



External finance for rural development

Country case study: Senegal

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Key messages

- Agriculture and rural development are priorities for the Government of Senegal, with most of the country's poor people living in rural areas, and these sectors are embedded in the country's national development plan.
- The government's development partners also prioritise agriculture and rural development, channelling much of their assistance to programmes in the sector that are aligned to the national development strategy.
- The government knows that its access to grants and concessional loans will diminish. While it has an ambitious investment plan, there are concerns about debt sustainability.
- The government aims to maximise access to concessional finance and borrow at non-concessional terms for projects that generate economic returns. To reduce the costs, the government encourages the blending of concessional and non-concessional finance and the use of external development assistance to attract private sector investment.

Introduction

Background

Rural development worldwide relies heavily on private funding. Yet the public sector has a key role to play in providing both investment and policy support to tackle persistent market failures. These include the under-provision of public goods (such as infrastructure, and research and development), negative externalities (such as the need to adapt to and mitigate the effects of climate change), informational asymmetries (e.g. the development of rural financial services) and the lack of protection for vulnerable people through, for example, social protection.

Far more finance is needed to achieve food security and promote sustainable agriculture in line with Sustainable Development Goal (SDG) 2. The United Nations (n.d.) estimates that an additional \$267 billion per year is needed to achieve every SDG 2 target: almost twice as much as total official development assistance (ODA) each year from all donors combined. Official development finance (ODF)¹ to agriculture and rural development rose slightly from \$10.2 billion in 2015 to \$10.9 billion in 2018. This is only a fraction of the total ODF disbursements of \$254 billion in 2018. Public expenditure on agriculture development also remains low: since 2001, governments have spent, on average, less than 2% of their central budgets on agriculture (FAO, 2019).

Objectives, definitions and methodology of this country case study

This country case study summarises key findings from a country analysis of financing for rural development in Senegal. It is one of 20 analyses that is synthesised for comparison in Prizzon et al. (2020).

The case study has two main objectives:

- to map demand from the Government of Senegal over the next five to 10 years for external development assistance to support public investment in inclusive and sustainable rural development
- to analyse the financial and non-financial terms and conditions of such demand, its main preferences and the type of instruments that the government wishes to access or scale up to support public investment in rural development.

Definitions

What we mean by public investment in inclusive and sustainable rural development (see Prizzon et al., 2020, for more details): Our research has focused on six areas that contribute to such investment: access to agricultural technologies (research and development) and production services; agricultural value-chain development (e.g. crops, livestock, fisheries); climate-resilient agricultural practices; rural basic infrastructure (e.g. water and irrigation systems, local roads, local energy generation and storage facilities); rural financial services; and rural investment environment (e.g. policy, legal and regulatory frameworks).

What we mean by external assistance for inclusive and sustainable rural development: We look beyond ODA to include government-to-government funds from bilateral and multilateral donors that do not meet concessionality criteria² (usually defined as other official flows, or OOFs). We call this official development finance (ODF). As a proxy for financing rural development, we examine data on external assistance to the agriculture sector and rural development (cross-cutting) based on an Organisation for Economic Co-operation and Development (OECD) definition.

1 The sum of ODA and OOFs: the latter flow from bilateral and multilateral donors that do not meet the concessionality criterion for ODA eligibility.

2 The definition of concessionality is based on the share of the grant element. With the 2014 OECD reform, the grant element varies according to the income per capita of the ODA eligible country to be counted as ODA: at least 45% for low-income countries (LICs), 15% for lower-middle-income countries (LMICs) and 10% for upper-middle-income countries (UMICs). The International Monetary Fund (IMF) discount rate (5%) is also adjusted by income per capita group: 1% for UMICs, 2% for LMICs and 4% for LICs, including least-developed countries (LDCs).

This is not a perfect measure, but given the lack of a sectoral definition or attribution to rural development as such, it is the closest we can get to a consistent, cross-country mapping of external assistance from development partners. As a second-best option, we rely largely on quantitative and qualitative data on agricultural development. While the agriculture sector is a major component of rural development, data on agriculture alone cannot capture important non-farm activities.

Research questions

This country case study reflects our four main research areas:

- the government’s priorities for public investment in inclusive and sustainable rural development
- financing for public investment in inclusive and sustainable rural development
- borrowing (external development assistance) for this public investment
- the government’s preferences in relation to external development assistance for public investment, including its demand for specific types of instruments.

As this project took place during the early stages of the Covid-19 pandemic, we also reflect on the short- and medium-term implications of the crisis for government priorities and preferences for public investment, as well as the amount and type of external assistance demanded.

Methodology

We used a qualitative case study approach, with the analysis of individual countries informed by a political economy framework, as developed by Greenhill et al. (2013) for aid negotiations (see Prizzon et al., 2020).

Our approach comprised a critical review of relevant policy literature³ and data analysis,⁴

which also helped us to identify country stakeholders. This was followed by interviews with key informants, informed by an electronic questionnaire submitted before each interview. For Senegal, we held 12 interviews between May and June 2020, and received 12 questionnaires (see Annex 1 for a list of those interviewees who agreed to their names being shared).

Senegal: country context

Senegal was reclassified as a lower-middle-income country (LMIC) in 2018, following a rebasing of its gross domestic product (GDP) meant a 30% increase in nominal levels (IMF, 2019). Senegal was reclassified as a as a low-income country (LIC) in 2015 as a result of economic growth rates that were falling, and being outpaced by population growth. The country is only eligible for concessional assistance from the multilateral development banks.

Senegal’s annual GDP growth rate was only around 3% between 2007 and 2013, kept low by several external shocks, including the ‘exhaustion of the competitive advantage of the 1994 CFA devaluation’⁵ (World Bank, 2018: 13). To respond to this crisis, Senegal negotiated and received a policy support programme from the International Monetary Fund (IMF) from June 2015. This Policy Support Instrument (PSI) also limited financing options to concessional funding until the programme was completed in 2019 (IMF, 2019).

Senegal was recently identified as one of the 10 fastest-growing economies in the world (IFAD, 2019). Before the Covid-19 crisis, GDP growth was expected to average 7.7% per year between 2019 and 2024 following investments in infrastructure and greater industrial and agricultural production (ibid.).

The agriculture sector is a key driver for Senegal’s economy, contributing to 16.6% of the country’s GDP in 2018. The sector employs just above 30% of the entire population – 32% of

3 Government national development strategies, agricultural sectoral strategies, the debt management policy, IMF Article IV and the World Bank systematic country diagnostic.

4 Spanning IMF, OECD and World Bank sources.

5 The CFA franc (in French: franc CFA) is the name of two currencies: the West African CFA franc, used in eight West African countries, including Senegal, and the Central African CFA franc, used in six Central African countries.

the workforce in 2018 (World Bank, 2020b) – a slight fall from 35% in 2014 (ibid.).

Most people live in rural areas: 53% in 2017, based on World Bank (2020b). However, this is a smaller share of the population than in the other 19 countries reviewed for this project, with much of Senegal's population concentrated in Dakar, as pointed out by our interviewees. While poverty rates have been declining, they are more than twice as high in rural areas (57.3%) as in urban areas (26.1%) (IFAD, 2019). Food security remains a challenge, particularly for the rural population, with more than 15% of rural households, and more than 8% of urban households, being food insecure (World Bank, 2018).

Senegal remains highly vulnerable to the impact of climate change and environmental shocks (ibid.), being both a coastal and Sahel country. Senegal is classified as being one of the countries that is most vulnerable to climate change by the ND-GAIN Index, as the 139th most exposed country out of 181 countries (ND-GAIN, 2020): the higher the ranking, the more vulnerable the country is to the effects of climate change.

Government priorities for rural development

Agriculture and rural development are government priorities, and featured prominently in the first pillar of the national development plan, Plan Sénégal Émergent (PSE), 2014–2023 (GoS, 2014). The plan aimed for strong, inclusive and sustainable growth to promote the well-being of the population through the structural transformation of the economy. Its three pillars considered: structural transformation of the economy and growth (including agriculture); human capital, social protection and sustainable development; and governance, institutions, peace and security. A second action plan (2019–2023) is now being finalised.

The government acknowledges the constraints and challenges for rural development and they are highlighted in the 2014–2023 PSE, particularly the weak connection to markets, gaps in rural road infrastructure and limited access to electricity in rural areas (the plan

targets universal access to electricity in rural areas by 2025) (GoS, 2014: 110). The government aims, therefore, to integrate smallholder farmers and small- and medium-sized enterprises (SMEs) within the agriculture sector into agricultural value chains to support economic diversification and expansion to foreign markets (ibid.: 66). This prioritisation responds to the large share of the population employed in the agriculture sector and the concentration of poverty in rural areas. The PSE also includes investment in three regional integrated *agropoles* (agro-industrial processing zones), in the north, centre and south of Senegal.

To date, the operationalisation of the PSE 2014–2023 has been developed through two distinct phases of the Senegal Agriculture Acceleration Programme (Programme d'Accélération de la Cadence de l'Agriculture Sénégalaise (PRACAS)). The first phase, in 2014, aimed to improve food security, boost productivity and the production of subsistence agriculture, and support the development of value chains and exports of fruit and vegetables, including through the expansion of rural infrastructure. The second phase of PRACAS built on this, aiming for continued improvements in the production and productivity of subsistence crops, and the performance of industrial value chains for selected crops, as well as exported production and food security (IFAD, 2019).

Agriculture and rural development face several challenges, from access to finance to the development of agriculture value chains, and from natural resource management to basic rural infrastructure. These also reflect the main government priorities for agriculture and rural development.

First, a World Bank survey in 2018 identified access to financing as the main obstacle for all Senegalese enterprises, including those in agriculture. This corroborated a 2017 survey by Senegal's National Statistical and Demographic Agency, which found that between 72% and 74% of enterprises in the agriculture sector cited the need for greater financing to invest in their activities (IFAD, 2019).

Second, the major obstacles to value chain development include a shortage of storage facilities, under-developed road networks, high

transport costs and a lack of management capacity (ibid.). At the same time, demand for one of the country's major export crops – peanuts – has collapsed, heightening the urgent need for product diversification.

Third, Senegal is highly exposed to rising sea levels and coastal erosion, with three-quarters of the population living and working in coastal areas. The arid and semi-arid areas in the Sahel are prone to droughts and require improvements in the management of water resources (ibid.). And finally, access to electricity remains expensive and unreliable, with limited coverage in rural areas (World Bank, 2018).

The funding gap and the inefficient use of financial resources were cited by government and development partner interviewees in particular as the main constraints to public investment in agriculture and rural development. However, the government has strong capacity and structures in place to implement projects (even though the portfolio on rural development is scattered across five or six ministries) and take them forward, as stressed by many government and development partner interviewees.

As mentioned, one main objective of the national and sector strategies is to transform agriculture from subsistence-based to commercial and agribusiness, to become a vibrant and dynamic sector. The Government of Senegal (Direction Sécurité Sociale) manages a country-wide Registre National Unique (RNU) that maps vulnerable households across the country. Senegal's youth are a particular target group for the government's rural development policies, to address high rates of youth unemployment. This is also reflected in the government policy to develop agriculture value chains across the country that are inclusive for women and youth (e.g. the flagship project on regional agropoles).

The Covid-19 crisis is expected to reinforce the importance of agriculture and rural development. While the crisis was still unfolding at the time of writing, many government officials and donor interviewees stressed that investment in agricultural development will increase as a result of the response to the recession triggered by the Covid-19 pandemic. For example, there needs to be some re-organisation of value chains to ensure their hygiene throughout and to help

products reach markets despite travel restrictions. Boosting agriculture production in response to the crisis will help to improve food security and self-sufficiency (around half of the food consumed in Senegal is imported, according to our interviewees) and will be part of the overall plan to support Senegal's economic recovery.

Financing rural development

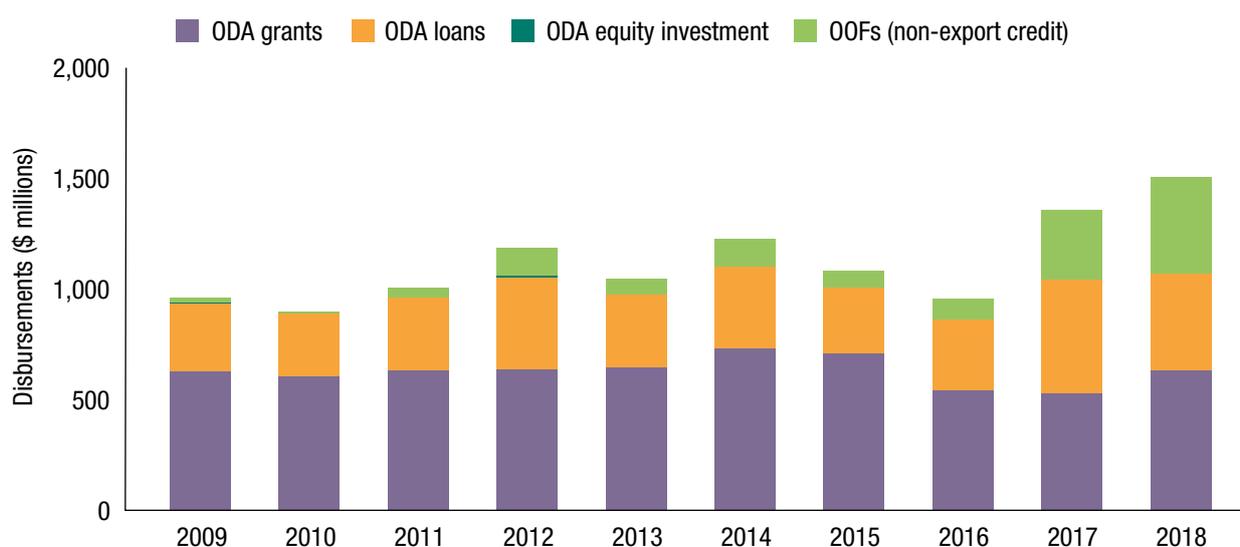
Public finance

Tax revenues and government expenditure have been stable over the past five years for which data are available, and have exceeded the regional averages. Tax revenues, for example, were slightly higher than the convergence criterion tax revenues of 20% of GDP for the West African Economic and Monetary Union (WAEMU) between 2014 and 2018. This was greater than average for sub-Saharan Africa and was the result of a series of revenue reforms (IMF, 2019).

According to figures from the Food and Agriculture Organization (FAO), the share of the government budget allocated to agriculture and rural development between 2010 and 2015 far exceeded the 10% target of the Malabo commitment, reaching a peak of close to 30% of the government budget in 2015. FAO sees a clear evolution of public spending and development assistance to support the sector, which has been growing since the early 2010s (Hummel and Mas Aparisi, 2016). Several of our interviewees, however, argued that the vast majority of the budget goes to infrastructure development, rather than to agriculture development itself, and that the budget for agriculture development is not necessarily ring-fenced, with low capacity for project execution.

There is an expectation that private sector participation in the sector will increase, but not necessarily public finance. The government policy aims to improve the investment environment (e.g. regulatory frameworks, basic infrastructure) to boost private sector participation in agriculture development. With so many other priorities on the government's list, the expectation that emerged from several of our interviews is that public funding should aim to attract investment from the private sector in agriculture and rural development.

Figure 1 Official development finance to Senegal across all sectors



Note: constant 2017 prices. ODA, official development assistance; OOF, other official flow.

Source: OECD (2020)

External development assistance

ODF to Senegal has risen across sectors, but mainly as ODA loans and other official flows, with grants starting to fall in absolute terms. Senegal's classification as an LMIC means that it is still eligible for concessional finance from the African Development Fund (ADF) and from the International Development Association (IDA).

Figure 1 shows that volumes of ODF have increased steadily over the past 10 years and did not slow down when Senegal was reclassified as an LMIC in 2015 (on the back of a very successful donor pledging conference in 2019 to support the implementation of the PSE). However, the composition of ODF has shifted away from grant financing towards ODA loans and other concessional flows, which have contributed to more than 50% of total development finance since 2017. This rise is the result, in large part, of flows from the Islamic Development Bank (IsDB) and the African Development Bank (ADB) for loans classified as OOFs, and from Turkey, Germany and the World Bank for concessional loans.

This marked shift is part of a diversification strategy that aims to move Senegal away from

more traditional donors to include partners like China, India, Korea and Turkey.⁶

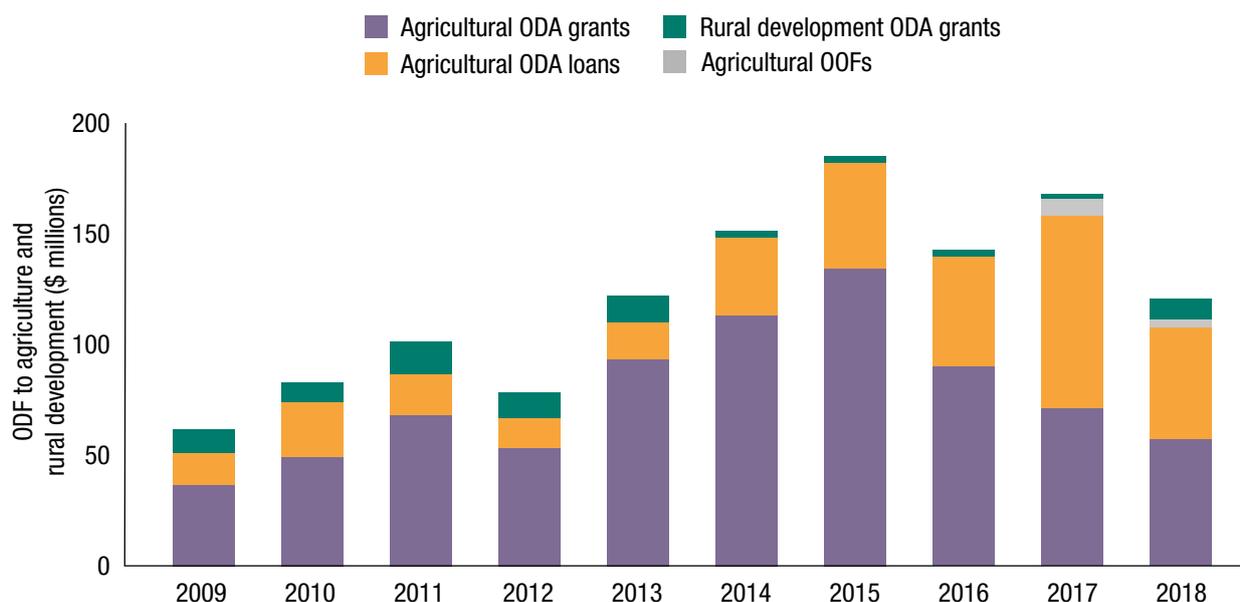
While Senegal is not an aid-dependent country, a quarter of government expenses in 2015 were covered by ODA (and even more in the agriculture sector). Aid dependency has been falling slowly over time, from 5.7% of ODA to gross national income (GNI) in 2014 to 4% in 2016.

The prioritisation of rural and agriculture development is reflected in the share of ODF to the sector, which has increased in volume since 2009 (with the exception of a fall in 2018) and continued to grow even when total ODF flows declined in the mid-2010s. ODF to the agriculture sector accounted for up to 20% of ODF, (Figure 2) e.g. in 2015: far above the average for the 20 countries reviewed for this study.

This reflects the prioritisation for the sector that the government imposes on development partners, as well as the alignment of development programmes to national priorities. It is also worth noting that the vast majority of flows go to agriculture, rather than to rural development, as stressed by many of the government officials and development partners interviewed for this case study.

⁶ Figures from China and India are not covered in this country case study as they do not report their development cooperation flows to the OECD's Development Assistance Committee.

Figure 2 Official development finance to the agriculture and rural development sectors



Note: constant 2017 prices. ODA, official development assistance; ODF, official development finance; OOF, other official flow. Source: OECD (2020)

The changing composition of ODF to agriculture and rural development from grants to ODA loans (but not yet non-concessional loans) reflects the main trends across many sectors in Senegal. In 2017 and 2018, the vast majority of financing from development partners came in the form of ODA loans, rather than grants, a shift that our interviewees attributed to the government’s realisation that grant financing is limited and that access to concessional finance is likely to fall over time. The proportion of OOFs in agriculture and rural development is, however, marginal, and far lower than the share across sectors.

The government applies an implicit division of labour across development partners in the sector, with bilateral donors focusing mainly on grants for technical assistance and project preparation. The next chapter will outline the factors that motivate more concessional loans for agriculture and rural development (rather than non-concessional) compared with the overall allocation across sectors.

In short, demand for external development assistance for agriculture and rural development is expected to grow. It emerged from our interviews that the government aims to increase this demand to support, in particular, vegetable

production, environment protection and value chain development. These are seen as part of the prioritisation of the agriculture sector in the recovery from the Covid-19 crisis, and as vital to improve food security and enhance agriculture value chains.

There were mixed views among our interviewees and survey respondents on the value added of external development assistance across government officials and development partners. Additional financial support and technical support are both rated as important, but neither was prioritised consistently by all of our interviewees, with even less prioritisation for policy advice and peer learning. Interviewees from the government and development partners did, however, place a high value on development assistance in supporting capacity-building for project implementation, rather than at the policy or strategy level.

Borrowing for rural development

Debt trends and composition

Senegal is classified as being at low risk of debt distress, but there are concerns about future debt sustainability. The risk of debt distress for Senegal is still seen as low, meaning that

resources from international financial institutions (IFIs) come entirely in the form of loan financing. But the dynamics of Senegal's debt need close monitoring (IMF, 2019) and the prioritisation of concessional financing.

While the country was resilient to shocks before the Covid-19 crisis, external debt has been rising rapidly, from 20% of GNI in 2010 to more than 50% of GNI in 2018 (with interest rates nearly doubling as a share of GDP). High levels of public debt service, projected to reach 40.9% of revenue in 2018, reflect the country's greater recourse to non-concessional borrowing and the partial re-purchase of the 2011 Eurobond (ibid.).

We also understand from our interviewees that the debt-to-GDP ratio is very close to the one imposed by the WAEMU; the legacy of the IMF PSI was for borrowing at concessional terms only, and only within the region. At the time of our first interviews for this project (May 2020), the government's main focus was not on new borrowing but on negotiating the debt moratorium (better known as debt service suspension initiative (DSSI)). Senegal is a potential beneficiary and was one of the first eligible countries to apply for this moratorium.

Policies and preferences or borrowing and debt management

The main reference document for debt management in Senegal is the 2018–2020 medium-term strategy (GoS, 2017). This articulates the priorities and criteria for borrowing and the following are particularly relevant for our study:

- achieve the lowest possible financing cost
- expand domestic markets for public bonds
- improve the mix of concessional, semi-concessional and non-concessional loans to improve risk management – with external debt held to a maximum of 65% of GDP and the maximisation of concessional finance at a fixed rate and denominated in Euro to keep interest rates low and reduce exchange rate risks
- non-concessional loans to be considered only for projects with high social and economic returns and to fill the gaps left by limited concessional finance. The government is quite clear that resources from concessional

donors are expected to fall, and is open to borrowing at semi-concessional terms from new partners, international capital markets and the multilateral development banks

- eurobond issuances and, more generally, borrowing on commercial terms, will be considered if financing terms are favourable and if it is not possible to obtain concessional financing from development partners, particularly the ADB and World Bank (IMF, 2019).

There are, however, other criteria that matter. Our interviewees reported that the government also prioritises criteria beyond those that are explicit in its debt management strategy, when projects can generate demonstration effects to attract private-sector investment or when they generate enough revenue to repay the loan. These criteria include an evaluation not only of the impact on the overall economy, but also the impact on the poorest people as part of the overall assessment.

In sum, the government applies a strategic approach to borrowing, and this includes borrowing at non-concessional terms. This strategic approach was cited during many of our interviews with government officials. We understand that cheaper concessional loans are maximised, but that the government is open to borrowing at less favourable terms from, for example, the IsDB and the OPEC Fund for International Development (OFID), particularly for high-value projects or projects that can generate high returns.

In sharp contrast, borrowing for agriculture and rural development is neither considered nor prioritised, particularly at non-concessional terms. Interviewees argued that this approach is justified by a different set of motivations. First, rural development is considered a social sector, and there is, therefore, a strong preference for its support through grants or highly concessional loans.

Second, our interviewees noted that investment tends to be concentrated in the western region, which is less rural and more affluent. Third, the agriculture and rural development portfolio is highly fragmented across the government, with a lack of coordination between the different

Ministries. This is also reflected in the lack of a longer-term implementation plan for agriculture across the government, which would help to focus public investment and donor support.

Other interviewees pointed out that the government is open to loans to support social sectors (including agriculture and rural development) but only if these are able – and mean to – attract private investors. This is the case, for example, in support to the creation of the three regional *agropoles* (which feature a mix of concessional and non-concessional finance according to our interviewees). Finally, concerns about the sustainability of external debt mean that a more conservative policy on borrowing has emerged, with a preference for concessional loans because they are largely provided by development partners.

Against this backdrop, many interviewees across government officials and development partners stressed that blended finance solutions have been applied for several projects in the agriculture and rural development sectors. These have matched concessional and non-concessional resources across development partners to reduce the overall cost of financing.

Interest rates and maturity were seen by our interviewees as the most prized aspects in the negotiations of new loans. This was not surprising, given that the government aims to reduce the current and overall costs of the loan and minimise the growing risk of debt distress – an approach that is in line with the overall debt strategy.

Preferences and instruments for rural development

At the time of writing, the government did not have an updated aid strategy. This would only be finalised towards the end of 2020 and could not, therefore, be included in this case study. However, our interviewees and survey respondents felt that the main government priorities for projects by development partners were, in order of importance, alignment to government priorities (so alignment with PSE and its programme action plan), the ability of projects to mobilise private sector resources (reflecting the government's strategy to boost private sector intervention), and a preference for

the use of budget support and country systems to increase flexibility and ownership, as well as sustainability and long-term planning.

Our interviewees did not discuss specific instruments in as much depth as the other areas. When prompted, they cited a series of instruments – not necessarily covered in this country case study – that related mainly to: project preparation facilities (which few development partners support); regional projects (which are particularly relevant for Senegal as a regional hub and a member of a monetary union); instruments that allow space for long-term engagement and results (multi-phase and results-based lending); and flexibility in the use of country systems (policy-based lending). Little mention was made of the other instruments suggested, such as weather-based insurance instruments, the Catastrophe Deferred Drawdown Option (CAT-DDO), reimbursable technical assistance or guarantees (with the latter mentioned only by one interviewee as a way to unlock private investment).

Conclusions

Our analysis of the experience and perspective of Senegal on financing public investment for inclusive and sustainable rural development, and particularly its demand for external assistance, is summarised as follows.

- Agriculture and rural development are high on the list of priorities for the Government of Senegal, and are prioritised for public investment as drivers of the country's structural transformation. These sectors are embedded in the national development plan as most of Senegal's poorest people are concentrated in rural areas. The priorities for rural development include basic rural infrastructure (particularly rural electrification), access to finance (a major concern for rural areas) and the development of agriculture value chains beyond traditional crops and to support self-sufficiency as a response to the crisis prompted by the Covid-19 pandemic.
- Development partners also prioritise investment in agriculture and rural

development and channel a large share of their external assistance to programmes in these sectors that are well aligned to the implementation plan for the national development strategy. However, the government also has ambitions to attract more private-sector investment to the sector to reduce the pressure on the government budget.

- The government is well aware that access to grants and concessional loans will diminish over time. While it has an ambitious investment plan, there are growing concerns about future debt sustainability.

- The government is keen to maximise access to concessional finance, and to borrow at non-concessional terms for projects that generate economic returns and revenue streams (which do not necessarily include projects in agriculture and rural development). To reduce the cost of borrowing, the government encourages the blending of concessional and non-concessional finance between development partners, and the use of external development assistance to demonstrate impact as a way to attract private sector investment.

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Annex 1 List of interviewees

Name	Institution
Nicolas Ahouissoussi	World Bank
Mamour Ousmane Ba	Ministry of the Economy, Planning and Cooperation
Seynabou Diallo	USAID
Al Hassan Diop	Ministry of Environment
Mamadou Lamine Diouf	Ministère de l'Agriculture et de l'Équipement Rural
Hatem Fellah	African Development Bank (ADB)
Ibrahima Hathie	Initiative prospective agricole et rurale (IPAR)
Souleymane Kebe	Islamic Development Bank (IsDB)
Maguette Ndiaye	Ministère des Finances et des Budget
Ibrahima Niane	Agence Française de Développement (AFD)
Aminata Samb	Ministry of Environment
Benoit Thierry	International Fund for Agricultural Development (IFAD)

Acknowledgements

This country case study on Senegal is part of a project that aims to map future demand from recipient country governments for external development assistance from official donors to support public investment in inclusive and sustainable rural development over the next five to 10 years. It also aims to explore the financial and non-financial terms and conditions of this assistance. Its analysis is also included in the synthesis report for this project (Prizzon et al., 2020), which reviews the experiences of 20 low- and middle-income countries.

We are grateful to the interviewees who gave up their time to take part in this project, share their insights and provide feedback to this country case study, particularly during the challenging times of spring 2020. Their contributions were vital to corroborate and challenge our initial analysis.

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