

AFRICA RISK CONSULTING**Senegal Monthly Briefing December 2015**

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President Macky Sall (2012-present) refuses to comment on his promise of a referendum to reduce the presidential mandate from seven to five years. The government secures loans for several Plan Sénégal Émergent (PSE) projects, including from China Export-Import Bank and the International Finance Corporation (IFC). The government continues efforts to find partners for the Falémé iron ore mine and infrastructure project, which has been without a developer since 2013. The government cancels Transrail's concessionary rights to the Dakar-Bamako (Mali) railroad due to spiralling debt. The telecommunications sector outlook improves, after the government obtains financing for a 2,500km fibre-optic network and opens a tender for 4G licence.

Sall dodges questions on presidential mandate referendum ...

President Macky Sall (2012-present) may face a backlash from the local electorate and donors if he reneges on his promise to hold a referendum to reduce the presidential mandate from seven to five years. Sall made a promise in March to hold a referendum in order to revise the presidential mandate, stating unequivocally that “*the presidential election will take place in February 2017*” with the aim of “*giving an example*” to the rest of Africa.¹ At the time, he estimated that the referendum would take place in May 2016.² Sall responded dismissively to several contentious issues surrounding his mandate as he addressed an audience on 14 December at the 4th edition of the **Université Républicaine** (Republican university) which included members of his **Alliance pour la République (APR)** party and the presidential coalition, **Benno Bokk Yakaar (BBY)**.³ When pressed on the timeframe of the referendum, Sall stated that “*no-one can force me to make a decision*”.⁴

Sall's reluctance to discuss the referendum signals increasing pressure from within his APR party to renege on the referendum. Several key figures within Sall's entourage and among the APR have urged the president to forgo the referendum and maintain the seven-year mandate.⁵ Sall also deflected questions regarding the debate on whether there would be a single or plural candidature within the BBY for the next elections, as journalists speculate about the possibility of divisions within the coalition.⁶ Sall voiced frustrations about a perceived Senegalese habit of “*only talking*”, calling for BBY members to judge him on his progress on the PSE (see below).⁷

... but sees progress on Plan Sénégal Émergent investment ...

Sall's economic plan, the **Plan Sénégal Émergent (PSE) 2014-2018**, has reached several key milestones in recent weeks. Some of Sall's major PSE projects had remained unfunded until recently and lacked strategic partners to develop them. The president's brainchild now looks better positioned to meet its targets, which he states is his sole focus.

¹ DakarActu, 17 Mar 2015.

² DakarActu, 17 Mar 2015.

³ Xalima, 14 Dec 2015.

⁴ SudOnline, 14 Dec 2015.

⁵ Source, several

⁶ SudOnline, 14 Dec 2015.

⁷ SudOnline, 14 Dec 2015.

Sall has moved some PSE projects forward. During the 6th **Forum on China-Africa Cooperation (FOCAC)**, held in **Johannesburg (South Africa)** on 4-5 December, Sall secured €300m (\$324m) from the **China Export-Import Bank (China Exim)** for a 55km stretch of the **Aéroport International Blaise-Diagne (AIBD)-Mbour-Thiès** motorway,⁸ a key project in Sall's aim to become an regional logistical hub.⁹ Once completed, the toll road will connect the AIBD – also in the process of construction, but delayed until the end of 2016 – to the cities of Mbour and Thiès.¹⁰ The road will complement the \$686m China Exim-financed **Ilaa Touba** motorway, also under construction.¹¹

The Senegalese government has also secured funding from the **International Finance Corporation (IFC)** and the **Overseas Private Investment Corporation (OPIC)** in a self-proclaimed “*innovative financing model*” which provides a cross currency swap and a loan of up to \$91m for the 53MW **Cap des Biches** thermal power plant.¹² The IFC and OPIC signed the financing agreements for the power plant with **United States (US)**-based project developer **ContourGlobal**, the Senegal government and state-owned power utility **Société Nationale d'Électricité du Sénégal (Senelec)** on 26 November.¹³ The existing plant on the site has been out of service since 2007.¹⁴ ContourGlobal will design, build and operate the project, in conjunction with US president **Barack Obama's** (2009-present) **Power Africa** initiative. Cap des Biches marks the fourth IFC-financed power plant in Senegal.¹⁵ Senelec has signed a 20-year power purchase agreement with the project developers.¹⁶ The developers expect to complete the project by May 2016. Senegal needs to generate an additional 130MW to meet electricity demand, which is currently increasing between 5-8% each year.¹⁷

In its initial PSE outline, the government claimed that it requires \$4.9 billion financing for approximately \$17 billion of expenditure.¹⁸ However, recent findings have shown that GDP growth for 2014 (4.3%) was lower than estimates set out in the PSE (4.7%).¹⁹ Ratings agency **Moody's** has stated its growth forecast for 2015-2016 at approximately 5-6% – or 2% lower than the PSE's 2015 target of 7-8% growth.²⁰ Lower economic growth could significantly affect the ability of Sall's government to meet the targets laid out in the PSE.

Propelling mining and industry whilst infrastructural gaps remain

A delegation from the Senegalese industry and mining ministry travelled to South Africa on 21 to 28 November, reportedly to scout for potential partners to relaunch the **Falémé** iron ore mine and infrastructure project.²¹ This fits within a broader economic effort to bolster the mining sector and push for local value-added transformation - and industrialisation more generally.

The Senegalese government regained control of Falémé project after winning an arbitration case against **Luxembourg-based ArcelorMittal** in 2013.²² The ruling stated that ArcelorMittal had failed to respect its contractual obligations in terms of the development of the mine.²³ ArcelorMittal won the rights to develop the project in 2007,²⁴ but the project has remained on hold since 2013.²⁵ The

⁸ Jeune Afrique, 7 Dec 2015.

⁹ Plan Sénégal Émergent, Feb 2014.

¹⁰ Jeune Afrique, 7 Dec 2015.

¹¹ www.au-senegal.com, 28 Jan 2015.

¹² IFC Press Release, 26 Nov 2015.

¹³ AllAfrica, 26 Nov 2015

¹⁴ Jeune Afrique, 27 Nov 2015.

¹⁵ IFC Press Release, 26 Nov 2015.

¹⁶ IFC Press Release, 26 Nov 2015.

¹⁷ ESI Africa, 30 Nov 2015.

¹⁸ Plan Sénégal Émergent, Feb 2014.

¹⁹ Le Quotidien, 28 Nov 2015.

²⁰ Moody's, 24 Nov 2015.

²¹ Jeune Afrique, 14 Dec 2015.

²² Jeune Afrique, 11 Sept 2013.

²³ Jeune Afrique, 11 Sept 2013.

²⁴ Jeune Afrique, 11 Sept 2013.

government claims that a developer could potentially bring the project to production within eight years, reaching annual production of 15 million tons within 10 years, and an annual production of 25 million tons within 20 years.²⁶

In another effort to boost industry, on 17 December **Nouvelle Société Textile Sénégalaise (NSTS)** relaunched a textile factory – abandoned in 2005 – in Thiès.²⁷ NSTS engaged in a €5m (\$5.4m) modernisation of the factory, having had direct support from Sall and the **Banque Nationale pour le Développement Économique (BNDE)** of €915,000 (\$992,365).²⁸ Textile mill activity had halted for several years.²⁹

However, the cancellation of the concession to redevelop the **Dakar-Bamako** railway underlines the infrastructure gaps in Senegal. On 7 December the Senegalese and **Malian** governments terminated their agreement with locally owned **Transrail**, a subsidiary of France-based **Groupe Advens**, for the concessionary rights to the longstanding railway (and the main trade route between the two countries). The cancellation was on the grounds of “*fait du prince*” (French administrative law term to denote an arbitrary act of government to terminate a contract), which will result in the payment of compensation for an amount as yet undisclosed.³⁰

A **Canada**-based consortium held the Transrail concession from 2003 until Advens acquired both Transrail and the concession in 2006.³¹ In 2010, the company was heavily indebted (around \$20m at the time) and unable to carry out effective maintenance, leading to degradation of the line and train fleet.³² This resulted in a stimulus plan – to the order of \$231m – to clear the debt and enable the company to undergo major investments, together with its main creditors (including **Total Sénégal** and **Total Mali**) and donors (including the **World Bank**, the **Banque Ouest-Africaine du Développement** (West African development bank) and the **Agence Française de Développement (AFD)**, French Development Agency).³³ However, this was never carried out.³⁴ As late as December 2014, Transrail agreed to restructure, resulting in a report delivered in November 2015.³⁵ Transrail was reportedly unable to agree upon a viable solution to the railway line “*in crisis*”, as the company is estimated to have approximately \$82m in debt and \$37m in social security tax arrears.³⁶

Telecommunications outlook improves with fibre-optics and 4G agreements

A deal with China-based **Huawei** should encourage greater competition between Senegal’s three network providers. The government signed the €77.44m (\$84m) deal on 25 November for the installation of 2,565km of fibre-optics throughout Senegal.³⁷ Eximbank China will finance the project.³⁸ The agreement fits within the government’s efforts to make the transition into digital terrestrial television and 4G technology, whilst creating a network between 240 government administrative structures and 21 departmental capitals.³⁹

Abdou Karim Sall, managing director of the regulator **Autorité de Régulation des Télécommunications et des Postes** (Telecommunications and postal regulatory authority),

²⁵ Jeune Afrique, 14 Dec 2015.

²⁶ PSEofficiel.com, 1 Dec 2015.

²⁷ Jeune Afrique, 17 Dec 2015.

²⁸ Jeune Afrique, 17 Dec 2015.

²⁹ Jeune Afrique, 17 Dec 2015.

³⁰ Jeune Afrique, 7 Dec 2015.

³¹ Jeune Afrique, 7 Dec 2015.

³² Jeune Afrique, 29 Dec 2010.

³³ Jeune Afrique, 29 Dec 2010.

³⁴ Jeune Afrique, 29 Dec 2010.

³⁵ Jeune Afrique, 7 Dec 2015.

³⁶ Jeune Afrique, 26 Nov 2015.

³⁷ Jeune Afrique, 26 Nov 2015.

³⁸ Jeune Afrique, 26 Nov 2015.

³⁹ Jeune Afrique, 26 Nov 2015.

launched a tender for 4G licences a week earlier on 16 November.⁴⁰ The tender is available only to companies who hold a mobile network licence in Senegal (**Orange, Tigo and Espresso**) and the deadline for applications is 18 January 2016.⁴¹ Applicants need to assure service to at least 65% of the population within five years and 85% of the population within 10 years.⁴² The successful applicant will need to cover Dakar and each regional capital within five years, and all nine major road axes within ten years.⁴³ This follows a one-and-a-half year testing period that ended on 31 March.⁴⁴ Internet penetration remains at 54.4%, of which 94% is via mobile phone.⁴⁵

Implications

Sall may face a backlash from the local electorate and donors if he reneges on his promise to hold a referendum to reduce the presidential mandate. His reluctance to discuss the referendum publicly marks a development, and signals increasing pressure from within his APR party to renege on the referendum.

The PSE undoubtedly remains Sall's chief focus and he has had some recent successes in securing funding for key projects after persistent financing delays for most PSE projects. However, optimistic growth forecasts may jeopardise his ability to deliver on those promises, whilst pressure to reform fiscal policy may heighten the need for external financing.

Efforts to relaunch abandoned mining and industrial projects aim to make advances towards economic diversification. However, these require efficient supporting infrastructure to function. The failed privatisation of the Dakar-Bamako railroad, resulting in the delayed refurbishment of the railway, has proven costly for interregional trade, and although the decision to terminate the agreement may rejuvenate the project, the project will require significant investment. In addition, the government will face significant difficulty attracting investment for mining projects due to the collapse of commodity prices, which has led to a mining downturn.

The advent of fibre-optics and 4G in Senegalese telecoms follows a greater trend in the region, where countries are able to leapfrog rapidly on a technological level, often with Huawei's help. The development should encourage greater competition between Senegal's three network providers, as the race for mobile internet market share intensifies.

⁴⁰ Jeune Afrique, 17 Nov 2015.

⁴¹ Jeune Afrique, 17 Nov 2015.

⁴² Jeune Afrique, 17 Nov 2015.

⁴³ Jeune Afrique, 17 Nov 2015.

⁴⁴ Jeune Afrique, 2 Apr 2015.

⁴⁵ Jeune Afrique, 17 Nov 2015.

About Africa Risk Consulting:

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