacities and governance. This intervention would also target the promotion of exports in the framework of the trade activity promotion. Institutional Capacity development will also be supported.

81. These interventions would be effectively implemented with the requisite human capital, and in this regard, human and capacity development addressing basic social sector needs (education and health). This will be done at all levels of the pyramid (from primary to tertiary).

82. With respect to education, the IDB will support the Government of Senegal to deepen its Bilingual program, by building on the Daara model for expansion not only in Senegal but to the rest of the West African region as well as deepening the VOLIP. This means that top priority will be given to monitoring of the program together with the strengthening of the Regional Office in Dakar and the Human Development Department with the adequate staff complement to support the bilingual education and VOLIP. Specifically on Bilingual education, IDB will continue its commitment under the Ndjamena Appeal for Bilingual Education (2004) to support Senegal, among other Sub Saharan African countries, in their policies aimed at improving and developing bilingual education.

83. With regards the health sector, IDB support will be in three areas: disease control and prevention; health system strengthening; and social protection. Under the first support, IDBG will support the Government of Senegal in the implementation of its National Strategic Plan for Priority Diseases such as Malaria, TB, HIV/AIDs, cancer, diabetes, etc. This will include the deepening of Malaria control program which has been successfully supported by IDB. The support to health system strengthening will have two sub-components: one aimed at expanding basic health care services with particular emphasis on enhancing access and quality of Maternal and Child health services; and the other aimed at equipping (with both equipment and qualified personnel) of specialized Tertiary Health Facilities to minimized the burden of medical evacuations as well improve and augment both the quantity and quality of health service offered to the ordinary population. In this regard, the Dallal Jamm Hospital will be supported to an upgrade of a Regional Center of Excellence in Health Service Delivery. The third IDBG support will be aimed at the on-going social safety net program of the Government which targets the enhancement of access to quality basic services especially by the most vulnerable of the population through the provision of mandatory health insurance schemes.

84. Through the Islamic Financial Services Department (IFSD), the IDB Group will assist the Government of Senegal in promoting and developing the Islamic finance industry. The government has developed an ambitious plan to promote Islamic finance and make the country a center of Islamic finance in West Africa. The support already provided by the IDB (capacity building, study of the regulatory framework, study on microfinance, etc.) for the

implementation of this plan will be strengthened, deepened and broadened.

85. **Reverse Linkages.** Experiences Senegal has developed over the years which have been proven effective in responding to itsdevelopment challenges will be shared with other members of the IDB Group family facing similar challenges. Niger has identified skills in Micro Finance (as practiced by Credit Mutuel) to be an area they would need support from Senegal. On the other hand, expertise from other member countries will be used in Senegal. A study in this area will be undertaken to identify the opportunities as well as the most optimal way of exploiting them.

86. **Policy-Relevant Analytical Studies.** These will be undertaken, such as one on Reverse Linkages, to support the effective implementation of the partnership strategy.

4.6 Strategic Interventions under the Pillars and Cross-cutting themes

87. **All the strategic interventions of the IDB Group will be aligned to those of the Government of Senegal as articulated in the DPES.** In this regard those for the energy sector will be aligned to the short to medium term priorities defined in the DPES and will contribute to restoring energy equilibrium (balancing demand and supply), by also increasing supply and access to energy. In contributing to restoring the energy equilibrium, restoring a reserve margin at peak load of minimum 10% will be aimed to improve the quality of service delivery. Accordingly, the three main interventions of IDB Group will consist of the acquisition of a 70 MW barge-mounted diesel power plant, the diversification of energy sources through the use of renewable energy, coal power plant, and the promotion of hydropower at regional level. In this component, IDB will participate in the financing of the IPP coal power plants program, the renewable energy program (solar, wind) and the OMVG energy program. The second intervention will contribute to increasing the electricity access rate in rural areas through participation in the development of different concessions (PPP) and/or priority projects initiated by the government in rural areas. In urban and suburban perimeter, the Bank's intervention will focus on the rehabilitation and the extension of electricity networks to fight against technical/non-technical losses and increasing access to the electricity. The third intervention will be securing the supply of petroleum products through the expansion and upgrading of the local refinery SAR so as to meet the local demand of refined products.

88. **In contributing to increase access to electricity, the IDB Group interventions will focus on the development of the different rural concessions (PPP) to expand the rural electricity network which means the electrification of several villages.** The interventions in this regard will also aim at expanding or rehabilitating the urban electricity network.

89. **The IDB Group's strategic support to the Senegalese transport sector will be multi-modal as it will support all four modes of transport in the Government strategic plan: air, rail, roads, and maritime and will be anchored on continued support to regional integration efforts of the country.** On Air transport, IDB Group will, in addition to financing the Aeroport International Blaisse Diagne, also support the improvement of another secondary airport to enhance the development of local air traffic. On Roads, this support will include opening up new transport

corridors in addition to the Dakar-Bamako and Dakar-Conakry routes as well as the 3rd section of the VDN. IDB Group also plans to play a catalytic role in convening a syndication of potential donors (including the GCC) to partly finance the Government's Transport Development Plan[6]. On Rail transport, the IDB Group plans to finance the feasibility study of the missing links of the Dakar-Bamako line as part of the OIC corridor of Dakar-Port Sudan and the standardization of the gauge (international standards). On the Maritime front, the IDB Group plans to finance the rehabilitation of secondary ports to open up Cassamance and the Navigation Component of the SYTRAM Programme (Systeme de Transport Multimodal) of OMVS.

90. **The devastation experienced in Dakar and the environs during the 2012 floods has underscored the need for a modern drainage system.** In this, the IDB group will support the building of a drainage system that will militate against future flooding but will also enhance the capacity to harvest any rain run-off which could be used in agricultural production within the context of water resource management.

91. Support to agricultural is aimed at increasing agricultural production for ensuring food self-sufficiency and exports, and the growth of rural incomes. In this regard, the IDBG would support the Government in its strategy to develop and expand the productive base of farming through management of its water resources (underground and surface), the rehabilitation of salinated lands, the development and modernization of rural infrastructure to open up the areas of production, and the development of storage, processing and marketing facilities.

92. **On private sector development, the IDB Group strategic interventions will comprise the coordinated and synergized efforts of ICD, ITFC and ICEIC in enhancing and deepening Islamic Finance in Senegal, promoting Islamic insurance, providing Islamic trade finance and capacity development of stakeholders (Chamber of Commerce) in the sector**. Specifically these interventions include the enhancement of the role of Islamic Bank of Senegal by offering through it, line of financing for a commodity finance program; the development of new channels of Islamic financing (e.g. building a regional Ijara company); offering co-financing schemes with regional banks to offer direct investments in other sectors with strong demonstration effect; the provision of external finance facility for the energy sector; offering commercial and political risks coverage for financing operation to exporters and new investors; building a network of strategic partners[7] and a database of Senegalese's exporters and new investors; and capacity development for the Chamber of Commerce.

93. In view of the above, IDB interventions, through IFSD, during the implementation of the MCPS include:

- providing a TA (2nd phase) to complement the work already done during the first phase after receiving a detailed proposal in this respect and a thorough evaluation of the outcome of the first phase,

[6] Senegal's Transport Program portfolio consists of 80 projects involving more than 4,000 km of roads and highways and construction of 22 bridges, estimated at $ US 3 billion.

[7] Chamber of Commerce (with capacity development), DMC "Direction de Monnaiet de Credit", Government business windows such as ASEPEX (Agency of Export Promotion), APIX (Agency of Foreign Investment Promotion) and the Ministry of International cooperation.

- contributing to identify foreign and local strategic partners and shareholders for the proposed Islamic Microfinance Institution as well as in the equity capital of the institution,
- creation of the waqf for education within the legal frame work and completion of the feasibility study on the proposed Waqf.

94. **The Cross-Cutting theme will be multi-faceted and will aim at institutional and human resource capacity development coupled with systems development to complement and anchor each other.** The human resource capacity development element will comprise of support for the modernization of daraas. The integration of the graduates of modernized daara system with enhanced capacities, into the formal work force will contribute to more effective national development.

95. **The opportunities offered by reverse linkage will be exploited to strengthen and develop institutional capacities.** The inward element of the Reverse linkages exercise of Senegal will be skewed towards experiences and expertise from other members of the OIC in institutional capacity development, while the outward element will include, among other things, capacity development for tourism management, fisheries development and microfinance.

96. **Policy-analytic studies will be undertaken to identify solutions for the systemic weaknesses in the economy which will be used to develop systems to complement and anchor human and institutional development.** Such studies of policy relevance will be undertaken to identify Reverse linkage opportunities especially relating to outward elements that can be exploited not only for image building but also for fiscal space enhancement.

V. INDICATIVE FINANCING

97. **Prudent macroeconomic policies have enabled Senegal to stay on low debt distress risk**. This has given the government more flexibility for external debt contracting and as a result, it intends to resort to non-concessional resources, capped at 500 million U.S. dollars, to finance targeted infrastructure projects, over the period 2011-2013. It also plans to mobilize concessional resources (15% grant element), of not more than 30 billion FCFA (about US$ 60 million) to finance projects with high economic and financial returns, over the same period. In this regard, an analytical study on the financial and economic returns of the projects that will be funded by the MCPS will be undertaken to ascertain the competitiveness of the MCPS financing.

98. **The Government has recently repurchased a portion of its debt, acquired in the Eurobond market.** This action has released margins for increased low concessional resources to finance infrastructure programs for energy and transport, while maintaining commitment to the medium term deficit of the Policy Support Instrument (PSI 2011-2013) agreed upon with the IMF. If there are improvements in governance through programmed reforms, which would loosen the pressure on the debt situation, it would enable the country to continue to resort to at least semi-concessional resources (15% grant element). Within these parameters the indicative financing enveloped is premised on keeping Senegal within the debt sustainability levels and help keep the public deficit to levels

consistent with a long-term debt sustainability strategy.

99. **Blending will characterize the indicative financing envelope.** The IDB group would strategically position itself to maintain the OCR window financing, to an annual amount of US$ 100 million as achieved in the last two years (with the exception of the US$ 98 million approved for the barges emergency project), by using as much as possible structured finance, such as PPP schemes as was the case for Blaise Diagne International Airport project.

100. **The amount of financing will be informed by the absorptive capacity of Senegal, especially in the last 5 years, the amount of non-concessional financing it can take as dictated by the Debt Sustainability analysis of the IMF and the amount of financing available.** The financing envelope will comprise an average of US$ 200million per annum for the 4-year period of the partnership from the IDB group entities and he Specialized Funds and Programs. This will amount to US$ 800.4 million for the period. In addition, an average of US$ 140 million per annum is expected to be leveraged from other partners amounting to US$ 560 million. This will bring the total package for the partnership with Senegal to US$ 1.364 billion for the period 2012 to 2015. For the period of the partnership, ITFC finance is programmed at US$ 280 million, while those for ICD, ICIEC and Specialized Funds and Programs are US$ 40 million each, and that for IRTI is US$ 0.4 million. (See Table 5).

Table 5: Indicative Envelope for the period 2012-2015 (in $

	2012	2013	2014	2015	Total
IDB	100	100	100	100	400
ICD	10	10	10	10	40
ITFC	70	70	70	70	280
ICIEC	10	10	10	10	40
IRTI	0,1	0,1	0,1	0,1	0,4
Specialized Fund/Programs	22,5	12,5	2,5	2,5	40
Total IDBG	**212,6**	**202,6**	**192,6**	**192,6**	**800,4**
Leverage[1]	140	140	140	140	560
Total	352,6	342,6	332,6	332,6	**1360,4**

Source: IDBG

101. In terms of sectoral allocations, 45 percent of the total IDB financing of US$ 400 million is proposed to be spent to address the energy deficit, 25 percent or US$ 100 million will be spent on agriculture to increase production, while US$ 90 million (23 percent) will be spent transport. Human capital development will receive US$ 30 million or 8 percent. (See Table 6).

Table 6: Sectoral distribution of IDB financing

Sector	US$ M	%
Energy	180	45%
Transport	90	23%
Agriculture	100	25%
Human Capital Development	30	8%
Total	400	

Source: IDBG

VI. MONITORING AND EVALUATIONS & RISKS AND UNCERTAINTIES

6.1 Monitoring and Evaluation

102. The implementation of the MCPS will be monitored using the Results Matrix in Annex 1. This contains the expected outcomes of IDB Group interventions with the goals and strategy of Government of Senegal being supported, as well as the interventions and expected outputs. The MCPS will be subjected to annual implementation reviews which will be soft to ensure that country program implementation is in line with the stipulations of the MCPS. A comprehensive Mid-term review will be undertaken in June 2013 to ascertain the program is on course and to institute remedial actions if necessary to reset the course of implementation.

6.2 Risks and Uncertainties

103. Senegal's **political** stability has been consolidated with the peaceful presidential elections of March 2012 and renewed interest on achieving a durable peace in Cassamance adds to this optimism.

104. However, on the **economic** front, several risks are associated to Senegal's economy. Domestic exports are highly dependent on the primary sector and one company in the chemical sector (*Industries Chimiques du Senegal* accounts for nearly 10 % of exports). Foreign currency financing needs remain substantial, exacerbated by imports of foodstuffs and capital goods. Moreover, Senegal remains vulnerable to a decline in foreign direct investment and in private transfers. Public debt to private sector is still high and represented nearly 10 % of fiscal spending in 2009. Moreover, the discharge of public debt to private sector (with high government arrears to private sector) was only possible with the intervention of financial backers. Moreover, the Senegalese economy is seriously affected by external factors such as fluctuations in world market prices (mainly prices of foodstuff and petroleum products), foreign capital (development aid, FDI, migrant remittances, etc.). Another risk might therefore come from the recurrence of exogenous shocks.

105. **Climate change** affects agriculture through changes in rainfall patterns, high temperatures and strong winds. Senegal is confronted by various threats on its environment. The quality of water resources is gradually being altered by agriculture-related chemical pollution, the proliferation of aquatic plants, the overexploitation of the fish resources, the salinization of the water table and the over-tapping of ground water.

106. **Social tensions** of the last years have been tempered by the peaceful organisation of the presidential elections resulting in the newly elected President Macky Sall. This has resulted in very high social expectations which could be challenging to meet. The social situation of these last years has been affected by power failures which threatened the social cohesion that existed despite the food riots in 2008. The latter also has a potential to recur as world food prices have been on the increase again. Furthermore, the human development ranking of Senegal has been trending downwards. Ranked 166th out of 182 countries in 2009 on the Human Development Index (HDI) scale, this represents a slippage when compared to 156th out of 177 in 2006/2008. Yet the Government

seems to be very keen to minimize this risk and is implementing an Emergency Plan (for Food security and mitigated cost of living) as its prime priority.

VII. CONCLUSIONS AND RECOMMENDATIONS

Conclusion

107. Senegal faces enormous challenges which revolve around infrastructure deficits (energy and transport), youth unemployment, and increasing salination of its waters. However it can leverage a host of opportunities and strengths, with support from its development partners, to address these challenges.

108. The Bank Group's support will be undertaken through four pillars and a cross-cutting pillar which have been identified by the diagnosis of the country's major development constraints undertaken by the government itself. In this regard, IDBG's support is strictly aligned to the national development priorities. An indicative package of US$ 1.36 billion is estimated for the implementation of the strategy for the 4-year period.

Recommendation

109. The IDB Group intervention strategy and the financing programme proposed for Senegal during the 2012-2015 period based on the two pillars and corresponding interventions which have been jointly adopted with the Government of Senegal, is hereby recommended for approval by HE the President.

ANNEXURES

Annex A: Results Matrix

Transport

Pillar : Support multimodal transport infrastructure development to enhance the competitiveness and regional integration					
Government Goals/Strategy	**Current Challenges / Binding constraints**	**Outcomes that the IDB Group expects to support**	**Intermediate Results that the IDB Group expects to influence during the MCPS period**	**IDB Group interventions**	**Outputs**
Air Transport Make Senegal a hub in west Africa. Develop tourism and business	i) Infrastructure in secondary airports in poor conditions.	i) Construction of AIDB project ii) Development of the local traffic by improving capacity of a secondary airport.	AIBD built and operational One secondary airport developed	Feasibility studies for the rehabilitation of a secondary airport financed by IDB	Better air transport network and services
Railway Transport Develop a competitive rail network.	i)Kidira-Tambacounda sections of Dakar – Bamako line in need of rehabilitation. ii) Unlawful occupation of the rights-of-way of the railway	i) Improvement of the rail competitiveness on Dakar – Bamako corridor; ii) Improvement of urban mobility in the regions of Dakar and Thiès and offer an alternative to road transport (entire PTB rehabilitation)	Contribution in the development of the railway network in Senegal through PPP programs, by new potentially profitable projects such as the Dakar-AIBD	Dakar-Bamako (1 228 km) railway line is an integral part of the corridor of the OIC Dakar-Port Sudan railway. Feasibility studies to be financed for the missing links of the project in consultation with concerned Member States IDB could participate in the funding	Develop the rail network with the implementation of new projects such as the Dakar-AIBD fast link service to the mining areas of Matam and Kédougou, or the Tambacounda - Ziguinchor line.

				of this important project to be pardoned and international standards (standard gauge)	
Fluvial and maritime transport Improve access to some regions and develop agriculture	i) Infrastructure of the secondary ports (Kaolack, Saint Louis) in need of rehabilitation. ii)Low use of river transport	i)Development of the freight capacity on Senegal and Casamance rivers; ii) development of a multimodal River – Road approach; iii) opening up Cassamance by developing the capacity of Dakar – Ziguinchor line; iv) creation of a new Port ore and bulk carrier in Bargny; v) modernize some secondary ports in the country.	Rehabilitation of secondary ports, development of a multimodal transport and opening up of Cassamance.	Financing of the System of Transport Multimodal for OMVS members countries (SYTRAM)	i) Secondary ports rehabilitated ii) ii) river – road transport developed in some areas
Roads Promote trade and movement of goods and persons. Foster	i)Insufficient maintenance of the network (65% are in poor conditions;	i)Improvement in the corridor Dakar-Bamako and development of new corridors to other neighbouring	Road network in better condition-regional integration projects financed and facilitation of	To play a catalytic role for syndication of various potential donors (of the Coordination Group of the Gulf (GCC) to finance	i) New corridors to other neighboring countries developed; the national road network

economic development.	ii) isolation of rural areas iii) Road Misuse: obsolete status of the vehicle fleet, road safety issues, weight of truck overload, non-tariff barriers	countries; ii) Rehabilitation and development of the national road network; iii) opening up of the rural areas by the implementation of a priority program of tracks production and building of bridges; iv) Improvement of urban mobility in Dakar and extension in other major cities of the country and v) development of the highway network through the extension of the highway toll to AIBD, Mbour and Thiès.	the road usage (transit and traffic).	a part of this program.	maintained and developed; ii) Rural areas opened up.

Energy

Pillar : Support energy infrastructure development to enhance the productivity and competitiveness of the economy, through the restoration of energy equilibrium					
Government Goals/Strategy	**Current Challenges/Binding constraints**	**Outcomes that the IDB Group expects to support**	**Intermediate Results that the IDB Group expects to influence during the MCPS period**	**IDB Group interventions**	**Outputs**
Providing adequate, reliable and affordable electricity for socio-economic development of the country	Demand exceeding supply Obsolete power generation fleet High dependence on petroleum products for generation Insufficient financing for investment in energy infrastructure	Meeting the electricity demand Development of other forms of energy to optimize the energy mix by reducing dependency on oil Increased participation of the private sector in the generation segment Increased access to electricity in rural areas	Reduction of the energy deficit in 2012 Achievement of a reserve margin of 10% by 2014 Improvement of the quality of service delivery	Acquisition of new power plants (thermal and renewable) Providing financing for IPP coal power plant, Providing line of financing for fuel supply Development of regional interconnection	A 70 MW diesel power plant installed Interconnection network with OMVG member countries built (OMVG energy project Phase 1) Coal fired power plant developed under PPP scheme Electricity networks constructed (on-going Saint Louis concession with ONE).
Poverty alleviation in rural areas based on electricity supply for	Rural population represents 52% of the country's population and concentrates the	Increased energy access.	50% of access to electricity in rural areas by 2012 (263,000	Participation in the development of the different concessions	Electrification of 421 villages (Phase 1).

development of social and revenue generating activities.	high poverty. 55% of the poor live in rural area and they represent 94% of the vulnerable population. Only 24% of the population of rural areas have access to electricity.		households electrified).	(PPP). Construction of networks in rural areas.	
Securing the supply of petroleum products through the refinery SAR Reduce the cost of oil petroleum product supply and increase the capacity of refinery of 3M.	Low capacity of the refinery (1 million tons /year). Obsolescence of the equipment. High production costs.	Extension and modernization of the refinery.	Increased capacity at 3 million tons/year.	Participation in the financing of the extension and upgrading of the existing refinery (PPP).	Modernized and reinforced refinery operational.

Private Sector Development

Government Goals/Strategy	Current Challenges/Binding constraints	Outcomes that the IDB Group expects to support	Intermediate Results that the IDB Group expects to influence during the MCPS period	IDB Group interventions	Outputs
Improved Trade competitiveness Increased access to finance for private sector development Improved the quality and the quantity of supply and demand of good and service. Promote access to local and international markets Promote private investment in Senegal	Limited access to external trade finance Weak trade supply chain network Limited access to finance Lack of information about Credit insurance which may be a tool for financing Credit Insurance lacks depth Trade balance deficit Limited payment facilities offered to importers overseas Political risk and instability	Better access to external finance for trade Increase intra trade (OIC) Enhancing the capacity of the Islamic Bank of Senegal Developing new channels More Direct financing More awareness about the use of Credit Insurance as access to financing Enhancing international trade	Increase international Trade Volume Contribute to Poverty alleviation thru food security program (essential foods) Ensure sufficient supply of energy for the industrial sector Regional Ijara Company 20 MW IPP project Use the Credit Insurance policy as a tool of guarantee for banks to have financing Increase country's Trade revenues Reduce import costs thru ITFC Trade financing. Offer more payment facilities with the use of credit insurance as a guarantee of payment	Provide external Trade finance facility to the Energy sector Support Private sector companies thru co financing schemes with regional banks Provide financing to more than hundred corporate during the next 3 years through a strengthened IBS with US$ 200M financing. Promote Islamic Banking and Finance products Provide CD for bankable projects preparations Direct financing for big ticket items Promote the habit of Credit Insurance in Senegal	Increase Trade financing operations by approving at least USD 20 million per year Increase ITFC presence in Senegal Insuring major exporters in Senegal to enable them opening new markets and

		promotion and dissemination. Enhancing export competitiveness Boost trade and investment partnership between member countries Assist private investors prepare bankable projects Encourage Foreign Investors to make more projects in Senegal	instead of other methods Exchange of information (database) about the new investors having the intention to invest in Senegal	Line of financing thru BIS (Islamic Bank of Senegal) on structured basis (Commodity Finance Program) TA to support the Chamber of commerce Cooperation with local governmental entities to implement the habit of credit insurance Mobilize at least 400 investors to attend the International Investment Conference in Senegal Fund 5 projects by 2013 Cooperating with local financial institutions (BIS) to promote the Investment Insurance	accede to finance Increase ITFC Trade Promotion and assistance Seminar about Credit Insurance with private sector business community International investment conference in Senegal Project Development Facility

Agriculture

Improvement of agricultural productivity and strengthening of value chains					
Government Goals/ Strategy	**Current Challenges/ Binding Constraints**	**Outcomes that the IDB Group expects to Support**	**Intermediate Results that the IDB Group expects to influence during the MCPS Period**	**IDB Group Interventions**	**Expected Outputs**
Integrated development of Agriculture to increase production and income of rural producers, and improve food security	Climate risks and dependence of rainfall High salinity and land degradation	Water control and recovery of the salt land	HA of land for crops irrigated between 2012 and 2015.	Rehabilitation/realization of the hydro-agricol infrastructures	...HA of land
			Salt lands recovered and cultured HA between 2012 and 2015	The small local irrigation support	...HA of recovered salt land
	Food security low productivity and revenue precariousness of employment of the rural youth	Increase in the agricultural production of % between 2012 and 2015 and promotion of value chain	Application of the modern technologies of production and processing of agricultural products and livestock	Support to the agricultural mechanization, artificial insemination, animal health, livestock feed, seed production Support PPP initiatives	Agricultural machinery, produced seeds, improved animal health, sustainable livestock feed system Units of processing of agricultural products
			Infrastructure and basic pastoral equipment	Support for the creation of pastoral units and the realization of infrastructures and pastoral equipment	...Operational pastoral units
			Improving the coordination of extension and research developments	Support to the strengthening of the capacity of agricultural research and extension services centers	development and testing of high-yield seeds

	low resilience		Facilitation of access to inputs and agricultural, technical and veterinary equipment;	Support for micro-finance in rural areas	Extension of microcredit to....paysans
			Sustainable development of aquaculture	Support for the establishment/rehabilitation of aquaculture stations	.. .stations aquaculture are created/rehabilitated
				Support to the establishment of modern hatcheries of freshwater and brackish water species	operational modern hatcheries
				Support to the strengthening of support services	Institutional support
			Construction and rehabilitation of slaughter and marketing structures	Support for the construction and rehabilitation of structures of slaughter and markets for livestock	
			Construction/rehabilitation community and rural tracks	Support for the construction of Km tracks of rural production	km of feeder roads built and/or rehabilitated
		Promotion of rural employment for youth	Establishment of companies of Intensification of agricultural Production (SIPA)	Support to the establishment of SIPA	……SIPA are established

Education

MODERN IZE DARAAS AND DEEPEN BILINGUAL EDUCATION					
Government Goals/Strategy	**Current Challenges/Binding constraints**	**Outcomes that the IDB Group expects to support**	**Intermediate Results that the IDB Group expects to influence during the MCPS period**	**IDB Group interventions**	**Outputs**
- To deliver inclusive quality basic education services	-Geographic & gender inequalities in access -Low quality and internal inefficiencies of the system -Lack of strategic direction on bilingual education -Inadequate supply trained teachers -Inadequate teaching and learning materials	-Provide access to basic education through modernized Daras -Daras mainstreamed in the education system -Bilingual education curriculum adopted -Student learning achievements improved -Improved management structures	-Conducive learning environment for Daras -Attain a pupil textbook ratio of 1:1 -Trained Dara/Quranic teachers on pedagogy and school management -Dara/Quranic teachers trained on new bilingual curriculum -Conduct baseline data on Daras -Conduct baseline studies on student achievement	-School infrastructure -Waqf facility -Teaching and learning materials inputs -Capacity building for teachers and administrators	- Dara infrastructure built - Waqf facility operational - Learning materials delivered - New Bilingual education curriculum introduced - Baseline data collected and regular collection mechanism institutionalized

Health

STRENGTHENING OF HEALTH SYSTEMS					
Government Goals/Strategy	**Current Challenges/Binding constraints**	**Outcomes that the IDB Group expects to support**	**Intermediate Results that the IDB Group expects to influence during the MCPS period**	**IDB Group interventions**	**Outputs**
- To reduce maternal and child morbidity and mortality - To reduce the incidence and prevalence of both communicable and non-communicable diseases - To reduce case fatality rates in health facilities	-Low access to quality healthcare services at all levels of the health pyramid -High maternal and child morbidity and mortality rates -High burden of medical evacuations in Government, households and private companies budgets -High out of pocket payment -High level of nosocomial infections and institutional mortality	-To reduce morbidity and mortality due to communicable and non-communicable diseases - with focus on women and children -To reduce the burden of medical evacuations in both Government and household budgets	-Improved access to and quality of healthcare services at all levels of the health pyramid -Improved financial coverage of most vulnerable groups of the population -Reduced nosocomial infection	-Support the health system strengthening (facilities, equipment, training, biomedical commodities & drugs) -Support to disease prevention and control including malnutrition -Support to social protection -Support to Behaviour Change Communication interventions	- Health care services established - Health personnel trained - Communities mobilized and sensitized on health related issues - Health insurance schemes established

Islamic Finance Sector					
Government Goals/ Strategy	**Current Challenges/ Binding Constraints**	**Outcomes that the IDB Group expects to Support**	**Intermediate Results that the IDB Group expects to influence during the MCPS Period**	**IDB Group Interventions**	**Expected Outputs**
I. Developing Islamic Finance Sector					
To elaborate an appropriate legal framework.	• Lack of legal framework and supervision • Non-availability of qualified human resources in the area of Islamic finance.	Solid and competitive Islamic financial sector with improved regulation and supervision system.	Detailed road-map (covering regulatory, supervisory and institutional requirements) to be implemented during the next 3 years.	• Develop study to analyse the current status of the banking and financial sectors (done) • Develop a road-map which will articulate any institutional, legislative, regulatory and supervisory reforms needed for Senegal and the other member countries of (UMOA). • Encourage creation of Islamic financial institutions in Senegal.	Strengthening the Islamic financial sector through: (a) Technical Assistance (b) Creation of new Islamic financial institutions as well as supporting the existing ones and contribute to the human capital development.
II. Strengthening Islamic Microfinance Sector and promotion of WAQF					
Developing comprehensive approach towards development of poor and ultra-poor in the country.	Non-availability of legal and supervisory framework for Islamic microfinance.	• Improve access to Islamic finance for the poor/ • Human resources development.	Detailed road-map for establishing an Islamic Microfinance institution in Senegal (legal issues, capital structure, potential shareholders, foreign and local strategic partners).	• Developing a road-map which would articulate any institutional, legislative, regulatory and supervisory reforms for operationalizing IMFIs. • APIF to consider financing Waqf project	Creating an Islamic Microfinance institution. Creation of Waqf for education after completion of the feasibility

				in Senegal	study of the project

Annex B: Select Macroeconomic data

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
National income and prices(Annual percentage change)																
GDP at constant prices (annual % change)				6.7	5.6	5.5	3.3	4.8	2.3	1.5	3.4	4.1	4.5	4.7	4.9	5
of which: Non-agricultural GDP at constant prices				4.60	5.70	4.90	2.60	6.30	1.10	1.10	3.40	4.10	4.60	4.80	5.00	5.10
Non-oil and mineral GDP																
GDP deflator - Index	100.0	102.6	106.0	106.5	107.1	109.8	114.2	120.2	128.5	126.7	128.5	134.0	137.0	140.4	143.7	146.8
GDP at current market prices (CFA Billion)	3,331.8	3,575.5	3,717.6	3,986.4	4,242.8	4,593.1	4,893.4	5,408.3	5,994.4	6,029.3	6,368.5	6,817.5	7,235.3	7,752.5	8,326.0	8,948.0
Consumer Price Index (Annual average)	0.7	3.1	2.4	0.0	0.5	1.7	2.1	5.9	5.8	-1.7	1.2	3.4	3.0	2.2	2.1	2.1
International Trade (Annual percentage change)																
Volume of imports of goods and services %	-3.4	2.0	13.5	22.0	17.9	7.2	-4.4	35.0	22.9	-9.8	-1.4	8.9	-0.7	2.4	3.7	3.7
Volume of Imports of goods %	-4.5	2.0	14.7	24.7	19.9	5.7	-6.1	33.5	27.5	-7.8	-0.9	10.1	-0.8	3.7	4.3	4.4
Volume of exports of goods and services %	-9.4	3.5	8.7	17.5	13.0	1.9	-12.9	26.3	-3.6	4.9	-0.9	10.6	-5.3	3.1	3.8	4.1
Volume of exports of goods %	-12.1	3.7	8.3	19.3	14.1	-2.9	-20.2	16.5	-8.3	26.3	0.9	15.2	-7.0	6.8	5.3	5.3
Exports of Goods and Services, nominal (CFA billion)	930.4	1,027.1	1,061.3	1,061.3	1,121.7	1,234.3	1,254.0	1,376.2	1,566.3	1,471.8	1,578.1					
Imports of Goods and Services, nominal (CFA billion)	1,240.0	1,350.3	1,448.6	1,544.2	1,670.2	1,948.3	2,109.1	2,588.1	3,142.9	2,595.5	2,738.7					
Government finances (Percent of GDP)																
Total revenue (% GDP)	18.8	18.6	19.5	20.0	20.4	20.8	21.2	23.6	21.6	21.7	22.0	22.4	23.7	23.6	23.3	23.2
Total expenditure (% GDP)	17.9	20.9	20.3	21.8	22.7	23.6	26.6	27.5	26.3	26.6	27.2	28.5	29.5	28.0	27.7	27.1
Total net lending/borrowing	0.9	-2.4	-0.7	-1.8	-2.3	-2.8	-5.4	-3.8	-4.7	-4.9	-5.2	-6.1	-5.8	-4.4	-4.4	-3.9
Gross investment (percent of GDP)	21.5	19.8	18.9	25.9	26.0	28.5	28.2	34.0	33.8	29.3	29.7	29.2	30.9	30.7	30.8	31.0
Of which: non-government investment																
Government																
Gross National savings % GDP	14.6	14.8	12.9	19.5	19.1	19.6	19.0	22.4	19.7	22.6	23.6	20.9	20.8	20.0	21.8	22.7
of which: non-government																
Domestic saving																
Social Indices																
Human Development Index (HDI value)	0.4					0.4	0.4	0.4	0.5	0.5	0.5	0.5				
Poverty		57.1				50.8										
Unemployment																
Population - Million	10.3	10.6	10.9	11.1	11.4	11.7	11.9	12.2	12.5	12.8	13.1	13.4	13.8	14.1	14.4	14.8

Source: IMF World Economic Outlook April 2012, World Bank World Development Indicators (accessed Sept 14, 2012) &
IMF Article IV consultation
prepared by DRSD, IDB

Annex C: Summary of OCR Operations in Senegal

Table C1: IDB Group Approvals

Entity	Amount (USD m)
IDB	635.96
ICD	24.30
ITFC	272.60
ICIEC	31.00
Total	**963.86**

Source: IDB

Table C2: Distribution by Mode of Financing (Amount in millions)

	No	ID	US$	No	ID	US$	No	ID	US$	%
MODE	**ACTIVE**			**COMPLETED**			**TOTAL**			
Grant	7	2,13	3,22	14	2,13	2,83	21	4,26	6,05	1,04
ISFD Loans	1	7,9	10,75	0	0	0	1	7,9	10,75	1,93
Loan	19	101,32	142,85	28	106,41	138,11	47	207,74	280,96	50,64
Equity	0	0	0	4	17,59	23,5	4	17,59	23,5	4,29
Ist_Inst	5	95,96	148,16	4	19,98	27,57	9	115,94	175,73	28,26
Leasing	0	0	0	5	56,79	78,71	5	56,79	78,71	13,85
TOTAL	32	207,3	305	55	202,9	270,7	87	410,2	575,7	100%

Source: IDB

Table C3: Distribution by Sector (Amount in millions)

SECTOR	ACTIVE			COMPLETED			TOTAL			
	No	ID	US$	No	ID	US$	No	ID	US$	%
AGRICULTURE	6	17,88	24,83	11	39,34	49,5	17	57,22	74,33	13,95
EDUCATION	3	14,9	20,63	5	19,31	24,66	8	34,21	45,29	8,34
ENERGY	1	6	9,4	6	56,23	81,32	7	62,23	90,72	15,17
FINANCE	4	2,99	4,11	2	5,78	8,26	6	8,78	12,36	2,14
HEALTH	4	14	19,79	3	9,34	12,88	7	23,34	32,67	5,69
INDUSTRY AND MINING	1	0,3	0,43	4	21,11	25,05	5	21,41	25,48	5,22
PUBLIC ADMINISTRATION	1	0,15	0,23	1	0,06	0,1	2	0,22	0,32	0,05
TRANSPORTATION	8	124,68	188,61	15	34,99	46,97	23	159,67	235,59	38,92
WATER, SANITATION & URBAN SERVICES	4	26,4	36,95	8	16,73	21,98	12	43,13	58,93	10,51
TOTAL	32	207,3	305	55	202,9	270,7	87	410,2	575,7	100%

Source: IDB

Table C4: Gross Approvals for Senegal (1429H-1432H (UP TO Q3)) in millions

Source Acronym	Country	Project Name	Sector	Financing Mode	ID_mill.	US_mill.	Hijra
OPSD	Senegal	Livestick Development Oroject	Agriculture	Loan	7	10.34	1429
OPSD	Senegal	Upgrading Of Dakar Expressway (Supplementary)	Transportation	Istisnaa	4.09	6.66	1429
OPSD	Senegal	Vocational Literacy Progam For Poverty Reduction (Voli	Education	Loan	7.9	10.75	1429
OPSD	Senegal	St-Louis Rural Electrification Concession Project	Energy	Istisnaa	6	9.4	1431
OPSD	Senegal	Construction Of The Linguere-M Atam(Boula-Patouki) Road	Transportation	Istisnaa	9.65	14.22	1431
OPSD	Senegal	Construction Of The Linguere-M Atam (Boula-Patouki) Roa	Transportation	Loan	12.12	17.87	1431
OPSD	Senegal	Islamic Bank Of Senegal (Bis) (Additional I)	Finance	Equity	3.12	4.66	1431
OPSD	Senegal	Aibd Dakar Airport	Transportation	Istisnaa	62.1	97.54	1431
OPSD	Senegal	Small Scale Irrigation Support	Water, Sanitat	Istisnaa	11.74	17.9	1432
OPSD	Senegal	Solid Waste Management Project	Water, Sanitat	Instalement Sale	7.7	11.55	1432
OPSD	Senegal	Solid Waste Management Project	Water, Sanitat	Loan	10.84	16.8	1432
OPSD	Senegal	Power Plant 60 Mega Watt	Energy	Istisnaa	65	97.38	1432
OPSD	Senegal	Modernization Of Daara Schools Project	Education	Loan	9.53	15.24	1432
OPSD	Senegal	Replenishment Of Food Security Stocks-Phase I Jed Decla	Agriculture	Technical Assistance	0.77	1.25	1429
OPSD	Senegal	Action For Islamic Solidaritys Program For Integrated M	Public Adminis	Technical Assistance	0.06	0.1	1429
OPSD	Senegal	Ministry Of Economy Finance	Finance	Technical Assistance	0.19	0.31	1431
OPSD	Senegal	Action For Islamic Solidarity's Program For The Integra	Health	Technical Assistance	0.04	0.06	1432
OPSD	Senegal	Modernization Of Daara Schools Project	Education	Technical Assistance	0.27	0.43	1432
OPSD	Senegal	Modernization Of Daara Schools Project	Education	Loan	1.64	2.63	1432
Icd	Senegal	Tamweel	Financial	Equity	5.55	8.54	1431
Icd	Senegal	Islamic	Financial	Equity	1.95	3.01	1429
Icd	Senegal	Tamweel	Financial	Equity	0.01	0.02	1430
					227.27	***346.66***	

Source: Compiled by Data Resources and Statistics Department

Table D – Bilingual Education statistics						
Projects	**Operations**		**COA-M**		**US$-M**	**ID-M**
Dara Schools Development Project (Psen0160)	2SE 0123	Loan	9.53	ID	15.24	9.53
	3SE 0124	Grant (TA)	0.27	ID	0.43	0.27
	7SE 0125	Loan ISFD	2.63	USD	2.63	1.64
Education Development Project (Phase-Iv) (Se 0081)	2SE 0081	Loan	4.66	ID	6.67	4.66
	3SE 0082	Loan LDMC	2.33	ID	3.21	2.33
Vocational Literacy Progam for Poverty Reduction (Volip) (Se 0110)	2SE 0110	Loan	7.90	ID	10.75	7.90
Extension University Campus Dakar (Se 0048)	2SE 0048	Loan	7.00	ID	9.32	7.00
Construction And Equipping of Primary Schools (Se 0064)	2SE 0064	Loan	6.16	ID	8.26	6.16
Training And Integration Scheme Project for Aunigi (Se 0059)	3SE 0059	Loan LDMC	1.22	ID	1.75	1.22
School Building (Se 0026)	2SE 0026	Loan	4.90	ID	5.28	4.90
Summer Camp of Excellence In Science and Maths for High Schools (Se 0088)	3SE 0088	Grant (TA)	0.05	USD	0.05	0.03
Grand Total					**63.59**	**45.64**

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