Senegal: A Service Economy in Need of an Export Boost

Phil English

Overview

Senegal is one of the most stable and democratic countries in Africa. It is the only country in continental West Africa which has never experienced a coup-d'état.[1] It has enjoyed multi-party democracy since 1976 and has twice seen the defeat of the incumbent President at the ballot box, in 2000 and 2012. There is substantial freedom of the press, and the capital, Dakar, is one of the safest large cities in Africa. Senegal's 14 million people are predominantly Moslem but the country is proud of its reputation for tolerance and the good relations between Moslems and Christians. It is an open society with strong ties to the West. However, precisely for these reasons, the threat of a terrorist attack is real.

The economy has done less well. GDP per capita was estimated at $1067 in 2014, making Senegal a border-line lower middle income country, though it continues to be classified as a least-developed country. Income per capita has hardly improved since independence in 1960. Senegal started off as a relatively prosperous country given its role as the capital of all French West Africa. Its strong education system produced an elite who worked in Dakar and throughout the French territories during colonial times. A small but significant manufacturing base was developed to serve the region. However, with independence, Senegal lost some of its market to other countries that established their own industries, while inheriting an expensive bureaucracy. The oil shock of 1975 and the subsequent debt crisis led to a slow but steady decline. With a fixed exchange rate tied to the French franc, the country was obliged to attempt an internal adjustment, notably of relatively high wages in the public and private sectors. This proved impossible and finally the currency was devalued – for the first and only time – by 50 percent in 1994.

The economy grew strongly for the next 10 years, registering a robust average GDP growth rate of 4.5 percent per annum. This was above the average for Sub-Saharan Africa at the time. It reflected the one-off improvement in competitiveness due to the devaluation, a rebound after years of economic decline, and a brief period of reform. However, there was relatively little structural change, the investment climate remained cumbersome, and the education system was deteriorating as enrolment levels exploded. The rural economy also remained heavily dependent on rain-fed crops which were vulnerable to the unreliable rainfall typical of a Sahelian country. Groundnuts remained the primary export crop, as it has for over 150 years, leading to a decline in soil fertility. Fish products took over as the single largest commodity export but their growth was eventually thwarted by over-fishing.

While many African countries experienced a commodity-driven boom after 2005, Senegal suffered a slowdown. GDP growth averaged only 3.3 percent between 2006 and 2013. The

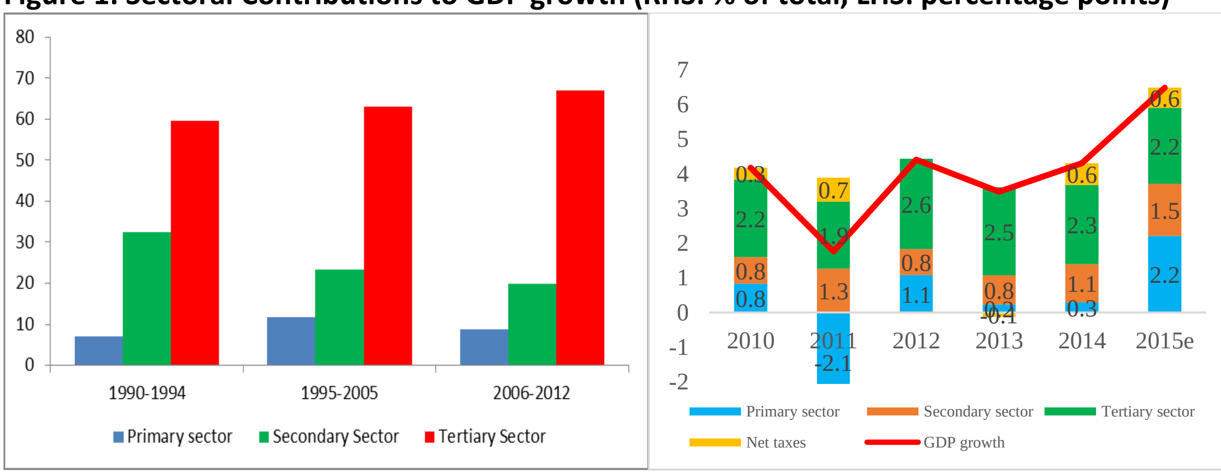
[1] The island country of Cabo Verde also enjoys this record.

only significant mineral export, phosphates (largely transformed into phosphoric acid and fertilizer), did not benefit from high world prices due to internal mismanagement. Instead, the economy suffered from spikes in food and oil prices, the global financial crisis, and climatic shocks, as well as a slackening in the reform effort and worsening governance. The government turned to external borrowing to maintain growth, but the efficiency of public investment was weak.

The new government of Macky Sall inherited a sluggish economy in 2012, with a debt-to-GDP ratio of 45 percent and a fiscal deficit of 6.7 percent of GDP. It immediately committed to the restoration of sound macroeconomic management supervised by the IMF under a Policy Support Instrument. The fiscal deficit has been gradually reduced to 4.8 percent of GDP in 2015 and a projected 4.2 percent in 2016. The authorities have committed to limiting the debt-to-GDP ratio to a maximum of 55 percent, with a small reduction thereafter.

When the Doing Business ranking for Senegal fell to 176th, the government committed to an ambitious three-year program of reforms which has been successfully implemented. Its ranking in 2015 was 152, albeit still very low. The problem of high-level corruption was also tackled, admittedly focused almost exclusively on members of the previous regime. Senegal's ranking in the corruption perception index has improved from 112 to 61. GDP growth gradually strengthened and in 2015 it reached 6.5 percent, thanks in to very good weather conditions. The IMF forecasts that it will be the third fastest growing economy in sub-Saharan Africa in 2016., with continued growth at 6.6 percent.[2] By early 2016, Senegal was one of only two Sub-Saharan African countries which enjoyed a positive outlook from the rating agencies.[3]

Figure 1: Sectoral Contributions to GDP growth (RHS: % of total, LHS: percentage points)



Source: World Bank, Senegal Economic Update, 2015 and 2016.

Today, Senegal has a diversified economy driven by services. The tertiary sector accounts for 60 percent of GDP and 65 percent of GDP growth since 2005, led by telecommunications and

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[2] This seems a little optimistic since it is unlikely that agriculture will grow much and may even fall a little.

[3] The other one was Côte d'Ivoire.

finance. In the secondary sector, construction has been the most dynamic, but the mining sector has gradually expanded with new mines in gold and mineral sands. Manufacturing represents 12 percent of GDP. The primary sector is small by African standards, at 15 percent of GDP, but diversified between crops (8 percent), livestock (4 percent) and fishing (3 percent).

Trade Performance

The economy's diversification has not been matched by dynamism in external trade. Senegal's exports of goods and services as a share of GDP fell to 20 percent of GDP in 1993, recovered to 32 percent immediately after the devaluation in 1995, but fell again to 25 percent by 2014. This is below the average of 30 percent for Sub-Saharan Africa. Exports of goods have typically covered only half of merchandise imports. Services trade also record a small deficit. Consequently, the current account deficit was equivalent to 8.5 percent of GDP in 2015, and has remained in this range for the past 5 years.

However, the diversity of the economy is reflected in the structure of its exports. Goods represent roughly 66 percent of total exports of goods and services. No single good accounts for more than 10 percent of all exports of goods and services. The largest commodity export is fish products, which actually represents a wide range of products from a multitude of suppliers, both industrial and artisanal. Petroleum products are based on imported raw materials which are refined before export, primarily to Mali. Manufactured goods, including petroleum products, cement and phosphoric acid and fertilizer amount to almost half of all goods exported.

Table 1: Principal Exports of Goods and Services: 2014-15*

Other manufactures/equipment	11.6
Tourism	10.9
Fish products	9.3
Petroleum products	9.2
Gold	8.0
Cement	5.0
Other business services	4.9
Phosphoric acid and fertilizer	4.2
Transport services	3.8
Groundnut products	2.6
Horticultural products	2.4
Other goods	13.7
Other services**	13.4
	100

*Average of 2014 and 2015 for goods; 2014 for services.
**Over half consists of telecommunications services which are essentially taxes on incoming long-distance calls.
Source: Senegal, Ministry of Finance, Economy and Planning, DPEE, Point Mensuel de Conjoncture, Dec. 2015;
BCEAO, Balance des Paiements et Position Extérieur Global: Senegal 2014.

Tourism appears to be the largest single foreign exchange earner though the data is not very reliable. Other business services, which include business process outsourcing, are the next largest service export and the sixth largest export overall.

The four traditional exports pre-devaluation were fish products, groundnut oil, tourism, and phosphoric acid and fertilizer. The first three have stagnated. Fish products suffer from supply constraints due to serious over-fishing and are unlikely to sustain significant growth until stocks can be replenished. Groundnut oil has been hampered by fluctuating supplies of raw material due to irregular rainfall and declining soil fertility, combined with mismanagement throughout the value chain. World demand for groundnut oil is now severely limited due to the rise of palm oil. There is little or no potential for growth here either. Tourism did well until 2000, after which it has suffered from neglect. However, the prospects are brighter for this traditional export. Phosphoric acid and fertilizer have enjoyed some growth in spite of management problems at the main company, and may be able to support further expansion under the new ownership. At least one new phosphate mine may be developed.

New exports have emerged, notably petroleum products, gold, and cement. Petroleum products involve little value-added, however, as they depend on imported crude oil which is processed at a small refinery. Given its small size, efficiency is low and subsidies are required. There is no potential for growth here, at least until newly discovered off-shore oil and gas reserves are developed. The recent slump in prices suggests that this may not happen soon. Gold production began in 2006 and it briefly topped the list of exports until the world price fell. Other deposits are being actively investigated and it is likely that new mines will open. Cement has registered rapid growth, drawing on local limestone deposits. The main market has been Mali, although it has recently opened its own cement factory. In general, however, Senegal is not considered to have major mining potential.

Exports of business services have grown steadily over the last ten years, and do not face any fundamental supply or demand-side constraints. Transport services have also grown, albeit more slowly, on the basis of mixed performances. The port has been relatively well-managed and transit trade to Mali benefited from the crisis in Côte d'Ivoire, the major competing transit country. On the other hand, the national airline has suffered from continued mismanagement and was effectively bankrupt by late 2015. The rail link to Mali has steadily deteriorated, to the point where the operating concession was rescinded in 2015. With the stabilization of Côte d'Ivoire and the location of Senegal on the extreme west end of West Africa, the prospects for expanding transit trade appear severely limited.

The last notable export is fresh fruits and vegetables. These remain modest in comparison to some of the preceding examples, but they have enjoyed the fastest rate of growth in the last 10 years. As discussed further below, industry specialists feel Senegal has only begun to tap its potential in this sector.

The government has high hopes for a special economic zone that it is developing near the new airport just outside of Dakar. The Chinese have begun to build one industrial zone nearby and are committed to experimenting with some labor-intensive manufactured exports. Senegal would seem well-suited given its proximity to Europe and America and its good port facilities. But it remains a high-cost business environment, with burdensome labor regulations. One hopes this will materialize and expand in scope, but many observers are skeptical.

Clearly there are more than two or three export sectors which have the potential to drive this economy. Senegal is indeed fortunate to have a variety of assets on which to draw. But three of the sectors which have a proven track record and plenty of up-side potential are tourism, information and communication technology (ICT), and horticulture. This paper will focus on these three.

Plan for an Emerging Senegal

Soon after he took office in 2012, President Macky Sall recognized that the country needed to grow much faster and that a new growth strategy was needed. After an initial draft was produced by McKinsey Consulting, local experts crafted the Plan for an Emerging Senegal (PES), with the objective of reaching a GDP growth rate of 8 percent by 2018 and achieving emerging market status by 2035. This replaced the previous poverty reduction strategy and is now the accepted blueprint for the country's development. It represents a welcome improvement over the situation prevailing under the previous regime for at least three reasons. It lays out a clearer vision of how to stimulate economic growth, it enjoys strong support at the level of the President, and it seems unlikely to undergo major changes in the foreseeable future. It was presented to a Consultative Group of development partners in Paris in April 2014 and to the private sector and was generally well-received.

The strategy calls for the consolidation of existing drivers of growth and the promotion of new ones which create wealth, jobs and social inclusion, with a high capacity for exports and attracting private investment, domestic and foreign. Thus the critical importance of improving export performance is clearly recognized – indeed one of the key outcome indicators is a tripling of the level of exports per capita. Exports are understood to be essential for structural transformation. The necessity of improving the business climate is highlighted, including the competitiveness of factors of production and investment promotion. There is also a commitment to modernization of the public administration, and a reduction in the fiscal deficit to 3.9% of GDP by 2018 and eventually to 3 % as called for in the convergence criteria of the West African Economic and Monetary Union.

Telecommunications and financial services are singled out as two of the main drivers of growth in the recent past. Agriculture and agro-industry, mining, housing and tourism are identified as new areas of growth, though perhaps "renewed" would be more appropriate since each of them has enjoyed periods of growth at some point. There are 28 priority projects identified in the plan, with 14 to be initiated in the first phase. In fact, these are typically sets of projects or programs. They include investments in high-value agriculture, such as horticulture, and new tourism zones down the coast, followed in a second phase by development of the digital economy. The five priority reforms in phase one include improvement in the country's ranking in investment climate indices, land reform, and the creation of a special economic zone.

While the importance of private investment is often emphasized in the strategy, public investment plays a central role, and even much of the private contribution is programmed in the context of public-private partnerships. The absolute level of public investment is expected to double between 2014 and 2018. At the same time, the authorities have acknowledged the low efficiency of past investment, even by regional standards, and the need to improve their system of public investment management. Thus one wonders how well new projects will be selected and implemented under such an acceleration in spending. The authorities have agreed with the IMF to set in reserve a number of projects in each budget, and to begin spending only once proper feasibility studies have been completed.

Box 1: Dakar as a regional services hub

One of Senegal's prime advantages is the livability of its capital city, Dakar. Not only has it enjoyed peace and stability, but it has the best climate in West Africa, good education and health facilities, and a variety of leisure options. Consequently, many international organizations, both public and private, have chosen Dakar for their regional or sub-regional base. These include donor agencies, embassies, the regional central bank, all the major international consulting firms, and several other multinationals. Senegalese entrepreneurs have also exploited this opportunity. Four of the top five business schools in francophone Sub-Saharan Africa are found in Dakar. The city has become a hub for financial and business services, and to a lesser extent, mining services. The concept of a hub is often repeated in the PES, which envisages expansion of Dakar's role as a hub for education and mining services, as well as for air travel, logistics and medical services.

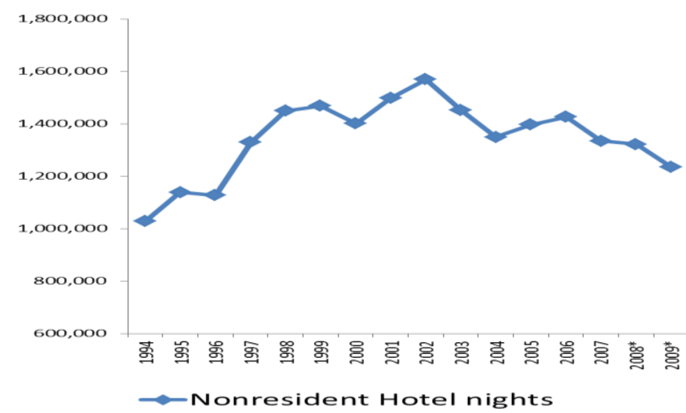
While this broad vision is entirely appropriate, the government faces new challenges if it wants to maintain and build on past success. Dakar benefited from the turmoil experienced in Abidjan from 1999 to 2012, but that now appears to be over. Instead, the Ivoirian economy is booming and Abidjan is more centrally placed to serve West Africa. Some companies which moved their headquarters to Dakar are now returning to Abidjan. Meanwhile, Senegal has failed to establish its airline as a reliable regional carrier and construction of its new airport is long overdue. The rejuvenation of the Ivoirian economy will be good for many businesses, but Dakar's role as a services hub is being challenged.

Tourism

In the 1980s, Senegal was second only to Kenya in Sub-Saharan Africa in terms of tourist arrivals. This was based on its beautiful weather during the European winter, extensive beaches, proximity to Europe, peaceful environment, cultural attractions and reputation for hospitality. Club Med was operating two resorts and a new tourism complex had recently been developed at Saly-Portudal, attracting investors who steadily expanded the hotel capacity. However, by 2010, Senegal was no longer in the top ten destinations in sub-Saharan Africa. While tourism has boomed in many countries, it has faded in Senegal. This is due primarily to neglect rather than any fundamental problems and the future should be bright.

Analysis of the tourism sector is hampered by lack of data. This is rather surprising given its role as one of the top sources of foreign exchange, but symptomatic of the degree of interest shown by the authorities. Official statistics on tourism arrivals, drawn from the main hotels, end in 2010. They indicate that non-resident arrivals gradually increased to peak at 492,000 in that year. However, non-resident nights peaked in 2002 at 1,569,000 and declined thereafter to only 1,234,000. The only data available after 2010 is for visitors arriving by plane, and this indicates no improvement up to 2013 and a dramatic fall in 2014 to 374,000, reflecting the Ebola scare. 2015 is unlikely to have been any better since the threat of Ebola affected the 2014/15 tourism season.

Figure 2: Tourism has been declining since 2002



: Source: Senegal, Ministry of Finance, Economy and Planning, DPEE website.

The only detailed study of the economic impact of tourism in Senegal dates from 2003, and benefited from technical support from the World Tourism Organization.[4] It estimated the direct contribution of tourism at 4.6% of GDP, or 6.8% once indirect benefits are included. However, this includes domestic tourism, transport, and public spending related to the tourism industry. The overall contribution of foreign tourists' spending in Senegal would be closer to 4.3% of GDP. The number of tourist nights has been adjusted to include small hotels and "*campements*" not covered by the survey of main hotels, stays with friends and relatives, as well as long-term visitors who typically come for several months during the European winter. The latter has become an important, and somewhat overlooked, phenomenon in Senegal which may now account for tourist-nights equivalent to 20% of those in hotels.[5] However, the clients of small hotels are more likely to be nationals or other African visitors on business. The study also highlights the likelihood of under-reporting by hotels, but the correction made seems excessive.[6] The impact of international tourism was probably no greater than 4% of GDP in 2000 and has probably declined closer to 3% in 2015.

That said, it is worth underlining that such tourism brings significant benefits to the local economy, to respond to a debate which unfortunately continues to linger in some circles, including the previous President of Senegal. The 2003 study estimated the import content of tourism spending at 30%. This is roughly consistent with a more detailed study conducted for the year 1979 which estimated this figure at 36%, when the economy was somewhat less

[4] Ministère du Tourisme, République du Sénégal, "Impact du Tourisme sur l'Economie sénégalaise: Rapport final", Madrid 2003.

[5] There are 33 "residences" in Saly-Portudal alone, each with roughly 40 villas.

[6] The total number of hotel nights is estimated at 2.6 million.

developed.[7] The impact on employment is also significant, though again data is lacking. Global evidence suggests that, on average in developing countries, each hotel room creates one hotel job, one more job in the rest of the tourist industry, and one job through indirect linkages.[8] With 10,000 hotel rooms, this implies roughly 30,000 jobs, of which 90% can probably be attributed to foreign visitors.[9] This contribution is especially noteworthy given that much of this employment is located outside of Dakar where alternatives are limited.

The fall in the total number of nights spent in hotels reflects a decline in the average length of stay to only 3.2 nights. Given the increase in arrivals, this suggests that business tourism has been expanding while longer-stay holiday tourism has declined. Unfortunately, this level of detail is not available in the statistics but it is confirmed by actors in the industry. New hotels have opened in Dakar and the top ones have recently expanded their capacity. In addition to normal business tourism, Dakar is a popular site for conferences. The last available survey conducted in 2000 indicated that 39% of tourist-nights took place in Dakar where it was assumed that the purpose was essentially business and conferences. This share has undoubtedly increased since then. Since business tourism is doing well and is more a bi-product of other activities in the economy, our focus is on leisure tourism.

Saly-Portudal is clearly suffering as is the other main beach destination of Cap-Skirring in the Casamance. Several hotels have recently closed, and others have deteriorated in quality as low profitability has impeded their capacity to conduct regular maintenance let alone upgrade their product. Hotel operators have relied increasingly on seminar business, since Saly-Portudal is only 1.5 hours from Dakar, along with small but growing local tourism during the school holidays in the off-season. In the more distant Casamance, unofficial estimates point to a decrease in arrivals from 60,000 in 2000 to only 20,000 today.

The reasons are many. The 2008-2009 global financial crisis hurt demand in Europe, and the insecurity in Casamance affected its attractiveness. Yet, the crisis in North Africa and the Middle East should have worked to Senegal's advantage, and the only security incident in the Cap-Skirring region occurred in the early 2000s. Something more fundamental is clearly at work. In essence, the product has become tired and the government has done little or nothing to support it. On the contrary, it has taken some measures which hurt the industry.

Most of the holiday business is based on fairly low-cost beach tourism, set in the context of an exotic but low-risk African setting. This worked well for a while. But global demand has gradually evolved to higher quality products, along with more emphasis on adventure, culture and other forms of tourism. And though the demand for low-cost tourism remains important, notably post-2008, Senegal has had trouble competing with other destinations on the basis of

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[7] E. Philip English, "The Role of Tourism in the Economic Development of Senegal", PhD thesis, University of Toronto, 1983.

[8] E. Philip English, The Great Escape? An Examination of North-South Tourism, North-South Institute, 1986, p. 38.

[9] The 2003 study by the Government estimates total employment at 100,000 but this seems too high.

price. Its strong currency, tied to the Euro, has put it at a disadvantage relative to neighboring The Gambia. Cabo Verde, which also has a strong currency, has relied on all-inclusive packages in large-scale hotels owned by tour operators who ensure competitive air transport costs. Senegal has relied more on scheduled flights and, with limited airline competition, notably in its main French market, costs have been high. This problem has been aggravated by surcharges intended to finance a new airport which has taken eight years to build and was still not complete in 2016. The extra cost of reaching the Casamance by air is also cited as a major factor in the decline of this segment of the industry.

Pre-2000, Senegal drew from a wide variety of markets, including Italy, Switzerland, Great Britain, Spain and Germany. With a lack of destination promotion in these countries or investment in hotel assets, the non-French markets started to decline. Increasing competition in the French market led to price competition, reduced margins and further contraction of investment. Senegal lost its image as an 'exotic' destination and became a mass market product. Meanwhile, the Saly-Portudal product suffered from beach erosion and a general lack of planning or regulation. The resort became crowded and poorly maintained, and tourists regularly complained of harassment by wandering sellers. Prime beach locations were sold for private residences, hotels were allowed to build infrastructure which aggravated the erosion, and nothing was done to protect the beach.

The previous President, Abdoulaye Wade, who held power from 2000 to 2012, made it clear that he did not believe that tourism benefited the country and therefore had no intention of providing significant support. The private sector was left to its own devices. This attitude prevailed in spite of the fact that the Accelerated Growth Strategy, developed under the guidance of his own Prime Minister in 2006, identified tourism as a priority sector given its growth potential. Senegal has paid a heavy price for this neglect.

The new government of Macky Sall has reversed this position, as noted in the discussion of the PSE. However, its actions have sent a more mixed message.   The ineffective tourism promotion agency was closed down, but responsibility was transferred to the private sector which was too weak to provide effective leadership. A complicated on-line biometric visa system was introduced for all visitors which had to be completed in advance of departure. Funding for control of beach erosion was allocated only to disappear. And a new strategy was developed but with little input from the private sector leaders. These problems were then compounded by the Ebola scare which discouraged many tourists from any West African destination for the 2014-15 season.

Nonetheless, the Sall government appears to be slowly improving its approach. The tourism industry in the Casamance was given a 10-year exemption from all taxes. The reduced VAT rate of 10 percent applying to hotels in the rest of the country was extended to tour operators. Minor reductions in some of the airport taxes have been made. Small sums have been allocated to begin the rehabilitation of Saly and a project has been launched to counteract beach erosion, with World Bank funding. New airlines have been encouraged to provide service to Senegal, notably in the key French market. Government resources are also being devoted to the infrastructure needs of a new beach resort. Most significantly, the President admitted that the new visa system was a mistake and it was rescinded.

In early 2016, there were several promising signs of recovery in the holiday segment of the industry. The Ebola scare had ended and bookings were increasing for the upcoming season. The few higher-end hotels were doing well, demonstrating that Senegal remained attractive if the product was well-managed. This was further confirmed by the decision of Club Med to buy and upgrade a beach hotel that had been closed for many years. The new airport was nearing completion, as was a new highway to link it to Saly.[10] Together, this infrastructure will make the arrival and departure experience much easier. Unfortunately, a new external shock appeared. Terrorist attacks in hotels in Burkina Faso and Mali, followed by an attack at a beach outside Abidjan in Côte d'Ivoire, had the industry worried once again. As a result, the annual jazz festival at Saint Louis in northern Senegal was cancelled in May.

Where to from here ?

There should be no doubt that demand will expand for the product Senegal can offer. Rising incomes will enable more and more people to travel internationally, and traditional destinations such as the Canary Islands, are becoming saturated.[11] The instability in North Africa and the Middle East is, regrettably, likely to continue for some time. Cabo Verde has managed to surpass Senegal in tourist-nights on the basis of two small islands with little more than sun and sand. Senegal offers a special opportunity to discover Africa with minimal risk. It is sometimes described as "Africa for beginners". But past trends and attitudes must change in order to make this a reality.

The renewed commitment to tourism by the current government is probably the single most important step required to move forward. However, the industry is a complicated one which calls for a sophisticated understanding on the part of the authorities across various ministries and levels of government, a close and constructive partnership with the private sector, and well thought-out priorities. Unfortunately, the ministry of tourism is weak, its leadership changes frequently, the dialogue with the private sector is inadequate, and the current strategy lacks strategic vision and prioritization.

The top priority would seem to be saving Saly. This is the foundation of the leisure tourism industry and the one known by global tourism actors. At present it does not portray a positive image of Senegal. The beach needs to be rebuilt and protected, the hotels renovated and properly classified, the town cleaned up, and the harassment ended. The situation is so dire that some senior officials appear to turn their back on Saly and focus instead on the development of new resorts farther down the coast. This is also the impression given by the PSE. Fortunately, a new World Bank-funded project is focusing on Saly, in particular the beach

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[10] The final date for completion of the airport remains uncertain but, in the interim, improvements have been made in the old airport.

[11] They currently receive nine million tourists annually.

problem.[12] It is also financing several integrated destination development plans, including one for the Saly-Portudal region. This is probably more useful than revisiting the national tourism strategy.

At the national level, a new tourism promotion strategy is needed to reposition Senegal internationally, emphasizing not just its weather and beaches, but also its stability, culture, and variety of adventures in a truly African setting. This should include a concerted campaign to reassure tourists of the safety of Cap Skirring in the Casamance.[13] It should also aim to diversify the market, reducing the dependence on France. A new tourism promotion agency has been created, but its capacity needs to be built and it should be managed in a true partnership with the private sector. And, it will need to be combined with an air transport strategy which increases competition and accesses new markets. Much better data must be collected to guide the development of the sector.[14]

New tourism resorts, as called for in the PSE, are needed in order for the industry to expand. These should learn from the experience of Saly – emphasizing higher-quality hotels, protecting the beaches, working closely with the local community, and managing the growth in peripheral activities. The plan to make Pointe-Sarène an eco-friendly resort of high-end hotels is a good one and in keeping with evolving trends in the industry.

The new airport needs to be completed and opened as soon as possible. This would enhance the experience of the tourist and improve the country's image generally. It would also help the new conference center which needs business to justify its large investment costs. Completing the nearby airport will improve the attractiveness of the conference center, especially if it encourages the establishment of new hotels in the vicinity.[15]

Finally, but most difficult of all, the authorities need to do whatever they can to avoid a terrorist attack. Hotels have strengthened their security measures, as has the main shopping center. In any event, this threat should not distract the authorities from a long-term commitment to expanding this sector. Tourists will eventually come back even if there is an incident, and tourism offers one of the best options for job creation and poverty reduction in many regions of the country.

Horticulture

[12] The World Bank Exports and Competitiveness project was due for approval in early 2016.

[13] Part of the problem is the classification of Casamance as high-risk by the French foreign ministry. This not only discourages tourists but raises the cost of insurance for the airlines.

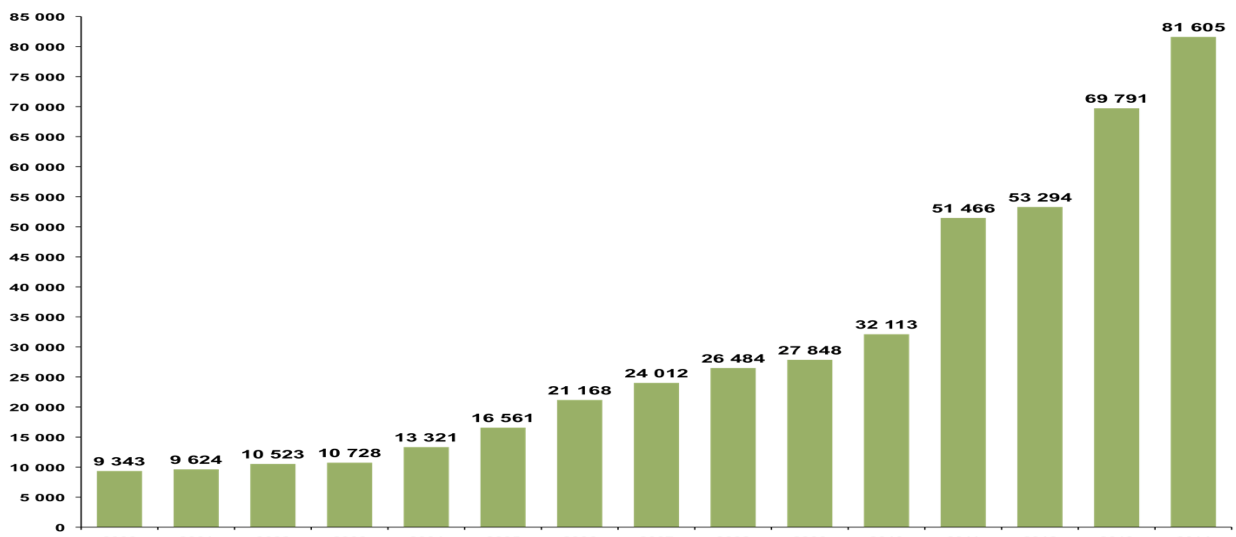
[14] The new World Bank project also has components to support tourism promotion, public-private dialogue and data collection.

[15] Currently conference participants have to travel from hotels in downtown Dakar some 30km away.

Some of the attributes which underpin Senegal's tourism industry are also conducive to the development of horticulture exports. The warm, sunny weather during the European winter makes Senegal well-placed to provide off-season fruit and vegetables. Its proximity to Europe and direct access to the ocean make it the closest potential tropical supplier (after Mauritania) with the option of lower cost maritime transport.[16] Its openness to foreign investors is a third critical advantage. On the other hand, the lack of rain could pose a problem. However, groundwater is adequate in areas close to Dakar and, most importantly for the future of the sector, the Senegal River provides ample irrigation potential in the northern part of the country.

Exports remained modest up to 2003, with volume in the range of 10,000 tonnes and product dominated by green beans. Starting in 2004, exports to Europe have grown rapidly, averaging increases of 20% per year for the next decade. Another 4,700 tonnes were exported within Africa, primarily Côte d'Ivoire and Morocco. The product has diversified significantly. While green beans showed little growth until 2013, mangoes and sweet corn have grown to equivalent levels, and melons, watermelons, and cherry tomatoes now surpass green beans by volume. Exporters are experimenting with a wide range of other crops (eg. sweet potatoes, green onions, radishes). Roses were being exported ten years ago but that operation ended.

Figure 3: Senegal: Horticulture exports to Europe by Volume (tonnes)



Source: Eurostat online

Horticulture exports remain very small as a percentage of GDP, in the order of 0.5%. But they are now comparable to groundnuts in terms of export value, exceeding the latter in years of poor rainfall. More importantly, their rapid growth stands in sharp contrast to the decline in groundnuts. To be sure, groundnuts still occupy far more people, but many of these will have

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[16] So far, attempts to develop horticulture exports from Mauritania have not succeeded.

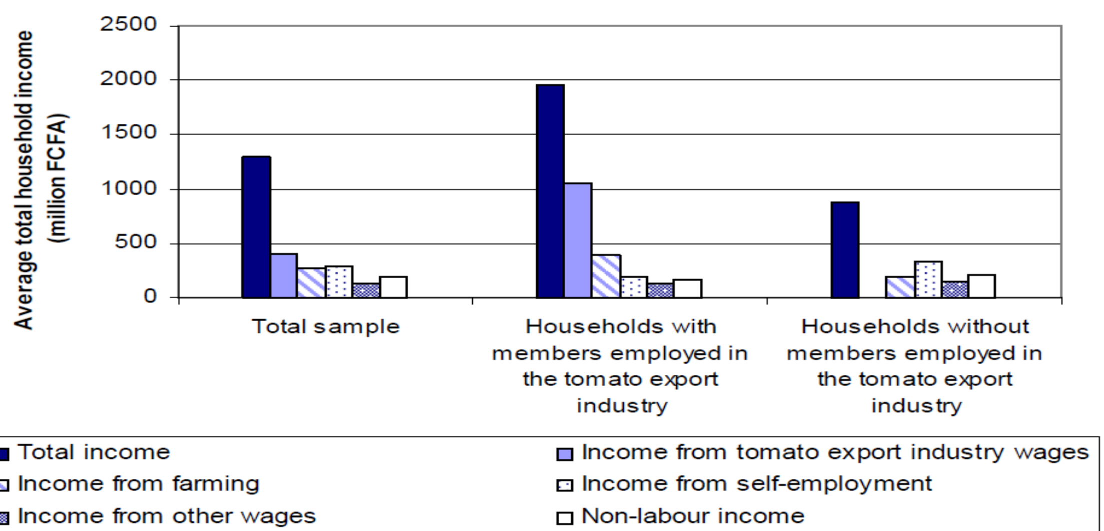
to exit given the low productivity and poor market prospects. Horticulture export farms offer an attractive alternative as summarized in Box 2.

One of the keys to the early expansion of this sector was the arrival of Grands Domaines du Sénégal (GDS), an affiliate of Compagnie Fruitière, in 2003. The parent company was best known for exporting bananas and pineapples from Cameroon and Côte d'Ivoire and had developed special high-speed ships to bring these goods to northern European markets. With excess capacity, they decided to develop a side-business in Senegal which was on the route. The country was not suitable for their traditional products so they launched a completely different, and challenging, cherry tomato operation in the Senegal River valley. While they coped with many problems, they invited other exporters to use their ships, and at least one was given access to their refrigerated containers at farmgate. Thus, the transport dilemma was resolved for some, while the frequency of other ships also provided alternatives. In contrast, transport problems have led to the demise of many exporters in neighboring The Gambia.

Box 2: The impact of horticulture exports on poverty and women in Senegal

In 2005 and 2006, independent researchers from Belgium analyzed the impact on poverty of horticulture exports in Senegal. Their initial working assumptions were not positive, as reflected in the title of their subsequent paper, "Globalization and Poverty in Senegal: A Worst Case Scenario?" First, they looked at employees working for the industry leader in northern Senegal. To their pleasant surprise, households with an employee at this company had lower poverty rates (35%) compared to other households in the same village (46%), even though the former households were larger and had less land on average, and should therefore have been poorer. The difference in extreme poverty was even more marked, 6% vs 18%. Total income was twice as high, and even income from farming was higher.

Comparison of households with and without members employed in the tomato export industry*



*The label for the y axis should read thousands and not millions.

Similar results were found in their second study of employees in nine green bean exporting farms in Les Niayes just north of Dakar. This result is due to the fact that most of the work on these export farms takes place during the dry, off-season of October to May when demand in the European market is strong. Since there is little to do in rural Senegal during this time, the opportunity cost of labor is very low. Employees are then free to return to their farms when the rains come back in July. The researchers also point out that much of the benefit is captured by women who tend to dominate the workforce on export farms. They speculate that it is better for women to work as employees rather than on their own farms under contract with commercial farms since such contracts are typically signed by the male head of household, even though the women are will do much of the work. By working as employees they are likely to have more control over the income earned. However, they were unable to test this hypothesis.

Sources : Maertens, M., L. Cohen and J.F.M. Swinnen, Globalization and Poverty in Senegal: A Worst Case Scenario ? Discussion Paper 217/2008, LICOS Institute for Institutions and Economic Performance, Catholic University of Leuven; Maertens, M. and J.F.M. Swinnen, Gender and Modern Supply Chains in Developing Countries, Discussion Paper 231/2008. LICOS Institute for Institutions and Economic Performance, Catholic University of Leuven.

Of course, such reliance on a potential competitor could be problematic and, in 2014, some exporters began to question the increasing shipping costs being charged. They began experimenting with road transport, as the highway through Mauritania and Morocco had been recently improved. They found that the higher cost of trucking could be offset by the greater flexibility, since trucks could depart at any time while goods might have to wait up to 5 days for the next ship. This improves the product's shelf life for clients. Road transport accounted for 18% of total exports to Europe in the 2014/15 season, maritime transport remaining dominant with 77%, while air transport is marginal (5%).

The second typical problem for such activities is access to land. Indeed, it was for this reason that GDS moved its initial operation from the Mauritanian side of the Senegal River. This has not proven to be a major constraint up to 2014, given the small land requirements and low population density, especially along the Senegal River valley. However, the arrangements were often unstable and occasionally precarious. Few exporters had land titles, and some simply made informal agreements with a village to use land in return for certain promises. The most common solution was to convince a village to transfer land to the government which was then in a position to sign a long-term lease with the exporter. But this meant that the community lost control of the land and did not necessarily receive any direct benefits other than the prospect of jobs. Exporters have generally maintained good relations with their communities, though a large biofuel project in the Senegal River valley did not do so well and this may have set off alarm bells. Also new foreign investors are looking for more secure arrangements. Access to land appears to be the main factor explaining the lack of growth observed in 2015.[17]

The government has been working with the World Bank to find a solution to this problem without waiting for full-fledged land reform, and they think they have an answer. Rural land is generally classified as *Domaine Nationale* and controlled by rural communities through their rural council. This land can be converted to *Domaine Privé de l'Etat* (private land of the State)

[17] In addition, the biggest fruit exporter cut back on production for fear that the Ebola scare would hurt demand.

and then leased to private operators. The new proposal involves returning such land to the community, and then allowing the community to sign a sub-lease with an investor. Part of the annual lease payment will go to the community and part to the government. A World Bank project will provide technical assistance to the communities to assist them in negotiations with investors. This arrangement has the advantage of not requiring a change in the law, though it did necessitate some new implementation decrees. It has taken longer than hoped, as the government moved cautiously to avoid a backlash, but it was ready for a test in 2016.[18]

A third problem has been related to taxes, specifically the value-added tax. This came to a head in 2012 in the context of a general tax reform and was only resolved due to intervention by the President. The problem has re-emerged in 2016 and may yet discourage some new investors who are not being offered the same advantages as existing exporters (see Box 3).

Box 3: VAT reimbursement – the Achilles' Heel of the VAT system[19]

In 1997 the Senegal government created a special status for enterprises exporting at least 80% of their output, called the Entreprise Franche d'Exportation or EFE. Among other things, this allowed companies to import inputs without paying the 18% value-added tax. This was judged to be appropriate since these companies would not be receiving VAT payments on their exports and would therefore be eligible for reimbursement by the government, but the reimbursement process typically led to long delays which could seriously impact cash flow and profitability.

Over the years, many enterprises obtained this status without meeting the minimum export criteria or even exporting at all. In 2012, the government proposed to end the special regime as part of an overall exercise to reduce tax exemptions. However, legitimate exporters in the horticulture and fishing sectors were concerned that this would threaten their viability and pointed out that some of them had invested on the basis of the 25-year commitment made by the government in 1997. After appealing directly to the President, their status was preserved. The exporters then offered to work with the authorities to weed out ineligible beneficiaries, explaining to the authorities exactly what documentation should be requested from all EFE status holders and why. In the end, the number of EFE companies was reduced from 439 to 77.

However, continued concern over tax exemptions in 2015 led to a tightening of the rules for existing EFE companies and a decision to stop offering EFE status to new investors. Given that the process of VAT reimbursement is still not working well, it would seem advisable to concentrate on removing cheaters while continuing to facilitate legitimate exporters.

Where to from here ?

[18] The World Bank supported three rounds of consultations with all villages in the project area, in collaboration with local NGOs. While the communities were all supportive, some NGOs continued to express concerns over potential land-grabbing. The project, called Senegal: Sustainable and Inclusive Agribusiness, was approved in 2013.

[19] This expression comes from an IMF Working Paper, "VAT Refunds: A Review of Country Experience", by G. Harrison and R. Krelove, WP/05/218, November 2005.

Exporters describe Senegal as virgin territory for horticulture exports. Even though there are more than 20 exporters, most are small and Senegal's share of the European market is tiny. Horticulture has been the fastest growing category of global agricultural trade, along with fish products, and expectations are that it will continue to expand. Senegal enjoys ideal conditions for fruit and vegetables, and could also re-enter the floriculture market.[20] Horticulture is one of the top sectors of interest to new foreign investors.

The current government clearly understands the importance of this sector, and it figures prominently in the PES.[21] Now it needs to strengthen its role as facilitator without frustrating the dynamism of the private sector. First and foremost is the land issue. As in most other countries, access to land is a highly sensitive topic, and it has become especially controversial in recent years due to unfortunate examples of "land-grabbing" in other African countries. The authorities must find a way to provide investors with secure access to land while protecting the legitimate interests of the local population. This process appears to be well underway.

Water is the next critical input. It should not be a major constraint in the Senegal River valley, except around the *Lac de Guiers*. This lake, fed by the Senegal River, is the only lake of any size in Senegal. It provides two-thirds of the drinking water to Dakar and also supports the only sugar plantation in the country. Horticulture exporters are now locating around the lake. At some point, the authorities may have to choose between the expansion plans of the sugar company and the development of horticulture.[22]

The authorities would also be well-advised to resolve the VAT reimbursement issue as rapidly as possible, either by continuing to offer EFE status to new investors, or by finally implementing an efficient reimbursement mechanism. Port facilities could be further improved, perhaps with the establishment of a special terminal for fruit and vegetables. The proposed bridge over the Senegal River at Rosso would facilitate the alternative of road transport. Finally, the dialogue with key private sector operators, foreign and domestic, needs strengthening in order to identify and resolve critical problems before they become serious.

Information and Communication Technology (ICT)

The communications sector has been the fastest growing part of the economy, averaging over 10% per year, thus its share of GDP has increased from 3.5% in 1995 to 6.7% in 2013. This is close to the total contribution of crop agriculture (8% on average, less in years of drought). And this probably does not include some activities typically associated with ICT such as software development. Most of this growth has been driven by services for the domestic market, notably through the rapid expansion of mobile phones. But exports have also been important.

[20] Kenyan exporters have recently visited Senegal to explore the options.

[21] The Minister of Agriculture has made it clear that he would prefer to focus on horticulture rather than groundnuts, but the latter's problems cannot be ignored.

[22] The sugar company is the largest single employer in the region, but it only survives thanks to high protection.

Senegal was one of the earliest entrants into outsourcing in sub-Saharan Africa. This reflected its reputation for economic and political stability, a well-educated workforce, investments in telecommunications infrastructure, as well as the usual cost advantages. Call centers were the main focus, and companies were able to attract better qualified employees than in France at one-tenth the cost.[23] By 2000, 35 companies exporting IT-enabled services were operational. While call centers have constituted the dominant source of ICT exports, Senegalese companies are involved in a full range of other exports, including data processing, design and maintenance of applications and websites, systems integration, and software development. Much of this trade is focused on West Africa, especially the higher value-added services.

There are numerous success stories which underline the potential for further growth. The largest call center company, PCCI, now has branches in seven other African countries, two offices in Europe, and headquarters in Dubai (see Box 4). On a smaller scale, Samres AB has trained Senegalese to speak enough Swedish to be able to arrange transport services for the disabled in Sweden. Pictoon developed the first African animated TV series which was sold to several African TV companies.[24] A private-public partnership between the customs agency and ICT companies led to the development of ORBUS, a single window for trade facilitation, which has now been adopted in Burkina Faso, Togo, and Kenya. Chaka Computers has developed a money transfer system which is competing with Western Union. And in 2016, the French company, Atos, established a large operation in Senegal, initially to develop a new financial information management system for the finance ministry, but with the intention of exporting this expertise to other African countries.

Box 4: PCCI: First Call Center of Africa and More

Premium Contact Center International (PCCI) was founded in 2001 by three Senegalese entrepreneurs. Its first call center was in created in Dakar in 2002. Since then it has steadily grown in both geographic scope and range of services. It now has operations in Cameroun, Côte d'Ivoire, Congo (Brazzaville), Guinea, Guinea-Bissau, Mauritania and Nigeria as well as Senegal, and a sales office in France. In 2015, its head office was moved from London to Dubai. PCCI employs 3000 people, including 1400 in Senegal.

Call centers are still the core activity. In 2015 PCCI obtained a five-year contract to provide customer services for the 30 million clients of the MTN cell phone company in five West and Central African countries. However, PCCI provides a large number of other back-office services, including electronic document management portals, web portals, content management systems, email processing and tele-surveys. Turnover is split between Europe (40%) and Africa (60%). PCCI employees are trained in neutral-accented French and how to recognize regional accents in France. It has adopted a rigorous quality control system in all of its operations as well as an economic incentive model where the billing

[23] ILEAP, "Externalisation des processus d'affaires et services liés aux technologies de l'information: Étude de cas sur le Sénégal", November 2014.
[24] This company has since closed, but several of its artists have gone on to set up their own companies and a program has been created to train animation specialists from across Africa.

system is based on performance. In general, clients pay only if they get results.

In its earlier days, the company faced many challenges associated with meeting international market requirements, especially on pricing and service quality. Costs were high and there was also a severe skills shortage and no local institutions specialized in training tele-marketers. Labor turnover was high due to stiff competition for skilled workers. Today, the entry of the large French company, Atos, into Senegal is increasing the competition for IT engineers which may make it more difficult for PCCI to expand its higher value-added services. Also the expansion of its domestic sales and the tightening of procedures may jeopardize its status as an *Entreprise Franche d'Exportation* which allows it to import inputs duty- and VAT-free. For the moment, the authorities have made an exception for PCCI even though their share of exports in total sales has fallen below the 80% threshold normally required.

Source: ITC, "LDC Services Exports: Trends and Success Stories", 2013; www.pcci-group.com; "Le Groupe PCCI annonce l'ouverture de cinq nouveaux centres de contact, www.ict4africa.net.

Senegal is among the top 50 potential suppliers of outsourcing services according to the AT Kearney Global Services Location Index. However, it lies near the bottom - in 45th place – and has fallen significantly in the last five years from 29th. Its financial attractiveness is not far behind the industry leaders, India and the Philippines, comparable to other African competitors, and well ahead of China and Malaysia. But this is where Senegal has lost the most ground. The greatest weakness appears to be in the quality and quantity of human resources, and here too its attractiveness has declined. On the third criterion, business environment, Senegal is not much behind India, and is making slow progress. Overall, Senegal has slipped behind Morocco and Mauritius, two of its main francophone rivals.

Table 2 : Outsourcing Alternatives – Industry Leaders and African Competitors: 2016

	Financial attractiveness	People skills and availability	Business environment	Overall score	Rank
India	3.22	2.55	1.19	6.96	1
China	2.28	2.71	1.51	6.49	2
Malaysia	2.75	1.42	1.89	6.05	3
Philippines	3.17	1.43	1.29	5.88	7
Ghana	3.27	0.85	1.07	5.19	29
Mauritius	2.55	0.94	1.65	5.17	30
Morocco	2.80	0.93	1.34	5.07	34
Tunisia	3.04	0.82	1.18	5.05	38
Kenya	3.06	0.86	1.11	5.03	39
Senegal					
2016	3.06	0.70	1.13	4.89	45
2011	3.23	0.78	1.11	5.12	29

Source: AT Kearney, Global Services Location Index, 2011 and 2016 editions.

Senegal's ranking is even lower when the focus is on telecommunications infrastructure and human resources as measured by the International Telecommunications Union ICT

Development Index. Senegal was ranked 132nd in 2015, up slightly from 137th in 2010, and only 12th in sub-Saharan Africa. Clearly it has lost its leading role within the region.

By 2007 only 10 call centers and a handful of other IT-enabled service exporters remained. There has been little progress since then. A Technopole was established in Dakar to attract more companies but it failed to take off. In 2016, there were only 9 call centers and they were finding it increasingly difficult to compete outside Senegal. Just three call centers accounted for 70% of the market. The arrival of Atos seemed promising yet the competition for local IT engineers worries existing Senegalese companies.[25] Atos was reported to be hiring the entire graduating class of IT engineers at the University of Dakar as well as staff from other companies.

The situation with regard to human resources is a mixed picture. Whereas the shortage of IT engineers is becoming a serious problem, call centers are able to hire university graduates from other disciplines, in contrast with France where they typically rely on high school graduates. Call centers do complain of high turnover and the need to train employees in–house given the absence of such training in independent schools. Lack of English-speakers is another constraint, though it is mandatory in high school and an increasing number of post-secondary programs emphasize English, while some business schools teach exclusively in English. At the same time, Senegalese are moving to Morocco to work in call centers where they are paid much better. This suggests that other constraints which increase costs are the bigger problem.

The quality and cost of telecommunications infrastructure is also a mixed picture. Senegal had its first submarine fiber optic cable connection in 2000 and now has three. The internet bandwidth increased to 18.7 Gbit/second in 2013, making Senegal the largest internet portal in West Africa. However, the price is high compared to competitors in other regions. Table 3 provides a comparison of the monthly cost of fixed high speed internet access.

Table 3 : Cost of Internet Access per month : 2012

	Euros
Tunisia	7.0
Egypt	7.6
Mauritius	12.2
Morocco	12.2
South Africa	28.1
Senegal	**38.1**
Ghana	43.0

Source: ITU as reported in ILEAP, 2014.

The contrast between quality and cost reflects a wider characteristic of the telecommunications sector in Senegal. The principal investor in these fiber optic cables has been Sonatel, the former parastatal privatized in 1997. With the threat of increased competition, Sonatel reduced prices significantly in the early 2000s. But subsequently, it has been able to maintain a monopoly on external connectivity, and the number of Internet service providers has fallen from 9 in 2009 to 2 in 2012.[26] The quality of basic telephone and internet services is reasonably

[25] Atos is a French leader in digital services with 93,000 employees in 72 countries.

[26] Sonatel had 99% of the market for fixed high-speed internet access in 2012. A third company subsequently obtained access to a new submarine fiber optic cable but this is in partnership with

good. But the speed of internet access, at 4.52 Mbps is below the average for sub-Saharan Africa (5.11) and much slower than Rwanda (9.5) or Kenya (7.3).[27] The cost has failed to keep up with global trends, and other services, such as number portability and access to short numbers, are poor. Start-ups have been discouraged and Sonatel has been accused of taking over the most promising new ideas.[28]

Sonatel has grown to become the largest Senegalese company quoted on the regional stock exchange, expanding into Mali, Guinea and Guinea Bissau. It is the largest taxpayer in Senegal, and since the state still owns 27% of its shares, Sonatel is also a major source of dividends. Some of its staff go on to work for the regulatory agency, ARTP (*Autorité de Régulation des Télécommunications et la Poste)* which observers accuse of failing to promote greater competition.[29] A new Telecommunications law was approved in 2011 but it did little to promote new internet service providers and the necessary implementation decrees to render it effective had still not been approved in early 2016. The political will for reform would appear to be lacking.

Where to from here ?

In 2014, a meeting of all the stakeholders in the telecommunications sector was organized by the responsible Minister as part of the process of defining a new strategy. One of the participants spelled out the key question clearly: "Do you want to maintain the current situation where a few companies dominate the sector, the state receives large tax revenues, and employment increases slowly, or do you want to create a more competitive market where tax revenues fall in the short term, but 50 small start-ups are created in the next few years?" The Minister immediately spoke up in favor of the second option and a general consensus seemed to emerge. Unfortunately, the Minister soon resigned and the strategy process stalled.

In 2016, the strategy was being finalized and the government had stated that three new internet service providers would be allowed to enter the market. But at the same time, Sonatel's license was up for renewal and the government is eager to raise additional revenues to finance its ambitious PES strategy. If the government wants to develop ICT exports, it will need to change its pro-Sonatel policy of the last 10 years and move quickly to keep up with competitors like Ghana and Kenya who have adopted concerted strategies to promote ICT.

The PES acknowledges the need to improve the regulatory framework to guarantee fair competition and market entry for new players. This would be an essential first step. It also

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Sonatel, who remain in control. Google, "Obstacles et Opportunités pour la Démocratisation de l'Internet Haut Débit au Sénégal".

[27] Ookla net index for 2014 as reported in a note on the Information and Telecommunications Sector in Senegal, World Bank, 2015.

[28] Several of the internet service providers who closed attributed their failure to unfair competition by Sonatel. Google, p. 21.

[29] Google, p. 30.

proposes the establishment of an ICT Board to strengthen the dialogue between the private and the public sectors. This too is fully endorsed by the private sector. Finally, the PES suggests the creation of a specialized business park to attract firms engaged in business process outsourcing. Such facilities have played an important role in other successful countries. A project is being developed with the AfDB to be located in the new city of Diamniadio on the outskirts of Dakar.[30] It would be a good idea to hire a private company to manage the park, and to focus on the quality of services and infrastructure, notably reliable energy supply, rather than fiscal advantages.

Conclusions

Senegal is first and foremost a services economy, and is likely to remain so. Second, it is an agricultural society, though the economic role of agriculture is small given low productivity levels and limited alternatives. Manufacturing is struggling and its most successful components derive from natural resources (phosphates, limestone for cement). Labor-intensive manufactured exports are virtually non-existent. A new experiment with Chinese participation may start to turn this around, but such trade is likely to remain small. Senegal appears destined to become a major hydrocarbons exporter, though this may take many years and will never employ more than a very modest share of the growing labor force. It will likely undermine the country's competitiveness in labor-intensive exports.

Consequently, Senegal would be well-advised to build on its established experience in services such as tourism and IT-enabled exports, and to re-orient its agriculture to high value-added products like horticulture exports. The PES clearly recognizes the need for a diversified export strategy with a strong focus on services. However, there remains a lack of solid sector-specific strategies. The new tourism strategy is weak; attention should probably be devoted to regional plans, starting with Saly-Portudal and Casamance. The IT strategy has only just been finalized. Horticulture could benefit from one. However, Senegal has a long history of strategies with weak implementation. This will need to change.

When strategies are implemented, the Senegalese government tends to put itself in the driver's seat, expecting the private sector to follow. The relationship with the private sector is often unbalanced, with a tendency to privilege certain insiders while treating others with suspicion and occasionally harassment. The government needs to find a way to listen to and support serious players while sanctioning those who opt for rent-seeking. This need not require significant investments or fiscal incentives. Much can be done by reducing delays in VAT refunds, streamlining tax payments, reducing fiscal controls on low-risk taxpayers, avoiding mistakes like the new visa system, allowing greater flexibility in the use of short-term employment contracts, facilitating access to land, promoting Senegal as a tourist destination, and liberalizing the telecommunications sector.

[30] The proposed project is called the Parc de Technologies Numériques.

Senegal will need to go beyond general improvements in the business climate, although this is important. Its high-level economic staff will need to develop a better understanding of the specific characteristics and constraints of the key sectors, and develop partnerships with private stakeholders to ensure that problems are addressed quickly and effectively. And this will require a new approach to collecting data, so that authorities know how many foreign leisure tourists actually come to Senegal, what the value of horticulture exports really is, and how many people are employed in IT-enabled services.

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