

AFRICA RISK CONSULTING

Country briefing – Senegal

November 2013

1 Summary

In response to Senegal's poor showing in the World Bank's Doing Business report, President Macky Sall launches a new programme to improve the business environment including a review of the corporate tax rate. The government plans to showcase its new commitment to attract foreign investment at a donor and investor roundtable in Paris in February 2014. The 2014 budget plans to rein in the deficit to 4.9% of GDP in 2014. Prudent debt management and cuts to government spending send positive signals and satisfy donors. Energy costs remain a concern. Disruptions are likely at Aéroport Léopold Sédar Senghor in Dakar as the tourist season starts. Overall management and security deteriorates and police demands for bribes become routine.

2.1 President Sall prioritises attracting investment

President **Macky Sall** (2012 -) understands that his prospects for re-election in 2017 depend on improving the business climate to attract foreign investment. The **World Bank's** annual *Doing Business* report released on 29 October "devastated"¹ the president. Senegal fell two places to 178 out of 189 countries and recorded no significant improvements across the 10 indices.² Sall has since pointed out that the latest reforms to improve the business climate were not included in this year's report because they were introduced after the start of June 2013 cut off.³ He says these reforms include removing an authorisation for transactions; incentive measures including registration of applications within 24 hours of starting a business; a decree revising the civil procedure code; the automation of border trading; and facilitation in transferring property.

¹ Source, francophone journalist, Senegal

² See ARC Senegal Briefing October 2013

³ Jeune Afrique, 4 November 2013



“The drop in ratings shook them [the government] and the president wants to improve the business climate. He has sent the message that things must improve quickly and that his re-election is on the line.”⁴

Sall ordered an “ambitious programme of reform”⁵ under the **Programme de Réformes de l’Environnement des Affaires (PREAC)**. On 11 November he established an interdepartmental council on doing business, comprising two monitoring committees to facilitate improvement⁶. Prime Minister **Aminata Touré** will chair one committee; the investment promotion minister **Diène Farba Sarr** will chair the other. They will work with officials in charge of completing the World Bank report. Sarr said, “We are here to analyse the results of the report and to take steps to improve our position in the short, medium and long term.”⁷ He pledged to revise the corporate tax rate (currently 25%), which the *Doing Business* report noted as a key constraint on business. The PREAC has four other more general focus areas⁸:

- the establishment of a simplified regulatory framework and incentives (company registration in one hour by the end of January 2014);
- automation of procedures for the establishment of companies;
- investment promotion with strong social impact;
- improving competitiveness.

The government plans to demonstrate its new commitment to supporting business at a roundtable conference **Groupe consultatif de Paris, France** in February 2014. It aims to raise \$5.6 billion for its 2013 – 2017 national development plan, **Stratégie Nationale de Développement Economique et Social (SNDES)**⁹. It will dedicate a day to the private sector during the roundtable in an effort to improve investor confidence¹⁰. Introduced in November 2012, the plan requires funding of around \$10 billion, and aims to create 150,000 jobs each year; however the government has not released specific details of projects targeted under the plan¹¹. It seeks 7% economic growth during the period (by 2017).

⁴ Source, lead economist for an international institution, Senegal

⁵ Source, lead economist for an international institution, Senegal

⁶ Le Soleil, 12 November 2013

⁷ Investment promotion minister Sarr speaking to the press on 11 November 2012

⁸ *ibid*

⁹ Les Afriques, 24 November 2013

¹⁰ Confirmed by finance minister

¹¹ See ARC Senegal Briefing June 2013

The government appointed consulting firm **McKinsey** in June 2013 to assist the development of a separate economic policy “roadmap” to be unveiled in January 2014, in time for the roundtable¹². The roadmap aims for Senegal to reach emerging country status by 2035 and will identify major projects to accelerate growth.

2.2 The 2014 Budget confirms prudent debt management despite energy sector concerns

The 2014 budget was delivered to the **Assemblée Nationale** on 24 November. The government will aim to reduce the budget deficit from 5.4% of gross domestic product (GDP) in 2013 to 4.9% in 2014 to “improve macroeconomic stability”¹³. It reduced the deficit to 5.8% in 2012, from 6.7% in 2011. The 2014 budget totals \$5.7 billion, up from \$5.2 billion in 2013, an 8% increase. The new Tax Code, implemented on 1 January 2013, will result in increased tax revenue of \$4.3 billion in 2013 and \$4.7 billion in 2014, according to the government. The budget is based on an economic growth forecast of 4.6% in 2014, and an inflation rate of around 2%. The growth forecast is in line with an **International Monetary Fund (IMF)** forecast following a programme review on 19 September.

The prudent debt management pleased international partners, including the IMF,

“The budget complies with the IMF and is in line with consultations which aim to bring the deficit below 4% by 2015. The IMF will accept it when it submits its sixth review in December 2013.”¹⁴

Donors also viewed the specific cuts to government expenses as positive. It will reduce a university student scholarship programme and student allowances to \$77m in 2014. *“The scholarship programme got out of control... last year almost every student got one if they passed or failed”¹⁵*. The budget also plans to cap the public service phone bill which stands at \$48m. *“After a good look at it, they plan to save \$20m from the phone bill alone”¹⁶*. During his budget speech finance minister **Amadou Ba** warned ministers that all expenses should follow correct procedures.

The government expects an economic improvement in 2014 due to a more positive regional and international environment. It points to the improved situation in **Mali**, its most important regional partner. It also attributes planned accelerated growth in 2014 to the implementation of the SNDES

¹² Jeune Afrique 21 November 2013

¹³ Finance minister Amadou Ba quoted

¹⁴ Source, lead economist for an international institution, Senegal

¹⁵ *ibid*

¹⁶ *ibid*

development plan; investments in the energy sector; ongoing **United States (US) Millennium Challenge Account (MCA)** projects; development of the new Dakar airport **Blaise Diagne International Airport (AIBD)**¹⁷; and the launch of a sovereign wealth fund **Fonds Souverain d'Investissement Stratégique (Fonsis)**.

However, ongoing energy sector costs undermine the 2014 budget and the growth forecast. Not reported in the press, a lead economist for an international institution confirmed that *“the big issue is the subsidy going to the energy sector...they hope to reduce it but we’re not sure how successful they will be because of the lack of projects [to reduce the cost of energy].”* The energy sector subsidy is forecast for \$160m in 2013, *“but in reality it is much higher because the figure doesn’t include unpaid taxes...in 2012 they came in at 2.5% of GDP”*¹⁸.

2.3 Further disruptions and police demands for bribes at Dakar airport

President Sall officially launched the tourist season on 29 November. However, disruptions are likely at **Aéroport Léopold Sédar Senghor** in Dakar due to deteriorating management. The disruptions include:

- several reports of lost luggage;¹⁹
- on 1 November two airlines were forced to postpone flights due to slow airport services, notably customs;²⁰
- a six-hour power cut on 29-30 October also disrupted services;²¹
- visitors have waited up to two hours to receive biometric visas²², introduced on 1 July 2013;
- demands for bribes from police for the visa are now routine;²³
- excessive police and other security forces presence.

Corruption *“deeply affects”* the police service, according to the **Afrobarometer** survey based on research between October 2011 and June 2013²⁴.

*“It’s a shame that this is the first experience visitors have with Senegal, and it’s not pleasant. It’s reverting back 20 years. It’s like a hang out spot for the security forces of all types”*²⁵.

¹⁷ The government claims it will be completed in 2014

¹⁸ Source, lead economist for an international institution, Senegal

¹⁹ Various sources, including a local analyst

²⁰ Dakar Actu, 3 November 2013

²¹ Leral, 21 October 2013

²² Seneweb, 25 November 2013

²³ Sources, local analyst, francophone journalist who have been asked for bribes on several occasions whilst obtaining the visa

²⁴ Afrobarometer, 13 November 2013



Implications

Sall's response to the *Doing Business* report indicates a long-overdue shift in focus to attract foreign investment. He is aware that his re-election depends on improving job prospects for the population, of which around 60% are under 18 years old and soon to enter the job market. The *Doing Business* report confirmed investor complaints which increased soon after Sall took power in April 2012. During the last Groupe Consultatif de Paris on 21-22 October 2013, the government failed to secure adequate financing to launch the SNDES development plan. The business climate has also suffered due to the ongoing and flawed illicit enrichment investigations against former officials. The February 2014 roundtable represents one of the government's last chances to secure funding to launch and complete key projects within the current presidential term.

The budget reassures investors and donors. The government remains on target with its deficit reduction targets. The cuts to government expenses also send the right messages to ministers. Senegal remains a bastion of political stability and maturity in the region. With a focus on attracting investment and good fiscal management, the government can capitalise on this positive image. The new developments improve its prospects of attracting funding to improve infrastructure, including energy, to accelerate growth.

²⁵ Source, francophone journalist, Senegal