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ANALYSIS OF NATIONAL EXPERIENCES IN HORIZONTAL AND VERTICAL DIVERSIFICATION, INCLUDING THE POSSIBILITIES OF CROP SUBSTITUTION

SENEGAL: A COUNTRY-STUDY

Report of the UNCTAD secretariat

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ABBREVIATIONS

ACP:	African, Caribbean and Pacific States
AFINACE:	Agence Financière Nationale de Crédit à l'Exportation
APROMA:	Association des produits à marché
ASACE:	Agence Sénégalaise de l'Assurance-credit à l'Exportation
BCEAO:	Banque Centrale des Etats de l'Afrique de l'Ouest
BIAO:	Banque Internationale pour l'Afrique Occidentale
CCIAD:	Chambre de Commerce d'Industrie et d'Agriculture de Dakar
CEAO:	West African Economic Community
CERDI:	Centre d'Études et de Recherches sur le Développement International
CFDT:	Compagnie Française pour le Développement des Fibres Textiles
CICES:	Centre International du Commerce Extérieur du Sénégal
CSA:	Conseil Supérieur de l'Agriculture
CSPT:	Compagnie sénégalaise des Phosphates de Taïba
ECOWAS:	Economic Community of West African States
ESAF:	Enhanced structural adjustment facility (of IMF)
EU:	European Union
FPE:	Fonds de Promotion Economique
GDP:	Gross domestic product
HDI:	Human development index
ICAC:	International Cotton Advisory Committee
ICS:	Industries chimiques du Sénégal
IMF:	International Monetary Fund
ISN:	Institute sénégalais de Normalisation
NAP:	New Agricultural Policy
NIP:	New Industrial Policy
SAF:	Structural adjustment facility (of IMF)
SAL:	Structural adjustment loan (of the World Bank)
SENEPESCA:	Société Sénégalaise pour l'Expansion de la Pêche Côtiére, Surgélation et Conditionnement des Aliments
SENPRO:	Comité sénégalais de Simplification des Procédures
SISMAR:	Société Industrielle Sahelienne de Mécaniques, de Materiéles Agricoles et de Representations
SODAGRI:	Société de Développement Agricole et Industriel de Sénégal
SODEFITEX:	Société de Développement des Fibres Textiles
SODEVA:	Société de Développement et de Vulgarisation Agricole
SONACOS:	Société Nationale de Commercialisation des Oléagineux du Sénégal
SONATEL:	Société Nationale des Télécommunications du Sénégal
STABEX:	System of stabilization of export earnings
UMOA:	West African Monetary Union
UNDP:	United Nations Development Programme
UNIDO:	United Nations Industrial Development Organization
USAID:	United States Agency for International Development

FOREWORD

1. The Committee on Commodities, in its fourteenth session, November 1990, decided that priority should be given to the study of the impact of market conditions in importing and exporting countries with regard to diversification, including government policies, structural adjustment, forms and methods of trading, and technical assistance.[1] The Standing Committee on Commodities, in its first session, February 1993, decided, in the same vein, that national experiences in horizontal and vertical diversification, including possibilities of crop substitution, should be analysed, and that an examination was required of the best ways of achieving diversification, taking into account competitiveness, market trends and opportunities.[2]

2. In accordance with these mandates, a number of country-studies are being undertaken, in Cameroon, Colombia, Fiji, Senegal, the Solomon Islands and the United Republic of Tanzania. The experience of these countries in the diversification of their commodity exports (including increased processing and diversification into commodity-related marketing activities), as well as the conditions influencing this, are analysed. These conditions fall into two broad areas: the macroeconomic and international environment (including market-access conditions), and the commodity-specific supporting framework (in terms of government -- or otherwise -- supplied services, infrastructure, market promotion support, etc.).

3. This approach attempts to identify the key factors which resulted in commodity export diversification, or that prevented the exploitation of diversification possibilities. This includes questions as to which were the important factors which led to and facilitated the set-up of new export-oriented productive activities?; what were the problems these new activities encountered, and, if these problems were overcome, how was this done?; if problems were not overcome, were there gaps in the supporting environment, and in particular, government policies? No attempt is made to decide whether macroeconomic policy is more important than microeconomic policy, or *vice versa*; or whether cheap credits are more useful for an exporting company than good market-information networks. Rather, an attempt is made to describe which package of conditions is necessary to make export diversification viable, and which package of policy measures seems to enhance the chances of export diversification efforts.

4. Therefore, the goal of these studies is not to formulate general theoretical statements, neither is it to formulate specific policy recommendations for the countries being studied. Rather, it is to draw conclusions on the sorts of policies that would facilitate diversification, the support services that are absolutely necessary to enable local entrepreneurs to make use of existing possibilities, and the ways a country can improve its benefits from marketing its commodities. Currently, many countries are in a process of policy reform; diversification of exports is generally one of the envisaged outcomes. However, the resources available to stimulate this diversification are scarce, and in general countries do not have the information necessary to determine how their resources can be used optimally. These studies will, it is hoped, support the process of policy formulation in developing countries in this area.

SUMMARY AND CONCLUSIONS

5. Senegal was one of the first African countries which opted for "African Socialism" at independence in 1960. The theory behind this philosophy was that the state would manage the economy in such a way that all sectors of the population benefited from economic growth. This philosophy translated into extensive price controls, an intricate system of taxes and subsidies, and a prevalence of state-owned and state-managed industry. This policy approach was followed from 1960 to 1983, when the first attempts at structural adjustment began. The period after 1983 is characterized by general economic liberalization and extensive state disengagement from agricultural and industrial activity.

6. Since the 1960s, the economy of Senegal has experienced a steady decline in real growth. Although much of Senegal's current economic difficulties can be traced back to the policy decisions undertaken during the 1960s and 1970s, it would be inaccurate to single out government policy as the sole cause of the country's deteriorating economic situation. Factors such as poor climatic conditions (drought), falling groundnut prices during most of the 1980s and export obstacles in the form of tariff and non-tariff barriers in potential regional markets have all played an important role.

7. From the 1960s until the 1980s, the economy of Senegal was rather closed, with the government using a wide range of tariff and non-tariff barriers to protect local manufacturing industry, in particular the chemicals, cement, textile, sugar, leather goods and agroprocessing sectors. Prices of industrial products were fixed and kept at artificially high levels. However, rather than growing under the umbrella of protection, local manufacturing activities stagnated with most factories operating at less than half their capacity.

8. Government policy towards agriculture was also one of strong state involvement in various areas, ranging from production to local and export marketing. The government provided subsidized credit, fertilizer, seed and machinery through numerous extension and rural development services. These services were also responsible for research and development and the transfer of new technologies to farmers. Price controls were widespread, with prices for cash crops, such as groundnuts and cotton, kept at high levels. Processing and marketing of export crops, with the exception of horticultural products, was undertaken by state parastatals.

9. Most of the numerous parastatals were overstaffed and unprofitable and the cost of operating them weighed heavily on the government budget. In addition, export earnings from groundnuts, the country's principal export earner in the 1960s and 1970s, fell sharply due to severe drought conditions in the 1970s and early 1980s. Faced with mounting debt and a declining export sector, the government agreed to initiate a structural adjustment programme sponsored by France, the International Monetary Fund (IMF) and World Bank in 1979. The successive programmes adopted by Senegal in the 1980s had important consequences for the economy, including the export sector.

10. As the main aims of the structural adjustment programmes consisted of reducing inflation and the government deficit, as well as the balance-of-payment deficit, the state's disengagement from economic activity and the promotion of the export sector became important objectives. However, a tight monetary policy pursued by the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) in the 1980s,[3] resulted in a shortage of credit for potential entrepreneurs and high interest rates on credits available. Moreover, measures taken to achieve fiscal balance, including raising taxes particularly on energy, resulted in high costs for fuel electricity and water, and reduced production of high energy-absorbent processing activities.

11. The adjustment programmes also introduced some export promotion policies. Although the government introduced a number of changes to its investment code to encourage the development of export-oriented activities, their implementation has been slow. An export-subsidy scheme, which was introduced in 1980 and had led to an increase in non-traditional exports, is no longer operational since 1990 owing to budgetary problems. The government also introduced a whole range of financial and insurance schemes to encourage export growth, but none of these facilities have been used effectively on account of financial constraints and a lack of adequate private-sector promotion.

12. Export promotion and diversification are not new goals. In the 1960s and 1970s, government policy towards diversification had two broad aims. First, the government wanted to reduce export dependency on groundnuts and promoted mainly the development of the mainly cotton, fisheries and phosphates sectors. The second aim of diversification policy consisted of reducing Senegal's dependence on imported cereals (in particular rice) by promoting rice and wheat cultivation. Although the domestic production of cereals increased significantly as the result of this policy, Senegal is still heavily dependent on their imports.

13. For several reasons, the growth of the most important new export sectors (fisheries, raw phosphates) failed to continue. The emphasis of the structural adjustment programmes on reducing the government budget deficit and achieving fiscal balance has led the government to withdraw considerable support from the agricultural and agroprocessing sectors. However, it failed to develop a suitable incentive framework to encourage the private sector to take over activities previously provided by the state. The government's privatization aims have generally failed as private entrepreneurs were unwilling to take over unprofitable and risky state enterprises that had accumulated huge debts. The result is that there is a serious lack of services in areas such as credit, provision of inputs, transfer of technology, post-harvest handling, quality control, information and marketing.

14. Senegal's efforts to diversify its agricultural and industrial bases faced a number of serious external constraints. Not the least of these was the overvaluation of the CFA franc before its drastic devaluation in early 1994. Nevertheless, many other constraints remain, and most of the key ingredients for diversification -- suitable macroeconomic environment, infrastructure, suitable support framework -- are missing in whole or in part. It is clear that for diversification to occur, the government will need to tackle the credit problem, reassess fiscal policy and, most important of all, develop a suitable framework in which the private sector can operate.

Chapter I

PERFORMANCE AND DIVERSIFICATION OF THE EXTERNAL SECTOR

A. Introduction

15. Senegal is a moderately sized economy by sub-Saharan standards, with a gross domestic product (GDP) per capita of US$ 797[4] in 1990, more than double the sub-Saharan average.[5] The average population density is low and the population is unevenly distributed, reflecting wide variations in land fertility and infrastructure, together with the concentration of business and government activity in the capital, Dakar.

16. The agricultural sector (including forestry and fisheries) is the most important sector in the economy, accounting for nearly a quarter of GDP and employing about 60 per cent of the workforce in 1990. The industrial sector accounts for 18 per cent of GDP, and is relatively well diversified, encompassing agroprocessing, processed phosphates, mining, textiles and energy subsectors.

17. The country is relatively well endowed with natural resources and, with 700 km of coastline, it possesses one of the continent's best fisheries resources. On the other hand, only about 19 per cent of the total land area is classified as arable, and this limits considerably the potential for crop cultivation. The most important crops are groundnuts, sorghum, millet, maize, rice and cotton. As much of Senegal's agriculture is rainfed, the frequency of drought, in particular in the 1970s and 1980s, has had strong negative effects on agricultural productivity and economic growth. Mineral resources are few, although Senegal possesses one of the world's largest deposits of phosphate. There are also some small to moderate deposits of iron ore and gold.

18. Infrastructure is relatively well developed in comparison to neighbouring countries, but does not yet meet the standards required for international trade. The rail and road networks need considerable rehabilitation. Although port and airport facilities are well developed and are linked to international markets, the lack of capacity and the high cost of air and maritime transport are important impediments to export growth. The telecommunications sector is inefficient and needs considerable modernization, while electricity supply is poor with most regions of the country experiencing prolonged power cuts.

19. The private sector is poorly developed and is active mostly in the production of food and cash crops[6] and in the fisheries sector. The lack of access to credit and high labour, transport and energy costs are important barriers to the development of the private sector. Furthermore, the level of skilled labour is low and information available to the private sector on investment opportunities, marketing, etc., is inadequate.

20. The combination of poor climatic conditions, limited natural resources and inadequate infrastructure and a trained workforce would appear to limit the potential of diversification-related activities in Senegal. These factors alone are not the most important barriers to diversification, the development of which was also hindered by the poor macroeconomic environment.[7]

B. Structure of the export sector

21. The relatively small size of the domestic market means that the development of the export sector is of particular importance to the country's further economic growth. However, Senegal has been traditionally a rather closed economy relying on import-substitution policies to protect and promote local industries. Only since the late 1970s did the country start to open up, after measures were taken to reduce the level of protection and promote exports. The value of exports increased significantly from US$ 160 million in 1970 to US$ 782 million

in 1990. However, when expressed as a percentage of GDP, exports increased only from 27 per cent in 1970 to 31 per cent in 1990.[8]

22. The structure of Senegal's exports has changed considerably since the 1960s, when groundnuts and groundnut products accounted for virtually all of the country's export receipts. The change in export structure reflects government policy in the 1960s and 1970s to reduce reliance on groundnuts, as earnings from this commodity varied considerably because of volatile world market prices and changing climatic conditions. The result has been that the importance of groundnuts as a source of export earnings has declined considerably, from about 40 per cent of exports in 1970 to 18 per cent in 1990; they are now the second largest export item. As can be seen from Table 1, the export of non-traditional products such as fish, phosphates, chemicals and cotton grew significantly during this period. Fish overtook groundnuts in 1985 as the country's most important export, accounting for over a fifth of the total exports in 1990. Combined exports of raw phosphates and processed phosphates were ranked equal with groundnuts as the second most important group of exports. Export of unprocessed phosphates, after a strong initial growth in the mid-1970s when, at one point, it accounted for 22 per cent of exports, has declined steadily and now represents about 8 per cent of the total. Earnings from this sector, like the groundnut sector, have been subject to considerable yearly fluctuations. Furthermore, exhaustion of one of the major mines and increased levels of pre-export processing have been important factors contributing to the fall in exports. Exports of chemicals (mostly processed phosphates) had by 1990 overtaken the export of phosphates in their raw form as the country's third largest export, accounting for 10 per cent of the total.

23. The export of petroleum products, cotton (including textiles) and horticultural products have increased significantly, particularly since the early 1980s. In 1985, the value of re-exports of petroleum[9] were at the same level as receipts from groundnut exports; however, since then its importance has declined significantly, in part owing to the high costs of imported petroleum. Now it represents less than 3 per cent of exports. Cotton and cotton yarn exports increased significantly from CFAF 100 million in 1975 to CFAF 2 billion in 1990. Despite strong growth in the late 1970s and most of the 1980s, Senegal's horticultural exports are in a poor state, although considerable export potential still exists. Exports were halved from about CFAF 4.5 billion in 1986 to CFAF 2.3 billion in 1990. Other important non-traditional exports which grew significantly in the 1970s and 1980s include salt, fertilizers and cement. Of these three commodities, fertilizer exports probably offer the best potential as considerable demand exists in the regional market. Cement exports ceased in 1990, despite showing strong growth potential in early 1980s.

24. The share of semiprocessed and processed exports has increased significantly in the last two decades. Over 95 per cent of groundnut exports are in processed form. Nearly all fish exports are in semiprocessed or processed form (canned, frozen). Manufactured chemicals and fertilizer products are now important components of the export sector.

25. The above discussion shows that between 1960 and the mid-1980s, there has been considerable diversification of the export base in Senegal. Non-traditional commodity exports now account for about 55 per cent of the country's exports, in comparison to the 1960s when groundnuts alone accounted for over 80 per cent of the total. However, the ratio of exports to GDP remained at a relatively low level despite the addition of a new range of export products.

Table 1

Main exports, CFAF billions, for 1975, 1981, 1986, 1990

Exports	1975	1981	1986	1990	1990 percentage of total
Fish - fresh - canned - crustace/mollusc	13.2 - - -	28.0 17.3 10.6 0.0	75.5 39.2 15.0 21.3	54.4 20.6 16.4 17.4	22
Chemical products/ fertilizer		4.4	18.8	26.1	11
Phosphates	24.7	17.9	23.4	19.1	8
Groundnuts - oil - cake	36.2 - -	9.2 6.4 2.8	22.6 16.8 5.6	43.3 35.3 8.0	18
Petroleum products	-	38.3	19.1	6.9	3
Cotton	0.1	2.0	2.5	6.1	2
Horticultural products - potatoes - green beans - cucumbers/pickles - tomatoes - cashew nuts - mangoes - oranges - others		1.1 0.1 0.3 0.001 0.0 0.003 0.001 0.003 0.7	4.5 0.1 2.0 0.3 0.2 - 0.002 - 1.9	2.3 - - - - - - - -	1
Salt	-	3.2	4.6	2.4	1
Cement	-	-	0.9	0.0	
Subtotal	**74.2**	**104.1**	**169.0**	**160.6**	**66**
Total merchandise trade	125.1	152.3	227.4	242.6	100

Source: National statistics of Senegal.

26. The direction of trade has not changed significantly in the last decade. The European Union (EU) remains the country’s principal export market, with France, the most important market, accounting for 28.9 per cent of exports in 1991. The most important exports to Europe are fish and groundnut products. Exports to the United States of America, particularly of phosphates, increased in 1970s and accounted for 4 per cent of the total in 1989. Exports to India have shown the strongest growth of any export market, increasing from 2 per cent of total exports in 1982 to 11 per cent in 1991. Nearly all exports to India are chemical products.[10] Japan is an important market for fish exports and accounts for 4 per cent of the total. The establishment of West African Economic Community (CEAO) and Economic Community of West African States (ECOWAS) regional trade associations has had little impact so far on the geographical pattern of the country’s trade, although intraregional trade is far from negligible. Official trade statistics evidently do not reflect the significant amount of unrecorded cross-border trade with neighbouring countries, most notably the Gambia and Mauritania. Official exports to Africa show a declining trend, falling from 21 per cent of the total in 1982 to 17 per cent in 1991; the most important items are fish, fertilizer and chemical products, which go mainly to the regional West African market.[11]

C. The diversification experience of the principal commodity-export sectors

27. Diversification of domestic crop production has for a long time been an important element of government policy. One of the two aims of diversification policy in the 1960s and 1970s was to reduce the country's dependence on imported cereals, in particular rice. This was to be achieved by offering incentives to farmers in the form of subsidized credit and inputs and higher crop prices. The result of this policy was a fall in the land area under groundnuts from 1 million hectares in 1970/71 to 782,000 hectares in 1990/91, while the area under cereals (millet, sorghum, maize, rice) increased from 1.1 to 1.25 million hectares in the same period and their production doubled.[12] Despite this increase in production, Senegal does not export cereals and still depends heavily on imported rice.

28. The other aim of the diversification policy concerned export commodities. Five partly or largely export-oriented sectors (fisheries, groundnuts, phosphates/chemicals, cotton/textiles and horticulture) play an important role in the economy of Senegal.[13] Accounting for two thirds of total exports and offering the best opportunities of growth through vertical diversification, most of the exports from these sectors are in processed or semiprocessed form. With the exception of the groundnut sector, most of these commodities became prominent sources of income for the economy in the 1970s and were developed as part of the government's drive to reduce the dependency on groundnuts. The level of government intervention varies from sector to sector (see Table 2). Three of these sectors (cotton, groundnuts and phosphates/chemicals) are dominated by state or semi-state monopolies while the private sector is most heavily involved in the processing and marketing of fisheries and horticultural products. Foreign investment has played an important role in the development of processing activities in the fisheries and phosphate/chemical sectors.

1. Fisheries

29. The fisheries sector is currently the largest single source of export earnings and is supposed to be one of the motors of development in the present period of structural adjustment. The effective potential for an expansion of production is still large, although some stocks of fish (such as shrimps) are already fully exploited. Senegal's fishery industry consists of three subsectors: the artisanal sector, that produces mainly for the local market but also supplies the industrial sector since the early 1980s; the industrial sector, that produces mainly for export;[14] and foreign fleets fishing in Senegalese waters.

30. The government has contributed to the development of the artisanal sector by assisting in the modernization of its fishing fleet. About 10,000 pirogues now operate in this sector and its share in total catches increased considerably in the second half of the 1980s, accounting in 1989 in volume for 72 per cent of production and in value terms for 52 per cent. Some 30 to 40 per cent of exports now originate from the artisanal sector. Fishmongers buy the fish on these markets and deliver to factories or exporters. For some exporters this is their only source of supply as they do not have their own boats. Some small-scale fishermen have their own production cooperatives and sell on the local market. There is also a small number of contract-fishermen, who get their petrol, etc., paid and in exchange deliver their catch to the factory that employs them.

Table 2

The role of the government, domestic private sector and foreign investors in the development of the principal export commodities, early 1990s

	Role of government	Role of domestic private sector	Role of foreign investors
Fisheries	Supportive role. There are currently no export subsidies to the sector. Government represents sector in international fishing negotiations.	Major role. Most companies are privately owned and control production and marketing of fish products.	Moderate role. A large number of foreign fishing vessels operate in Senegalese waters. A number of joint ventures with local firms exist.
Groundnuts	Major role. Entirely responsible for processing and marketing of groundnut oil and cake.	Minor role. Private company NOVASEN responsible for processing and marketing of edible groundnuts. Support to farmers in terms of credit and input (seed, fertilizer).	Minor role. Three private companies are majority shareholders in NOVASEN.
Chemicals	Major role. The government owns 23 per cent of the Industries chimiques du Sénégal (ICS) chemical company.	No role.	Major role. Governments of Cameroon, Cote d'Ivoire, Nigeria, India are majority shareholders in ICS.
Phosphates	Major role. Two semi-state owned companies are responsible for the production and export marketing of phosphates.	No role.	Major role. A number of foreign firms own 50 per cent of shares in the major phosphate mine.
Cotton/ textiles	Major role. Eighty per cent state-owned company SODEFITEX solely responsible for the processing and marketing of cotton. Support to textile sector through high tariffs.	Significant role. Small farmers responsible for production of cotton. Many textile companies are privately owned.	Significant role. Some French companies have made investments in textiles. French cotton giant CFDT */ has a minority shareholding in SODEFITEX.
Horticulture	Minor supporting role.	Major role. Solely responsible for production, processing and marketing.	Minor role. One French firm involved in the processing of tomatoes.

Source: Information obtained from various national sources.

31. The industrial sector is highly capital intensive. It has not benefited from the investment incentives that were given to the artisanal sector. Local participation in the industrial sector is large although there are no specific regulations regarding ownership. Several companies operate as joint ventures, with the most important partners from China and Spain (see Box 1).

32. As can be seen from Table 3, the eight largest exporting enterprises accounted for nearly three quarters of total export revenue in 1990, with one company, (AFRICAMER) accounting for nearly a third of the total. Five of these companies operate in both the artisanal and industrial sectors, which demonstrates the growing importance of artisanal sector as a source of exports.

33. Senegal has a number of bilateral fishing agreements. The conditions in these agreements differ, but normally envisage landing a certain portion of the catches in Senegal and hiring Senegalese personnel. As of 1979, there is a convention with the EU, and Senegal also signed an agreement on tuna fishing with Japan in December 1990.

34. The most important processing activities consist of freezing fish and producing canned tuna and sardines. Industrial production is dominated by 15 companies and almost all (98 per cent) the production from the industrial sector is exported.

BOX 1

Growth through joint ventures

The Société Sénégalaise pour l'Expansion de la Pêche Côtiére, Surgélation et Conditionnement des Aliments (SENEPESCA) was created in 1974 by 30 partners, with the Senegalese and Japanese each controlling 40 percent of shares. The company began as an artisanal fishing company with 30 full-time staff and 500 part-time staff. In 1977, the company began to recruit people on a long-term basis. New boats bought by Japanese led to an increase of daily production to about 20-25 tons. Having started as a small local producer the company expanded its operations to markets in Asia, Europe and Africa, with Japan, France and Spain being the largest individual markets. In 1991, owing to political difficulties with the Senegalese Government, the Japanese withdrew from the company and were replaced by the Chinese. The number of full-time employees has since increased to 300. In general, the Chinese are responsible for the administrative and financial aspect of the business, while the Senegalese control the production. The Chinese financed the purchase of new ships and equipment, which SENEPESCA is paying back by a combination of fish and money. Despite these loans, the credit squeeze in the domestic market has greatly inhibited the ability of the company to expand and diversify its production for export. Most exports are shipped by sea and small quantities are exported by air (sole and herring to France and Spain). High shipping costs make SENEPESCA products more expensive than those of its competitors and the company's long-term survival will continue to depend on the injection of capital from its foreign partner.

35. Although the development of the fish-export sector was a key government strategy for diversification in the 1970s, the development of exports has occurred with little government support. The private sector seized the initiative and now controls all export activities. The most important export is canned tuna which accounted for over a quarter of the total value of exports in 1989. Other important exports include fresh and frozen fish, fish meal, tinned sardines, squid, frozen crustaceans (mainly shrimps, see Box 2) and more recently octopus. The most important international markets are Europe (mainly France and Spain), which accounts for over half of the volume exported, Africa for nearly 40 per cent and Asia (Japan), which accounts for about 10 per cent. Export contracts to these markets are short-term or on a spot basis.

Table 3

The largest fish-exporting enterprises, 1990

Company	Ownership structure	Number of employees a/	Exports (CFAF billion) 1990	Percentage of fish-sector exports
AFRICAMER	Senegalese	950	17.4	32
AMERGER CASSAMANCE	Senegalese	409 (83)	5.5	10
SENEPESCA	Senegalese/Chinese	225 (161)	4.3	8
WEST AFRICAN FISH	Senegalese	8	4.1	8
ETS AMATE GUEYE	Senegalese	60	3.2	6
SISPA	Senegalese/Spanish	42	2.3	4
IKAGEL	Senegalese	215 (15)	1.8	3
AFRIMER	Senegalese	380 (30)	1.4	3
Sub-total	..	**2289**	**40.0**	**74**
Total	..		54.4	100

Source: Information obtained from various national fisheries sector sources.

Note: a/ Figures in brackets represents the number of full-time staff.

BOX 2

Promotion of aquaculture

Shrimps now represent 20 per cent of total exports of the Senegalese fishery sector, while the natural potential for expanding shrimp production is already fully utilized. As demand in Japan continues to grow, expansion of production may come from shrimp farming. The government recently started a pilot project for shrimp production in Cassamance in Southern Senegal. It plans to expand this sector, but has been constrained by the lack of modern know-how and finance. The participation of private entrepreneurs in these activities is restricted by the lack of necessary finance and market information.

36. Growth of the export sector slowed down significantly in the 1980s. Most of the factors accounting for this are related to the domestic macroeconomic environment:

- Commercial banks consider the fisheries sector as a high-risk activity and thus are reluctant to lend to enterprises. When credit is available, interest rates are extremely high, repayment periods short and guarantee requirements excessive. The consequent lack of investment led to the ageing of the fishing fleets of both the industrial and artisanal sector,

which reduced the fish catch and supplies to industrial factories. These are now operating at less than half their capacity. Furthermore, due to lack of financing, the latest production technology could not be purchased, and thus quality was affected.
- The high cost of energy adds considerably to the costs of finished products and has been a major barrier to the expansion of processing activities.[15]
- High labour costs resulting from the inflexible labour codes adds significantly to the costs of production, particularly in the industrial sector.[16]
- Transport costs are extremely high[17] and the use of the port of Dakar is expensive owing to high taxes and rents.[18]
- Poor quality control resulting from the poor treatment of fish and lack of technical knowledge have been important constraints to the development of exports to Europe and Japan. Shrimp exports from Senegal to these destinations are accepted only at a significant discount, but are more often rejected.
- Market information available to exporters is inadequate. The lack of market surveys and information means that knowledge of potential markets and quality standards and packaging norms required in overseas markets is missing. The only regular source of information available to exporters is INFOPECHE, but only a few of the large exporters subscribe to it. Some of the larger exporters have their own information networks based on established contacts. Owing to limited financial resources and a greater emphasis on promoting other non-traditional products (horticulture), the government’s main export promotion agency Centre international du Commerce extérieur du Sénégal (CICES) has not been very active in promoting exports of fish products.

37. The private sector has been unable to provide many of the support services needed to facilitate export growth itself, and government assistance in the provision of quality control services, market information, infrastructure, etc., is quite limited. The government is actually concentrating its support on improving the provision of information; it has brought in foreign specialists to provide information on European import standards. The government initiated a number of credit schemes in the 1980s which subsequently failed, but there has been no special credit programme for the fisheries sector. The government’s intention to create a credit scheme for the small-scale sector is hindered by limited financial resources. The main support the government has provided to the fishery sector was in the form of export subsidies. Canned tuna exports were entitled to a 7.5 per cent subsidy on the f.o.b. value, while all other fish products were subsidized at the 3 per cent level. However, since 1990 all subsidies have been suspended because of the government’s budgetary problems. Recent changes in the investment code would seem to create better opportunities for attracting private investors, promoting, in particular, foreign direct investments and the creation of joint ventures.

38. The fisheries sector receives some overseas development finance in particular from the EU. In 1992, the Caisse française de Développement announced an aid package to Senegal worth FF 68.4 million, of which some funds were to be earmarked for development of the tuna-fishing industry.

2. Phosphates/chemicals

39. The Compagnie sénégalaise des Phosphates de Taïba (CSPT), created in 1957, is responsible for most of Senegal’s phosphate production.[19] The Senegalese Government retains half of the shares of CSPT; the other half is in the hands of a number of private companies and donor organizations. CSPT produces about 2 million MT of calcium phosphates, which, after concentration, reach a level of 79 to 81 per cent, one of the highest in the world. Most phosphates are exported mainly to the Philippines, India and Iran.

40. CSPT is the largest client of the Senegalese energy-distribution company, remains the main client of the Senegalese railway system, and provides almost half the traffic of the port of Dakar. Its share in Senegal's gross export proceeds is about 10 per cent, to which should be added another 10 per cent of exports of phosphates processed into sulphuric and phosphoric acid by the ICS. The government is the largest shareholder in ICS. In 1982 it was determined that starting from 1987, the CSTP would have to deliver 690,000 MT of phosphates a year to the ICS, but this level has not yet been reached. CSPT has to deliver its phosphates for a price determined by the government, which is generally lower than the price it may be offered on the world market.

41. Most CSPT exports are under long-term contracts. The company has 5-year contracts with Iran (from 1990 on), the Philippines and India. Most other contracts are tacitly renewed every year. These contracts specify maximum levels, but no minimum levels, which makes CSPT vulnerable. Therefore, in recent years, the company has put great stress on the diversification of its markets. Still, in 1990 close to 70 per cent of its exports went to three clients: the Philippines, India and Iran. Other markets are Japan, Spain, Greece, Canada and Colombia. The European market, despite its proximity, is of relatively little importance because of the high cadmium content of the phosphates which is not acceptable to most European countries.

42. Prices in CSPT contracts, including long-term contracts, are negotiated yearly and are quoted in US dollars. Effectively, what is negotiated is its margin over production costs. All contracts are "free on ship" (f.o.b. plus a US$ 2/MT mark-up for loading the ship). The company does not have its own fleet, and does not wish to run freight charge risks.

43. Virtually all ICS' production of sulphuric and phosphoric acid goes to its partners, the Governments of Senegal, India, Cameroon, Côte d'Ivoire and Nigeria. All its phosphoric acid is sold, through its trading arm SENCHIM, to India, under a 16-year contract signed in 1982. One of the elements of this contract is a price clause that stipulates that India will pay the cost price of the phosphoric acid, even if this is superior to the world-market price, in the initial phase; later, this should be compensated by prices lower than world-market prices. About two thirds of fertilizers are destined for the domestic market; the rest goes to the countries in the subregion.

44. Senegal has benefited from a range of European financial mechanisms designed to help restore the competitiveness of the phosphate sector in an international market affected by recession. In 1990, CFAF 5 billion (ECU 15 million) were provided by the European Development Fund to finance the development of techniques to reduce the cadmium content of phosphates. Another agreement was signed later that year for CFAF 3.7 billion (ECU 10.5 million) to increase the capacity of one of the factories operating in this sector. Overall, since the beginning of the 1980s, a total of CFAF 21 billion (ECU 61 million) has been transferred from the EU to support the phosphate sector.

3. Groundnuts

45. The groundnut sector has traditionally been the mainstay of the Senegalese economy, accounting for about 40 per cent of use of cultivated land and providing employment for as many as one million people. The importance of groundnuts as a source of export earnings has fallen significantly since the 1960s when it accounted for almost all of the country's export earnings. The main destination for groundnut exports is the EU. Most of the sector's exports are in processed forms of groundnut oil and cake. The state-owned enterprise SONACOS is responsible for all processing and export marketing of groundnut oil and cake and it operates four crushing mills at the main groundnut-producing regions.[20]

46. The production of groundnut products is expensive given the high costs of energy and labour, as well as the use of inefficient and outdated production techniques. As a result it has been heavily subsidized by the government. The government aims to privatize SONACOS as part of the World Bank-sponsored privatization programme, but faces difficulties in attracting private investors to this heavily indebted company. Another state-owned company, SONAGRAINES, is responsible for groundnut collection (through cooperatives and private agents) and maintaining a base groundnut seed stock.

47. Between 1988 and 1991, the groundnut sector, which is still one of the most important sources of foreign exchange, has accumulated a deficit of over CFAF 62 billion owing to several factors:

- Strong competition from other vegetable oils in the European market.
- The fall in the area under cultivation (replaced by cotton, rice, maize, wheat) in consequence of government efforts to reduce dependency on groundnuts and the decline of government investments in this sector.
- The fact that groundnuts is the only export crop facing an export tax (20 per cent) may have contributed to a shift of investors' interest to other export sectors;
- Poor climatic conditions (droughts) and the low world-market prices in the 1980s;
- The collapse of the official marketing system in the mid-1980s and the consequent disarray in the marketing system;
- The overvaluation before 1994 of the CFA franc, and the politically determined high level of producer prices for groundnuts.

48. The government has responded to the decline of groundnut export earnings by decreasing the level of farm prices and transferring the responsibility of seed storage to the farmers, and by introducing a price-stabilization system for imported vegetable oils. It has also strongly promoted diversification into edible groundnuts. Originally, government efforts to increase edible groundnuts production were under the direction of a parastatal, the Société d'Études pour la promotion Financière d'Activités Agro-Alimentaries (SEPFA), which provided credit to farmers, and was responsible for seed collection, processing and marketing. Efforts to improve production were successful, though they faced several constraints: high levels of aflatoxin, generally poor grain quality and poorly constructed processing equipment. To overcome these problems, the edible groundnuts sector was privatized and is now run by a privately owned company -- NOVASEN (Box 3).

49. The EU has provided considerable aid to the groundnut sector, in particular through STABEX allocations, which were provided to compensate for losses in export earnings. Funds from STABEX have been used to improve efficiency and productivity in the groundnut processing sector.

4. Cotton/textiles

50. The development of the cotton sector was a key element in the diversification strategy of the government in the 1960s and 1970s, but significant growth was achieved only in the 1980s. Between 1981/82 and 1991/92, the land area under cotton increased by over one third, while production rose by one fifth.

51. All collection, processing and marketing of cotton is controlled by the parastatal SODEFITEX, 77.5 per cent of the capital of which is owned by the Senegalese government, 20 per cent by the Compagnie Française pour le Développement des Fibres Textiles (CFDT France) and the remaining 2.5 per cent by a private bank, Banque Internationale pour l'Afrique Occidentale (BIAO). The company is entirely responsible for the commercialization of cotton but is not involved in its production, which is carried out by small farmers to whom SODEFITEX pays a price fixed by the government. SODEFITEX has four cotton

ginneries with a capacity of 65,000 tonnes, located in the main cotton-producing regions. As a state-financed organization, SODEFITEX is able to provide many support and advisory services to the small farmers, including credit, supply of fertilizer and insecticides, transfer of technology, quality control, training, development of roads and transportation of cotton.

BOX 3

Diversification into edible groundnuts

NOVASEN was created in 1990 and is entirely responsible for the processing and marketing of edible groundnuts. The company is 50 per cent foreign owned with two Swiss trade houses (GRANADEX and ALIMENTA) each controlling 22 per cent of its shares and a French company (PETERSEN), 6 per cent. SONACOS, the state-owned company, owns 25 per cent, and the remaining shares belong to private Senegalese interests.

NOVASEN provides many support services such as credit, seeds, fertilizer and insecticides to local farmers. It has contracts with 25,000 farmers to whom it pays a price for the grains fixed by the government. The company has a modern processing factory located in the groundnut basin. The level of technology used for cleaning and sorting the grains is excellent and the quality of produce is high. To overcome the problem of aflatoxin and to obtain the norms and quality standards required by overseas markets, the company has installed an electronic detection system and is cooperating with research institutions including several universities in the United States of America. As a result, disease-resistant crops have been developed.

The principal export markets are the EU and North America. Because of its links with two major trading houses, NOVASEN has a well-developed international distribution network. However, the company management would like to increase profitability by selling directly to consuming companies, bypassing the trade houses. It would also like to export more finished products, such as peanut butter and chocolate peanut butter, and in this context is working with the Association des produits à marché (APROMA) and the European Investment Bank. There is a strong possibility that NOVASEN may vertically integrate (with assistance from APROMA) into the Ivorian chocolate industry. This would give it a foothold in the potentially large Ivorian market and easier access to local markets in Nigeria and Ghana.

The company has a well-developed market information network and receives information from Leadger in London on prices, demand and supply. A French company (SVPO) provides information on markets and prices and often finds customers for NOVASEN. To promote its products, NOVASEN regularly attends trade fairs overseas.

Although NOVASEN is a rare success story of diversification, it faces several obstacles to continued growth. The company lacks resources to finance further investments (given the general credit squeeze in Senegal). In addition, the fixed government price it pays to farmers is too high and makes its products expensive in comparison to those of lower cost producers from China and Argentina.

52. About 90 per cent of cotton production is exported mainly to the Far Eastern markets under marketing arrangements of 1 to 2-year duration. SODEFITEX has a well-developed market information network. It receives daily information on prices, supply and demand from COPACO in Paris, from the International Cotton Advisory Committee (ICAC) and from the Swiss company, Reinhard. It also has its own research and development centre and is working with several research and development organizations (see Box 4).

53. One of the key problems facing the SODEFITEX exports of cotton is the high cost of using the port of Dakar, which is operated by a privately owned monopoly. SODEFITEX is unable to take advantage of using the lower cost port of Banjul because of its low storage capacity and the poor road facilities linking Banjul with the cotton-producing areas in Senegal. The cost of shipping cotton is also extremely high. Most of SODEFITEX exports are undertaken by two French shipping companies, SOCOPAO and SAGAMORY, and a Danish company, MAERSK. These companies pass on the high port costs of Dakar to the exporters. However, SODEFITEX has been able to maintain its market mainly because it emphasizes the production of high-quality cotton.

Textile manufacturing

54. Between 1980 and 1985, 25 to 30 per cent of cotton production was absorbed by the domestic textile industry, but in the early 1990s it absorbed only between 4 and 10 per cent. The textile sector has been experiencing severe difficulties since the 1970s. It is strongly protected from international competition through a range of tariff and non-tariff barriers, and, as a result, became highly inefficient and domestically produced textiles became considerably more expensive than imported products. This encouraged the development of illegal imports mainly from Pakistan and China via Banjul in the Gambia. The value of illegal imports was estimated at CFAF 10 billion, or equivalent to about 90 per cent of the industry revenue.[21] Other important factors which made the industry uncompetitive include:

- high wage costs (resulting from the rigid labour code);
- high energy and input costs (electricity, water, fuel);
- high company taxes;
- lack of credit for new investments; and
- lack of a well-developed export promotion policy for textiles.

55. As a result of these constraints, over 90 per cent of the industrial enterprises that manufacture garments have closed down since 1985, while most remaining textile companies are undergoing temporary closures, restructuring, or changes in ownership and management. Eleven privately owned enterprises now dominate domestic production, the most important being SOTIBA (partly French owned) and SOTESKA, both of which export textiles mainly to the regional West African market. Exports to these countries have declined because of the poor economic situation and the creation of non-tariff barriers to protect their own textile industries. As a result, once promising exports of textiles fell sharply from CFAF 14 billion in 1986 to less than CFAF 1 billion in 1990/91, despite government export subsidies.

56. Apart from protectionist measures and subsidies,[22] the government gives little support to the industry in the form of credit, infrastructure, subsidized energy costs, specialized trade information, quality control or measures to reduce the level of illegal imports. The textile sector, however, is entitled to benefits available under the new investment code and to a range of (mostly non-operational) government export promotion incentives.

5. Horticulture

57. The development of fruits and vegetables was an important part of the diversification policy of the government in the 1980s. The horticultural sector is among the least regulated sectors in Senegal, and with the exception of bananas, there are no price controls. The most important horticultural products are green beans, beans , potatoes, onions, peppers, tomatoes, melons, mangoes, bananas and papaya. The private sector is relatively well organized and controls production and marketing. Most production and marketing for the domestic market is by small private agents and cooperatives, while export marketing is dominated by 12 firms (owned by Senegalese and Lebanese) organized into two export-producer associations - GEPAS and ASEPAS. The main aim of these organizations is to

safeguard the interests of exporters through promotion of exports and to represent the export sector in government policy dialogues.

58. The main processing activity in the horticultural sector is processing tomatoes into tomato paste. There are two tomato-processing plants operated by two privately owned companies - Société nationale de Tomate industrielle (SNTI) and SOCAS (see Box 5). Between 1980 and 1990, production of industrial tomatoes increased by almost 300 per cent, on account of an increase in the area under cultivation and much improved yields. Both enterprises operate under an umbrella of government protection in the form of tariff barriers against competing imports.

BOX 5

Société nationale de Tomate industrielle (SNTI)

SNTI was created in 1979 as part of the government's efforts to diversify into horticultural products. The company was privatized in 1981 and is totally owned by the Senegalese. It has one factory with a capacity of 35,000 tonnes. Its main activity is the production of tinned tomatoes and paste for the local market. It is not actually involved in the production of tomatoes, but provides assistance to farmers in terms of credit, seeds, insecticides, fertilizer, irrigation, training in post-harvest handling and quality control. Because of this assistance, production increased from 5,000 tonnes in 1985 to 18,000 tonnes in 1992. The company pays the farmers a price fixed by the state that is high in comparison to prices paid to farmers in Europe. The company carries out its own production and market research.

SNTI sells its produce directly to shops on the local market at a high fixed government price. This is a major barrier to development as expansion of the local market is limited, and encourages fraudulent cheaper imports from Italy and Spain via the Gambia. Costs of production are high and rising due to high costs for water, electricity and transport, as well as the high cost of tinning the tomatoes. The company is willing to expand capacity and diversify into production of fruits and vegetables as well as to begin exporting, but it is constrained by the lack of financial resources. As it receives no support from the government, SNTI failed to obtain credit from domestic banks because banks seem to be reluctant to lend to indigenous enterprises. The company is an example of a well-organized, privately owned enterprise that finds the economic policy environment a serious constraint to domestic and export expansion.

59. Horticultural exports grew significantly in the 1980s and became the sixth largest export. The main export markets are the European community, with France and the Netherlands the most important destinations. The five largest exporters - SAFINA, JARDINA, SEPAM, SOEX and IBA - account for over 80 per cent of total exports. These companies have no specific marketing arrangements with their main markets and contracts being on a spot basis. Most of the growth in exports occurred between 1980 and 1986; however, since then, there has been a sharp decline in exports, from CFAF 4.5 billion in 1986 to CFAF 1.5 billion in 1989. A number of factors account for this collapse:

- The high cost of air freight (70 per cent of exports are by air) together with limited air space. Maritime transport is also expensive.
- The lack of an organized quality-control service resulting in a deterioration of quality and complaints from importers.
- The slowness of exporters to adapt to changing marketing conditions.
- The lack of adequate cold-storage facilities so that highly perishable surplus production cannot be stored or sold on both external or local markets.
- High energy and water costs preventing efficient washing and resulting in poor quality.
- Lack of credit preventing financing for key investments, such as cold-storage warehousing facilities.
- High labour costs. The current labour code increases labour costs by limiting possibilities to recruit short-term staff.

60. The Senegalese horticultural sector receives very little government support in such key areas as credit, provision of essential inputs, infrastructure, post-harvest handling, etc. This is in sharp contrast to Kenya, where diversification into horticultural exports succeeded largely as a result of government assistance to the private sector in the above-mentioned areas.

D. Benefits of diversification

61. It is difficult to measure or assess the benefits of diversification in quantitative terms. However, it is possible to say that diversification of the commodity sector has generated significant employment in the fisheries, phosphates, chemicals, cotton/textile and horticultural sectors. Diversification has generated between 40,000 and 60,000 jobs in the fisheries sector, and 2,000 to 3,000 jobs in both the textile and phosphate/chemicals sectors. Because of the increased level of processing activities, the number of skilled workers has increased. There have been some backward and forward linkages within the economy as a result of diversification. The development of the fish-processing sector and the subsequent increase in the number of industrial fishing vessels has resulted in the establishment of important local repair and maintenance services for boats and machinery. The development of processing into tinned fish products (tuna, sardines) and tomatoes has created an important local canning sector. Efforts to improve productivity and yield in the cotton, horticultural and edible groundnut sectors have created an important domestic market for locally manufactured fertilizer.

62. Because of the inadequacies of the macroeconomic environment, the private sector has been unable to capitalize on the opportunities offered through diversification. Due to the lack of competition, moreover, most of the services or subsectors that developed through diversification can charge high and often prohibitive prices for their services. The shortage of credit within the country has also acted as a serious impediment to the development of private-sector initiative and thus prevents the development of a more competitive and efficient economic environment. Diversification in Senegal should have generated important supply and service sectors in areas such as quality control, advertising, transport and logistics and maintenance and repairs, but has largely failed to do so. The absence of these support services has hampered by the development of non-traditional exports; in particular, the fisheries and horticultural sectors need most assistance in these areas. In the long term, current government efforts to improve the domestic environment for the private sector

through such measures as privatization, revising the investment code, and policies aimed at reducing the current credit squeeze, may facilitate the growth (dependent on the rate of implementation) of private-sector enterprises involved in diversification-related activities.

E. Bottlenecks to diversification

63. Senegal’s bottlenecks to diversification stem mainly from its macroeconomic environment and the lack of a suitable framework for the private sector. The key bottlenecks are as follows:

- Although emphasizing the reduction of the government budget deficit through reduction of government expenditures has significantly decreased the availability of government support services for the export sector, the government has failed to develop a suitable incentive framework to encourage the private sector to take over these activities. As a result, there is a significant lack of support for private entrepreneurs in areas such as export credit, infrastructure, research and development, extension services, post-harvest handling, quality control, marketing and market information.
- The weakness of the banking system, combined with the absence of a capital market and the tight monetary policy of the BCEAO, has resulted in a shortage of credit available to private entrepreneurs at acceptable conditions.
- The high exchange rate of the CFA franc prior to a recent devaluation made Senegalese exports more expensive and thus less competitive in world markets.

- The relatively high import tariffs made essential imports expensive (in particular for capital-intensive enterprises) and contributed to the development of inefficient high-cost industries. They have also encouraged smuggling, particularly in the textiles and agroprocessing sectors.
- Slow progress in revising the labour code prevents short-term hiring and has acted as an additional disincentive to potential investors.
- The high cost of energy (fuel, electricity, water) has hindered development and expansion of high-energy intensive enterprises.
- Air and maritime transport costs are high for exporters, and the charges for most support services are often high as a result of inadequate competition.

64. Senegal also faces a number of problems in attempting to find markets for the products of its diversification activities. The most important of these are:

- High level of tariffs and non-tariff barriers on processed goods in regional West African markets. Furthermore, these markets are difficult to penetrate because of the lack of complementarity among countries as most of them produce similar products.
- Tough regulations in the European and American markets concerning quality, design, packaging, health and safety. Both the fisheries and horticultural export sectors have considerable quality problems and have difficulty in meeting standards, particularly within the important EU market.

Chapter II

ECONOMIC POLICY ENVIRONMENT

A. Economic policy and structural adjustment programmes

65. Economic growth in Senegal during the 1970s and 1980s has been disappointing, with GNP per capita showing an average annual contraction of 0.7 per cent during the period 1965-1989. Volatile earnings from the groundnut sector that dictated the overall pace of economic activity in the country has made it difficult for the government to pursue consistent plans for economic growth. Much of the decline in economic performance in this period can also be attributed to government policy. The state controlled virtually all economic activity and intervened heavily in agriculture and industry. Price controls were widespread and subsidies were used to support often inefficient sectors of the economy. Import substitution policies through the application of tariff and non-tariff barriers were used to protect domestic industries. This led to a considerable misallocation of resources within the economy with the export sector being hardest hit as the cost of essential imports were high. The costs of government intervention in the economy and the stance of fiscal policy were such that the government budget deficit increased significantly and was equivalent to 11 per cent of GDP in 1981. With revenue from exports declining because of the uncompetitive nature of Senegalese exports and inflation at record levels, the government agreed to adopt a series of World Bank and IMF structural adjustment programmes in the 1980s.

66. Throughout the 1980s, Senegal worked closely with the IMF, the World Bank and bilateral donors in stabilization efforts (see Table 4). The main elements of the four World Bank structural adjustment lending programmes and the IMF’s Structural adjustment facility (SAF) and enhanced structural adjustment facility (ESAF) loans were the reduction of its government budget deficit through the gradual disengagement of the state from production activities and liberalization of domestic marketing and production; the reduction of the balance-of-payment deficit through trade liberalization, diversification into non-traditional exports, promotion of the private sector in export-oriented activities through the creation of an enabling investment environment; and reduction of the rate of inflation through reform of the banking sector. In macroeconomic terms, the structural adjustment programmes have led to an improvement in the key economic indicators. The budget deficit fell sharply, the balance-of-payment deficit has improved and inflation has been reduced significantly. However, the effects of structural adjustment on diversification-related activities at both the internal and external levels have been comparatively less favourable. Indeed, several of the macroeconomic objectives pursued under successive structural adjustment programmes may have, in many ways, hindered diversification.

67. Most of the structural adjustment programmes affecting diversification are embodied in two specific policies: the New Industrial Policy (NIP) and the New Agricultural policy (NAP). The NIP, introduced in 1986, had as its main aims a reduction of protective tariff barriers and of government regulation of pricing and employment. It also aimed to attack low productivity, low export capacity and insufficient integration with the rest of the economy. Under the NIP, labour laws were to be reformed in order to provide greater flexibility to employers, competition was to be encouraged and priority was to be given to industries with a high value added and export potential, identified in the chemicals, textiles, agroprocessing, leather goods, metal-working and mechanical sectors. Other important elements of the NIP consisted of the introduction of incentives for small-scale enterprises and changes in the tax structure and investment code to encourage foreign investment.

Table 4

Structural adjustment lending[1/] 1981-1991

	Year	Comments
World Bank (SAL I)	1981-1985	The main aims of Structural adjustment loan (SAL I) was reduction of the budget deficit through cuts in expenditure and privatization, promotion of non-traditional products such as rice, cotton, vegetables and livestock, reduction of the balance of payments deficit through promotion of exports, raising investments through increased level of savings. SAL I was a relative failure as poor weather conditions in 1979/1981 and low world market prices for the principal export (groundnuts) undermined adjustment efforts.
IMF (SAF)	1986	To support reduction of government expenditure, elimination of subsidies, tighter monetary policy and liberalization of economic activity.
World Bank (SAL II)	1986-1987	Introduction of the NIP to improve productivity in the manufacturing sector, eliminate tariffs and promote exports; introduction of the NAP that continued policies introduced under SAL I (reduction in state intervention, liberalization of input supply and privatization.
World Bank (SAL III)	1987-1990	Continuation and strengthening of policies under SAL II, which largely failed to achieve targeted aims.
IMF (ESAF)	1988-1991	Support for World Bank-sponsored adjustment programmes.
World Bank (SAL IV)	1990-1991	Continuation of privatization programme and elimination of state subsidies; reduction of government spending; elimination of labour market rigidities and improvement in production incentives through better corporate tax structures. The implementation rate of many of the policies introduced under SAL IV have been slow.

Source: World Bank and IMF.

Note: 1/ There were also several bilateral structural adjustment programmes, in particular from France’s CCCE and USAID.

68. Government intervention in agriculture has been reduced considerably under the NAP introduced in 1984. The main aims of this programme were to eliminate or privatize state parastatals, to liberalize domestic markets, particularly for cereals, to reduce budget support for inputs such as fertilizer, seeds and agricultural implements and to promote the takeover of these activities by the private sector. It also envisaged a restructuring of pricing policy and the reduction or elimination of subsidies to principally urban consumers of major food items.

B. Budget policy and its effect on commodity-related activities

69. Since 1980, successive structural adjustment programmes focused on the reduction of the government deficit. Total public expenditure growth was sharply restrained, in particular under the 1985-1992 programme. The key element of the strategy to reduce the deficit was to cut down government intervention in economic activity particularly in the agricultural sector, through the closure or prospective privatization of public and parastatal enterprises (which provide extension services and other facilities to the agricultural sector) and through the reduction or elimination of subsidies. Privatization of state enterprises was also seen as a way of improving their efficiency and as a means of improving the export performance of the agricultural and agroprocessing sectors. To date, however, none of the large state-owned corporations including SONACOS - the largest industrial concern in the country, responsible in particular for the processing of groundnut products - has been privatized. The lack of economic viability of the parastatals has made both foreign and domestic private entrepreneurs wary of making investments. Despite this situation, the government deficit was significantly reduced (to 0.4 per cent of GDP in 1990/91) which was a remarkable achievement, given the highly bureaucratic nature of the public sector. However, certain sectors of the economy have suffered as a result.

70. On the revenue side, import duties continue to be the most important source of government income. There is thus a reluctance to lower tariff barriers and other import taxes which raises the prices of essential imports. Many industrial activities such as textiles[23] and agroprocessing are thus still highly protected and are uncompetitive in international terms, further limiting the export growth prospects of these sectors. As revenue from the domestic sector is limited because of the poor economic situation, taxes on the trade sector will continue to be an important source of state revenue.

71. Taxes on energy are an important source of revenue for the government and are consequently high. The resulting high energy costs (fuel, electricity and water) are one of the most important impediments to the development of agroprocessing and energy-intensive manufacturing activities for export and led to the closure of many enterprises in the manufacturing and non-traditional export sectors. These costs were one of the principal reasons behind the closure of the Bata shoe factory in 1988. Non-traditional exports of cement ceased in 1990 as a result of excessive energy costs (energy accounts for over 40 per cent of the cost of producing cement).[24] Energy costs represent between 50 and 60 per cent of the cost of production in the artisanal fishing sector. Horticultural exporters complain that the high cost of water prevents effective treatment of harvested crops and hence a loss of quality. They have thus received complaints from European importers regarding poor quality fruits and vegetables, and have lost export markets as a result.

72. Efforts to reduce the budget deficit through cuts in public expenditure have resulted in the decrease of state involvement in agricultural production and marketing. With the exception of the cotton, groundnut, phosphate and rice sectors, the government has largely disengaged itself from production and marketing of agricultural commodities.[25] The marketing of coarse grains (maize, millet, sorghum) and wheat were liberalized in 1988 and the government is not involved in the marketing of horticultural and fisheries products. The supply of inputs (seeds, fertilizer) was privatized in 1988 and subsidies have all but been eliminated (with the exception of the cotton sector).[26] Nevertheless, as can be seen from Table 5, there is still an extensive legacy of state intervention in commodity marketing and processing - 11 major public institutions are engaged in marketing and processing of agricultural commodities, compared with only 7 principal private-sector enterprises. The activities of the public institutions range from import and export monopolies (as in the case of CPSP for broken rice imports and SONACOS for groundnut product exports) to monopolies for processing and local wholesale distribution. The privately owned enterprises have a similar range of activities (see Box 6).

73. The withdrawal of the State from agriculture has meant that the number of support services formerly provided by the State has been drastically reduced. Local fruit and vegetable exporters complain that the lack of credit has made it difficult for them to develop storage facilities that are essential for their perishable products. Poor market information, lack of quality control and other supportive services have also been a major barrier to the export of these products and a serious constraint to diversification of fruit and vegetable growers into the high quality cut flower business. The high cost of inputs has meant that the amount of fertilizer and seed used by farmers has declined and with it the level of farm productivity.[27] The level of marketable output for cash crops such as fruits and vegetables, groundnuts and, to a lesser extent, cotton have declined. Growth in the fisheries and textiles sectors has also been hampered by the lack of credit to finance new investments.

Table 5

Selected major public institutions involved in marketing, early 1990s

Institution	commodity	Comments
CPSP	Rice	- monopoly on broken rice imports - monopoly on wholesale marketing of local rice - collects data on imported rice
SAED/URIC	Rice	- responsible for planning development of the river valley - is the only official market for commercialized rice in the valley - operates two rice mills and contracts with one private mill - processes the rice and then sells it to CPSP
CSA	Cereals	- maintains a food security stock (60,000 tonnes) - purchases local cereals for distribution to deficit regions - collects and publishes farm and retail price for cereals (weekly for 40 local markets)
SODAGRI	Rice	- responsible for the development of the Anembe region - purchases, mills and markets rice produced in the region
	Maize	- local marketing
SODEFITEX	Cotton	- supports cotton producers (credit, subsidized inputs and raining) - collects, processes and markets cotton fibre and seed
	Cereals	- provides support to cereal producers
	Rice	- purchases and mills local rice - rice is purchased by CPSP
SODEVA	Cereals	- provides extension services in the groundnut basin - provides credit to certified seed producers (millet, maize, cowpeas) with funds from CNCAS
SONACOS	Groundnuts	- processes and markets groundnut oil and meal
SONAGRAINES	Groundnuts	- responsible for groundnut collection through cooperatives and private agents - responsible for maintaining a base groundnut seed
SOPFA	Edible groundnuts	- until 1990 was responsible for diversification into edible groundnuts - provides credit, collects, processes and markets edible nuts
CNCAS	Credit	- provides credit to the agricultural sector
ITA	Food	- carries out research on food technology
ISRA	Research	- agricultural research (horticulture, cereals)

Source: Information obtained from various national sources.

74. Reductions in fiscal expenditure have also meant that investment in infrastructure facilities has been significantly curtailed, further hindering the development of exports. For example, poor cold storage, port and airport facilities have constrained the development of the fisheries and horticultural sectors, whose exports are highly perishable. It is estimated that 40 per cent of horticultural production is lost as a result of the lack of storage facilities. The port of Dakar is not able to accommodate ships of 100,000 MT, the common size in phosphate trade; this has acted as an impediment to phosphate exports. Telecommunications are poorly developed and expensive. Telephone calls from Senegal to France, the United Kingdom and Germany are respectively 36, 80, and 133 per cent more expensive than calls from these countries to Senegal. Many domestic enterprises complain that these high costs make it difficult for them

BOX 6

Private sector crop and input marketing

Company	activity	comments
SISMAR	Equipment	Farm equipment manufacturer
SENCHIM	Fertilizer	Manufactures and markets fertilizer for local and export market
Grand Moulin de Dakar	Wheat	Production and marketing of wheat (same individual owns CSS)
SENETAC	Wheat/millet	Processes millet and wheat
CSS	Sugar	Monopoly on sugar production and imports
SOCAS	Tomatoes	Processing and marketing of tomatoes
SNTI	Tomatoes	Processing and marketing of tomatoes
NOVASEN	Edible groundnuts	Processing and marketing of edible groundnuts mostly for export

There are seven major companies involved in crop and input marketing and processing. Most of these companies are Senegalese owned with the exception of the tomato-processing SOCAS which is French owned. CSS has a monopoly for sugar production, processing and imports and SENCHIM has a monopoly for compound fertilizer production, imports and phosphate exports. Most, but not all, of the private enterprises enjoy some form of state protection, either by import restrictions or/and by state-controlled prices. There are also a large number of small private organizations, interest groups and cooperatives, not mentioned here, that play an important role in marketing.

to establish regular contacts with potential international clients. It is estimated that 30 per cent of the paved road network suffers from accelerated deterioration caused by the lack of adequate maintenance and repairs. This delays considerably the transport of export products where production is located in the interior of the country.

75. The labour costs of domestically produced goods are high.[28] This worsens the competitiveness of exports, and hampers development of the internal market as high domestic prices have encouraged people to import illegally from other countries via the Gambia, in particular. For example, the textile sector has been hit by cheaper imports from Pakistan and China. The development of the internal market for tomatoes and tomato paste has also been affected by illegal imports from Italy, Spain and North Africa.

76. Though in the short term, Government budget policy has reduced the budget deficit, there is a danger that the long-term effects of this policy may start to weigh heavily on export development and hence the balance-of-payment situation.

C. Exchange rate, monetary and investment policies

77. As a member of the CFA franc zone, Senegal maintains a fixed exchange rate with the French franc. Until early 1994, France and the member states of West African Monetary Union (UMOA) rejected a CFA franc devaluation. The business élites in Senegal and potential investors were concerned by the inflationary impact and other uncertainties a devaluation would cause. Demand-management policies, however, were not enough to generate a sufficient real exchange rate depreciation to initiate a supply response and, thereby, an increase in exports in real terms. The resulting high value of the CFA franc was a major burden on efforts to stimulate economic growth through export development. The relatively high cost of agricultural and semi-processed and processed exports from Senegal made them uncompetitive in an increasingly tough world trading environment.

78. Economic pressures on the French treasury, which had to guarantee the CFA franc - French franc convertibility, finally resulted in 1994 in the 100 per cent devaluation of the CFA franc; which will have a major impact on Senegal’s competitiveness.

79. Being part of the UMOA, Senegal does not have independent control over its monetary policy. This is essentially controlled by the BCEAO which controls the money supply within the UMOA and within each country by setting ceilings on the rate of credit expansion. A structure of interest rates that is common to all UMOA members is administered by the BCEAO. In September 1989, Senegal, together with other members of the UMOA, adopted a reform of monetary policy instruments. The main objective of this reform consisted of a gradual replacement of administrative controls over money and credit by a more indirect and market-oriented system of monetary instruments, with a view to improve the financing of the economy’s productive sectors. As of 1 October 1989, the preferential rediscount rate was abolished, the schedules of interest rates of the commercial banks were rationalized and the banks were given more flexibility in determining their rates on deposits and loans. It was hoped that these new policies would increase liquidity in the banking sector and increase the number of loans made to the private sector for investment in agricultural and industrial production.

80. At the same time, reforms of the financial sector were implemented with a view to restoring confidence in the banking system. This system currently consists of seven commercial banks with important foreign equity participation, an agricultural bank and a housing bank. Although these reforms have created a more solid banking system, Senegal’s banks have become much more risk-conscious and show a marked preference for short-term trade-related lending at the expense of long-term investment lending.[29] The result of this trend is that Senegalese-owned firms, especially small and medium-sized ones, are finding it much harder to have access to credit to finance long-term investments;[30] this is a major impediment to economic recovery and the development of export-led enterprises.[31] When credit is available, the nominal interest rates (at times reaching as high as 22 per cent) and stringent lending conditions prove to be prohibitive. Furthermore, most private entrepreneurs are unable to meet the excessive guarantee requirements set by the banks. Lending to export-oriented sectors has been low as banks generally view them as too risky.

81. The agricultural sector is among those most seriously affected by the lack of an efficient domestic credit system. Since the collapse of the "Programme Agricole" in 1984,[32] very limited amounts of credit have been made available to this sector. For example, between 1984 and 1986, the agricultural sector's share of total short-term credit was less than 2 per cent, and of medium-term credit around 1 per cent. Of aggregate private-sector credit, barely 3 per cent was directed towards agriculture between 1980 and 1985.

82. In an effort to attract export-oriented private and foreign investors, the government has taken measures to improve the investment climate. The 1981 investment code was revised to offer more favourable conditions to certain categories of investors. Eligible for investment code advantages are enterprises operating in the sectors of agriculture, agroprocessing, fisheries, mining, tourism, culture, industry, health, education, industrial equipment assembly, banks and financial institutions, construction and public work. These advantages now include exemption from import duties, value-added taxes on equipment and machinery, registration fees for doing business and transfer of property. The code makes the approval of new enterprises largely automatic; applications are handled by a one-stop investment agency, thus simplifying the previous lengthy bureaucratic procedures. The new investment code also offers free transfer of capital and income. Foreign and domestic investors receive equal treatment, although special advantages are reserved for small and medium-sized enterprises, especially those that use local resources.

83. New policies have been introduced to revitalize the industrial free zone set up in 1974 in Dakar (see Annex). A key problem in attracting overseas investment to the industrial free zone has been the restrictive labour laws which prevented short-term hiring. Under the structural adjustment programmes, a new labour code was approved; among other things, the code lifts restrictions concerning temporary employment. However, there have been delays in the implementation of the new labour code, and old regulations thus still act as a barrier to investment. To date, the zone has failed to attract a large number of companies, but it is hoped that changes in the labour code, as well as the availability of ready infrastructure and cheap energy, will attract new enterprises. The new investment code permits enterprises located in the industrial free zone to sell up to 40 per cent of their produce on the local market; formerly only companies exporting their goods were allowed to locate in the zone. The new rules also allow for setting up free zone enclaves in other sites, while the government is aiming to provide a range of ready-built factory and warehousing facilities for new investors. The prices of water and electricity are also to be reduced.

84. The new investment code certainly offers new opportunities for potential export- oriented companies. The tax exceptions on machinery and other equipment should benefit capital-intensive industries dependent on imported raw materials, while lower energy costs (one of the biggest barriers to the development of export-oriented companies) will greatly reduce costs. For enterprises involved in the production of fruits and vegetables and cut flowers, readily available factory and warehousing facilities should eliminate the problems of storage, and the new labour code should facilitate short-term hiring (this is essential for companies where production and labour requirements are highly cyclical). Nevertheless, to date there appears to be no real increase in the level of both domestic and foreign investment as other constraints, such as the lack of credit, high transport and labour costs, seem to outweigh the advantages offered by the new investment code.

D. Policies in the area of infrastructure and facilitation of market access

85. Much of Senegal's infrastructure policies have been geared towards improving international linkages and facilitating export growth. A major programme is under way to modernize and expand the telecommunications network. A new state authority, Société Nationale des Télécommunications du Sénégal

(SONATEL), was set up in 1985 to operate it on more commercial lines. The government is also taking measures to improve storage facilities at ports and airports. There are plans to build a cold-chain warehousing facility at Dakar airport to help reduce spoilage and loss of quality of perishable fruits, vegetables, cut flowers and tropical fish. The port of Dakar is being modernized and extended to improve capacity; among other things, the construction of new warehousing and cold-storage facilities is under way to facilitate fresh and frozen fish exports. The cost (high port taxes on exports, high rental charges) of using the port of Dakar is often cited by exporters as an important constraint.[33] At the moment all operations at the port concerning docking and loading are handled by a privately owned monopoly, the Port autonome de Dakar. The government is currently trying to find ways to improve competition and thus lower costs. Labour regulations, which now add considerably to loading and unloading costs, are also being changed. There are plans to privatize two state monopolies running inefficient and expensive water and electricity facilities, and make them more price competitive. The government also plans to put an end to the Air Afrique monopoly on air freighting by helping exporters to arrange cheaper charter flights. The continued development of road transport is a key priority of the government, in particular to facilitate trade to neighbouring markets. Road and rail networks linking Senegal and neighbouring countries are being rehabilitated.

86. Senegal has taken part in several international agreements to improve market access for its exports, the most important of which being the Lome Convention, which guarantees duty free entry to the EU for many commodities produced by the African, Caribbean and Pacific States (ACP). However, with the advent of the Single European Market in 1993 and the final completion of multilateral trade negotiations under the Uruguay Round, there is concern amongst Senegalese exporters that some of their special privileges will diminish and that they will have to compete on an equal footing with cheaper and more competitive countries from Asia, especially for fishery exports.

87. One of the government’s most important export promotion objectives is to improve market access to regional West African markets. In this context, Senegal is a member of the CEAO and ECOWAS. Under the CEAO, tariff and non-tariff barriers and customs procedures have been eliminated or reduced to allow the export of all industrial products produced in member states. However, because of the slow implementation rate of preferential schemes, trade within the CEAO has not shown significant growth. The principal aim of ECOWAS was to create a common market that would allow free movement of people and goods among member States. However, because of the low complementarity between member States’ economies, their rival trading interests and the existence of several other regional organizations with similar aims, ECOWAS is still non-operational, to all intents and purposes.

E. Conclusion

88. It is clear that the macroeconomic environment in the 1980s has not been conducive to the development and growth of diversification-related activities. The restrictive fiscal and monetary policies adopted by the government in the 1980s have in the short term lowered the government budget deficit and reduced inflation. However, the effect of these policies on the export sector in particular has been less favourable. Reductions in government investment expenditure have had adverse effects on the provision of key support services necessary for diversification to occur, such as the provision of infrastructure, rural extension services, information and credit. The low level of credit within the economy has perhaps been the most important handicap to the growth of the private sector and its participation in export-oriented activities. As chapter III shows, current government attempts to promote diversification through the development of specific policies for the promotion of exports have proved less successful than expected, as the poor macroeconomic environment - through its effects on credit and government expenditures - inhibits the implementation of many export-promotion schemes.

Chapter III

SPECIFIC GOVERNMENT POLICIES AND MEASURES TO PROMOTE DIVERSIFICATION

A. Policy

89. As discussed earlier, diversification policy in Senegal during the 1960s and 1970s had two broad aims: to promote non-traditional exports to reduce the country's dependency on groundnuts, and to stimulate the growth of local production of cereals. It is important to note that the government has been the driving force in the promotion of diversification-related activities. The private sector took this initiative only in the horticultural sector and to a lesser extent in the fisheries sector.

90. Much of the current strategy to promote exports, which is embodied in the New Strategy of External Trade and the New Industrial Policy, has the following aims: promotion of domestic and foreign private investment; promotion of non-traditional exports; development of new subregional, regional and international markets; development of support services for research and trade information; development of infrastructure to facilitate exports; reduction in the costs of production such as labour and energy; improvement of trade representation abroad; use of financial instruments such as insurance, credit and export subsidies to support exports; improved availability of credit; elimination or reduction of trade barriers on essential imported inputs required by the export sector; better coordination among the main export promotion institutions and enhancement of the quality of exports.

91. Many of the problems facing the export sector can be attributed to the government's failure to implement its policy objectives successfully.

B. Financial incentives and price regulations

92. Financial incentives have been the most important tool used in the promotion of export diversification. The main instrument was subsidization of exports. The first export subsidy scheme was introduced in 1980, with subsidies being applied to five non-traditional products, namely tuna, textiles, shoes, fertilizers and agricultural materials. The rate of subsidy applied was equivalent to 10 per cent of the f.o.b. value of the exports. As, during the initial years, the exports of these commodities improved substantially, the government extended the system in 1983 to include 25 eligible products and increased the subsidy rate to 15 per cent of the value of exports. The products which benefited most from the system were those with high value added, such as canned fish and chemicals. In 1986, the rate of subsidy was further increased, and coverage was widened to nearly all processed products, as well as to fruits and vegetables. All non-processed products, groundnuts, fuels, petroleum and cotton were excluded. However, many sectors have not taken advantage of the system because of the long and complex administrative procedures and the lack of information about its operational modalities. The fisheries sector absorbed about 70 per cent of the total disbursements. However, only CFAF 2 billion of the total of 5 billion allocated to the subsidy scheme was disbursed before the system was suspended in 1990 because of the lack of budgetary resources. This resulted in a reduction (at least in the fisheries sector) in the profit margin which had kept a large number of companies in operation. Therefore, while the subsidy scheme probably had a stimulating effect on export diversification, how many of the new activities which benefited from subsidies are actually commercially viable is not clear.

93. As the availability of insurance cover is an important element in trade, in 1981 the government introduced "l'Agence sénégalaise de l'Assurance-crédit à l'Exportation" (ASACE) with the aim of providing insurance for exporters who sold their products on credit. ASACE also insures banks and other financial institutions which provide finance to exporters. It insures exporters in all sectors of the economy and can cover the following commercial risks:

- sovereign and country risks: wars, riots, cyclones, catastrophes, foreign government decisions;
- commercial risks: risks associated with an importer facing financial difficulties;
- revolving guarantees: cover continuous business with the same client and are automatically renewed every year.

94. Despite its potential, ASACE has achieved only modest results - the number of exporters covered by the scheme is low, while many exporters and banking institutions complain of the lack of information concerning the services and benefits offered by ASACE. There is certainly a need for the government to increase its promotion of the scheme and to simplify the administrative procedures. In 1990 ASACE covered CFAF 8.2 billion in the export of non-traditional products[34] to 17 countries in Europe and Africa.

95. As mentioned earlier, the domestic banking sector does not lend significantly to the export sector. Moreover, the few credit lines that are available are not utilized because most companies cannot fulfil bank guarantees and there is a general lack of information about the availability of these credit lines. Recognizing these facts, the government created in 1981 the Fonds de Bonification for exports and the Agence Financière Nationale de Crédit à l'Exportation (AFINACE). The former was established to compensate exporters for the difference between the bank interest rates and the preferential rates applicable to exporters benefiting from the guarantees of ASACE. Despite an initial allocation of CFAF 140 million, the system was never operational. The main aim of AFINACE, which was created to open credit lines to exporters, was to facilitate the provision of export finance to companies through assessing potential projects and discounting and rediscounting other forms of credit and lending made to exporters. The AFINACE provided guarantees to banks that made loans to exporters and in this way facilitated the access of private exporters to short- and medium-term credit. During its period of operation, the funds made available to AFINACE were clearly insufficient to meet its ambitious programme. The problems in the banking sector, together with the lack of coordination between AFINACE and other financial organizations, hindered its operations. Being a part of SONABANQUE, which ceased operations in 1989 as a result of the restructuring of the banking sector, AFINACE was also forced to close down. This was a severe loss for the export sector as AFINACE could have played a vital role in facilitating the availability of export credit.

96. The Fonds de Promotion économique (FPE) was created in 1988 to provide credit to medium-sized enterprises. Private enterprises undertaking projects for restructuring, modernization or expansion of business could borrow up to 70 per cent of the cost of a project at preferential rates and were exempt from taxes. However, companies had to pay a 1 per cent flat fee on the amount borrowed and were obliged to put up a guarantee equivalent to 50 per cent of the loan. For most enterprises, these access conditions were too difficult and, as a result, the FPE has failed to provide much finance to potential producers of exports.

97. Senegalese exporters can also receive financial support from the SFALTE system of the Islamic Bank for Development. Under this system, the bank buys the export product and gives credit to the importer in an Islamic country identified by the exporter. Owing to the rigid conditionality attached to its use and a general lack of information on its functioning, the system has not been used widely.

98. Since the 1980s, in order to promote exports, the government has introduced a number of fiscal preferential schemes and changes to the investment code. However, few of these systems have been used by exporters as there is a general lack of information available on how to benefit from such services and procedures are long and complicated.[35] The most important of these schemes are described in the Annex.

99. In addition to the above schemes, import restrictions have been softened under the new investment code, described earlier in this paper. Although pricing policy has not been used extensively to promote diversification of the export base, it has been a key instrument in the promotion of domestic diversification policies affecting cereal production as well as diversification into cotton for the export market. Pricing policy was used to raise significantly the local producer prices for cereals (much higher than world market prices) in order to encourage increased production.[36] Indeed, the area under cereal and cotton cultivation increased significantly, as did the level of production.[37]

C. Provision of support services

100. As the private sector lacks the necessary financial and human resources to provide support services in areas such as market information and research and development, the government plays a key role in providing these services, the most important of which are export promotion activities, trade information, quality control and research and development.

101. The main government organization for the promotion of non-traditional exports is the CICES. It provides the following services:

- provision of market information: undertaking market surveys of potential new markets; gathering information on demand for Senegalese products and disseminating this information to exporters; provision of trade information to exporters through seminars, monthly publications and bulletins.
- participating in international trade fairs to secure potential orders for Senegalese exporters; providing assistance to exporters wishing to attend international trade fairs; undertaking trade missions to promote Senegalese exports; organizing three-day buyers/sellers meetings.
- liaising with other export promotion institutions abroad in order to simplify external trade procedures.
- organizing national trade fairs (international trade fair of Dakar, EEC/West African Industrial Forum).
- identification of export-oriented possibilities

102. CICES also undertakes sectoral analysis of each domestic export sector to determine the main obstacles to export development and then makes recommendations on policies to eliminate these obstacles. About half of the CICES budget is spent on attending international trade fairs. The main purpose of these fairs is to establish contacts with foreign importers and in some cases CICES receives direct orders for Senegalese exports.[38] CICES often takes the initiative in the identification of new export project possibilities and undertakes pre-feasibility and feasibility studies, the results of which are disseminated to interested export enterprises. Despite its important role, CICES has been unable to fulfil its objectives, in particular in the area of trade information and identification of projects because of a lack of financial resources.

103. Other important government support structures for export promotion include La Chambre de Commerce d'Industrie et d'Agriculture de Dakar (CCIAD), which provides trade information to exporters and publishes its own monthly bulletin. It also has a database containing technical specifications for 1200 products. The Comité sénégalais de Simplification des Procédures (SENPRO) is administered by CICES and has in the last 10 years published 21 documents on the rules and regulations for international trade in order to enable exporters to meet the

norms required for trade. However, its proposed procedures have not always been applied by exporters. The lack of information concerning trading standards in potential export markets is an important barrier to the development of non-traditional exports in Senegal.

104. Poor quality control standards by exporters has been an important factor affecting Senegalese exports, in particular of horticultural and fish products. The main government organization responsible for quality control is the Institute sénégalais de Normalisation (ISN), whose functions consist of promotion of high quality standards in industrial exports. Lack of financial resources have limited considerably the operations of ISN.

D. Conclusion

105. Senegal has made significant progress in diversifying its commodity sector, but it is not clear whether this trend is sustainable. While the government has made an effort to introduce a number of financial and credit facilities and support structures to promote commodity exports, these appear so far to have had little effect. The private sector is not well aware of these or is not using them because of other constraints. By contrasting the experience of Senegal with that of countries where diversification has been relatively successful, it would seem that one crucial element is missing. This is the provision of an environment in which the private sector is willing and able to take the initiative to implement diversification activities, as well as to assume and compete in the provision of some of the services that used to be provided by the government. This environment includes a secure legal framework within which the private sector does not suffer from undue government interference; for if there is a risk of the government unilaterally changing the rules of the game such as by deciding to fix the prices of either inputs or outputs, or of imposing import or export restrictions, the private sector will not have the confidence to invest. Thus the transition from a closed to an open economy and from government to private ownership will sustain the movement towards diversification only when the reduction in government budget occurs alongside the private sector’s increasing confidence in the policies being adopted.

ANNEX

Main fiscal and customs preferential schemes

A. **Dutysuspension schemes**:

- Storage warehouses (public, private or special) which offer the possibility to suspend the application of duties, taxes or bans on goods stored there. The goods can be taken out from these warehouses at any time for any destination.

- Duty-free entry: the products imported under this system benefit from a total suspension of duties and taxes.

- Industrial warehouses: where enterprises can store their imported goods with duties and taxes suspended. This system was developed by combining the advantages of the duty-free entry scheme with those of storage warehouses which are usually not used for industrial purposes, while reducing re-export constraints.

B. **Preliminary export scheme** which makes it possible to import, on a duty-free and tax-free basis, raw materials or products cleared for consumption and which were utilized for manufacturing goods previously exported.

C. **Drawback scheme** provides for refunds of duties and taxes paid on products used in exported manufactured goods. However, the procedures for claiming drawbacks are complicated and long.

D. **Temporary export scheme** which allows sending products outside the area covered by customs regulations, for repairs, exhibition and processing. Special taxation conditions are provided for the re-import of the goods.

E. **Free trade zone scheme**: Any industrial investment project of processing and packaging for export located in Dakar’s industrial site may be granted the status of a free zone. Companies operating within the zone are entitled to a number of tax advantages, including exemption from all import and export taxes, except for products sold on the local market. Energy costs such as water and electricity are subsidized.

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NOTES

1. TD/B/C.1/L.96, 21 November 1990, para. 12.

2. "Establishment of the work programme of the Standing Committee", TD/B/CN.1/8, 3 February 1993.

3. The BCEAO is the central bank for all franc zone countries, and thus pursues the same monetary policies for all members.

4. Though Senegal has a relatively high GDP per capita in relation to sub-Saharan levels, the United Nations Development Programme (UNDP) human development index (HDI) for 1991, which is calculated using adjusted real GDP, educational attainment and life expectancy at birth, ranked Senegal 135 out of 160 countries. This is 29 places below its position in the world, based on ranking by the gross national product.

5. US$ 364; see UNCTAD *Handbook of International Trade and Development Statistics*, 1992.

6. The processing and marketing of crops is still mainly in the hands of the government.

7. This includes fiscal, monetary, and trade policies which were not conducive to economic growth.

8. UNCTAD, *Handbook of international trade and development statistics,* various issues.

9. These were re-exports of imported oil sold to ships docking off the port of Dakar.

10. India is an investor in Senegal’s largest chemical company and exports to India are thus part of the investment agreement.

11. IMF, *Direction of trade statistics yearbook*, 1992.

12. USAID, Senegal agricultural sector analysis, 1991.

13. Although the re-export of petroleum is an important export activity, it is not considered in this section as it is completely dependent on imported oil and shows little prospects for growth.

14. The industrial sector uses more modern methods of fishing (such as large mechanized well-equipped fishing vessels) than the artisanal sector. In addition, there is a greater degree of processing.

15. High energy costs were one of the principal reasons behind the closure of five fish canning and freezing firms as of 1988.

16. In 1989, labour costs for the production of one can of tuna were estimated to be almost five times higher in Senegal than in Thailand.

17. The cost of shipping a can of tuna fish from Dakar to France is twice as high as from Thailand to France (two times the distance France-Dakar).

18. One fish-processing firm moved its operations to Abidjan, Côte d'Ivoire, where production conditions are more attractive (e.g. lower port costs and taxes).

19. Senegal's older phosphates company, the Société des Phosphates de Thiès, has hardly produced any phosphates since 1991. Its main activity now consists of exports of attapulgite, a mineral used in the European milk sector, followed by the production of clinker, both for the domestic and the export market.

20. SONACOS is the largest manufacturing enterprise in Senegal.

21. See "*L'industrie textile du Sénégal", Cellule d'Appui à l'Environnement des Entreprises,* Dakar, 1993.

22. A large number of companies have not benefited from subsidies because of the lengthy and slow procedures.

23. Tariffs on finished textile products add 93 per cent to original import price.

24. The cost of fuel and electricity needed to produce 1 ton of cement is three times higher in Senegal than in France.

25. With the exception of processed groundnut oil, marketing and production of groundnuts have been privatized.

26. Inputs for cotton production are still subsidized at about 40 per cent.

27. Privatization of input supply and the gradual elimination of government input subsidies has resulted in a sharp increase in the price of inputs. The price of fertilizer has increased from CFAF 25/kg in 1979/80 to nearly CFAF 90/kg in 1989/90. The result has been a sharp decrease in the amount of fertilizer used in agricultural production as farmers lack credit to make the necessary purchases. Fertilizer use in the cotton sector fell from 8,500 tonnes in 1982/83 to 4,500 tonnes in 1989/90, while application in the groundnut sector declined by two thirds between 1984/85 and 1989/90.

28. The cost of labour in Senegal is an important factor contributing to high production costs. Minimum wages in Senegal are high in relation to those of other low-income countries. In 1986, it was estimated that annual wages for skilled and semi-skilled workers were higher in Senegal than in Malaysia for all manufacturing sectors, while average per capita income in Malaysia was over three times higher than in Senegal.

29. Short-term credit now accounts for 70 per cent of total lending.

30. There appears to be a bias in lending to foreign-owned companies operating in Senegal.

31. The crowding-out effect of excessive government borrowing exaggerates further the limited credit lines available to the private sector.

32. Developed in 1980 to support farmers through provision of subsidized credit.

33. Port handling is equivalent to as much as 14 per cent of import costs and 6 per cent of export costs.

34. This is equivalent to 4 per cent of total non-traditional exports.

35. The government has taken some actions to improve awareness of these schemes through the creation of a one-stop shop for investment to provide information on the investment code and other tax and duty-related incentives. It has also published brochures such as "Investing in Senegal". The main export promotion organization (CICES) is also active in improving the awareness of entrepreneurs of various export-related schemes.

36. For example, producer prices for rice increased from CFAF 21 per kilo in 1970/71 to CFAF 85 per kilo in 1989/90, while maize, millet and sorghum prices also quadrupled in the same period. Producer prices for cotton increased from CFAF 28 per kilo in 1970/71 to CFAF 100 per kilo in 1989/90.

37. See USAID, Senegal agricultural sector analysis, 1991.

38. For example at the Fruit Logistica trade fair in Germany, 1993, Senegalese exporters received substantial orders for tinned fruit, vegetables, tuna and edible nuts, as well as enquiries for other horticultural products.