



Analysis of the business environment in Least Developed Countries

Senegal

March 2023



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Senegal

Region

West Africa - West African Economic and Monetary Union (WAEMU)

Population

15,854,360

Demographic growth

3.06%

GDP per capita (2020)

1,487.8 USD

Human Development Index:

0.512 (168/189)

Economic overview

A relatively politically stable country, Senegal's government has embarked on infrastructure development in many areas, specifically in the digitalisation of the economy with the development of start-ups in the private sector and the production of solar energy throughout the country, mainly in the Thies region, whose consumption is primarily destined for the capital, Dakar.



However, the low level of human-capital education/training is still an obstacle to innovation, particularly to the development of a sustainable and competitive private sector in Senegal. Senegal is classified as a country with low human development. Despite the political will of the country's leaders, much remains to be done to develop a sustainable, dynamic and competitive private sector in Senegal. Challenges related to debt collection, taxation, difficult access to land and building permits, cross-border trade and contract enforcement are the most cited constraints¹ to improving the business climate in Senegal.

The findings of an International Labour Office study in Senegal in the context of the COVID-19 health crisis show a 16 per cent drop in exports and an 18 per cent drop in imports, which has impacted on economic growth. The most affected sectors are services, particularly accommodation and catering, with a loss of 96 billion in turnover, trade, with a loss of 50 billion, and transport, with losses of 34.3 billion for air transport and 24.3 billion for land transport. The study highlights that the adverse effects of

COVID-19 are more virulent among workers and businesses in the informal sector due to the lack of social protection.

In response to this COVID-19 pandemic, and in order to save as many jobs as possible and revitalise the Senegalese labour market, the government, via the 'Macroeconomic and financial stability to support the private sector and maintain jobs' component of its Resilience Plan, has adopted a number of measures, namely (i) partial remission of tax debt; (ii) suspension of VAT collection deadlines, remission/suspension of tax, for businesses that agree to maintain employment or pay at least 70 per cent of salaries; (iii) clearance of domestic debt; (iv) deferral of tax payments.

Challenges faced by the private sector

According to the Integrated Regional Survey on Employment and the Informal Sector (ERI-ESI) carried out in 2018, there are 1,689,613 informal

¹ Survey of business leaders on the economic situation, carried out by the Department of Forecasting and Economic Studies (DPEE), based in Dakar

production units (IPUs) in Senegal. In addition to the issues mentioned above, the main challenges to improving the business climate in Senegal include:

- **Low level of human-capital education/training** - Senegal ranks 168th out of 189 countries on the Human Development Index. In addition, the proportion of primary school age children not in the education system is high (45.4 per cent) in Senegal compared to the WAEMU regional average (38.9 per cent). The adjusted net enrolment rate at primary level is 54.5 per cent. This rate is even lower at secondary level (26.8 per cent).
- **Widespread informality** - Here, as in the majority of West African countries, the informal economy is widespread and estimated at 96.4 per cent of total employment, compared to only 3.6 per cent in the formal sector. This indicates that, despite the increase in growth since the 2000s, which has led to an improvement in household living standards, there are still social inequalities fuelling the continuation of the informal economy.
- **A still weak manufacturing sector** - The manufacturing sector employs only 11.9 per cent of the workforce in Senegal, despite the fact that the country is heavily dependent on exports.
- **Informality is more prevalent in key sectors of the economy** - The three main non-agricultural sectors with a high concentration of IPUs are trade (56.1 per cent), industry (26.4 per cent), and services (17.5 per cent). However, the average number of years of education completed by the IPU workforce is estimated at 2.7 years. This is low, as in the majority of countries in the WAEMU region.
- **A low level of absorption of out-of-school youth in technical and vocational training** - Indeed, 40.6 per cent of young people aged 15-24 are neither in the education system nor in employment.
- **A private sector that still falls short of expectations in achieving full employment** - The average duration of unemployment is

estimated at 5.5 years. It remains higher for first-time jobseekers (6.5 years) than for older workers (3.6 years). However, there is a good wage policy in Senegal despite the presence of wage inequalities between men and women. At the national level, the rate of wages below the minimum wage is estimated at 3.8 per cent, compared to the average for the WAEMU region of 31.2 per cent. The rate of wages below the minimum wage is 0.4 per cent for men but 8 per cent for women.

- **A weak private sector due to insufficient awareness among IPU heads of the importance of transitioning their businesses from informal to formal status** - 47.8 per cent of IPU heads are not aware of the benefits of formalising their businesses, compared to 31.7 per cent who are reluctant to formalise. As a result, only 13.9 per cent of IPUs pay taxes on their activities. On the other hand, 20.9 per cent of IPUs say they are ready to pay taxes on their activities if the business climate improves, particularly in terms of barriers related to taxation and corruption.
- **Corruption is nevertheless high despite the government's efforts** - According to Transparency International's 2020 report, Senegal ranks 67th out of 180 countries. This is evidence of the government's political will to improve the business climate, in particular to develop the private sector and attract more national and international investment.

Private sector policy recommendations

The recommendations apply to the following areas:

1. Developing human capital

Specific objectives include:

- Improving the supply of public services (education, health and social protection);
- Ensuring a match between training/education received and the needs of the labour market in technical and vocational education, general secondary education and universities;

- Promoting development-oriented research in technical and vocational schools, general secondary schools and universities in order to unleash the innovation potential of young people and improve the competitiveness of the private sector globally;
- Priority training for public sector managers;
- Mandatory internships for students to immerse them in the world of business.

2. Improving the labour market

Specific objectives include:

- Increasing the number of jobs through access to new investments at national level;
- Promoting the application, via the Ministry of Social Affairs and Labour, of a legal framework for workers/employees on working conditions and a minimum wage;
- Implementing sectoral strategies aimed at facilitating access to health coverage for the population, particularly for workers in the formal sector, which may also encourage informal businesses to formalise;
- Promoting flexible working hours for workers;
- Improving employment frameworks, policies and conditions;
- Improving wages and paying compensation for work stoppages due to the occurrence of happy occasions (e.g. births) and unhappy events (illnesses, accidents, etc.) in workers' lives.

3. Fighting informality

Specific objectives include:

- Establishing a national policy to transition informal production units (IPUs) to the formal sector;
- Establishing incentives and deterrents;

- Sharing and exchanging regional experiences;
- Developing a strong and effective institutional legislative framework;
- Annually implementing structural reforms and sectoral strategies aimed at facilitating the business climate and improving the life of entrepreneurs; in particular in terms of taxation, building permits and business creation;
- Developing guarantee instruments to promote access to credit for young people and women, especially those with economically viable income- and employment-generating projects;
- Reducing costs and delays in obtaining building permits;
- Reducing electricity connection fees;
- Eliminating mandatory minimum fees for business start-ups;
- Eliminating mandatory fees for authenticating documents and shortening the registration period for business start-ups;
- Improving access to credit information, e.g. by extending the coverage of public credit services and by starting to report data from public utilities;
- Developing a national directory of formal sector companies;
- Annually assessing the registration rate of new companies and considering the needs of unregistered companies in order to better channel and adapt sectoral strategies to facilitate their transition to the formal sector;
- Establishing and modernising an electronic system for creating and registering businesses at national level;
- Creating a level playing field for businesses to facilitate their formalisation.

4. Supporting and strengthening public-private dialogue

Specific objectives include:

- Including public-private dialogue in sectoral development plans and strategies;
- Promoting forums for dialogue between the key actors of the economy (companies, investors and public authorities);
- Revitalising the Presidential Investment Council by holding an annual session at least once every two years;
- Actually considering the needs of private sector partners in sectoral development strategies;
- Strengthening state support for business governance in terms of technical and financial support to enable them to move from the informal to the formal sector or to move towards other markets;
- Constantly coming up with reforms to improve the business climate;
- Ensuring independent and accountable social partners;
- Capacity building for social partners;
- Establishing a communication plan to reduce communication gaps between the private and public sectors.

5. Supporting young investors and women, developing entrepreneurship and fighting against informality

Specific objectives include:

- Promoting an entrepreneurial culture in society as a whole, particularly in technical and vocational training institutions, on audiovisual platforms (TV and radio) and national online social networks, in adult education centres and in universities;

- Creating training and apprenticeship centres for self-employment for out-of-school youth;
- Initiating a state-level dialogue with banking institutions to improve the possibilities of improving/strengthening access to credit or investment for young/new entrepreneurs (project sponsors);
- Focusing policy on formal job creation;
- Establishing a genuine institutional partnership between the state, the private sector and representatives of local authorities to support and promote the creation of income-generating jobs in rural areas and encourage the development of agri-food cooperatives;
- Promoting the decentralisation and efficiency of local government bodies to facilitate municipal authority access to national and regional financial flows to support entrepreneurship among women and young people in rural areas and to better channel the needs of women and young people for the development of their commercial, agro-pastoral and craft activities in rural areas in particular;
- Organising awareness-raising and education campaigns for informal sector entrepreneurs on the benefits of formalisation and developing incentives to encourage the formalisation of businesses;
- Considering the needs of informal sector operators in strategies for combating informality by the central government in order to better encourage their transition from the informal to the formal sector;
- Organising ongoing training and education sessions on creating and formalising businesses in rural and urban areas;
- Promoting access to digital technology for young people and women in rural areas by creating free digital training centres within local authorities;
- Promoting women's access to land in particular and favouring a reorganisation of the land register;

- Promoting the establishment of national savings in the various countries to finance income- and employment-generating projects, especially for young people and women.

6. Cross-border trade

Specific objectives include:

- Promoting the development of intra-African trade by removing customs barriers;
- Improving national and regional infrastructure, such as developing roads, pedestrian walkways, lighting and utility poles, access to the digital network, and building structures to house markets at borders;
- Modernising and deploying one-stop shops;
- Guaranteeing a secure and stable climate at national level, particularly in terms of customs services to facilitate the free movement of people and goods (rule of law); this would also improve entrepreneurship by women, particularly the creation of income-generating activities (trade) carried out most often by small traders (women) at the borders;
- Guaranteeing follow-up for the supply and distribution of petroleum products;
- Deploying national, regional and international sectoral strategies to ensure exchange rate predictability;
- Implementing sectoral strategies to develop the resilience of the economy, particularly of businesses, to cope with various shocks;
- Reducing export and import delays;
- Setting up and modernising an electronic payment system for port fees at national level;
- Going paperless in customs formalities and extending the opening hours of ports;
- Increasing the size of inter-African markets and diversifying production in order to expand markets and improve the competitiveness of the formal private sector globally;
- Promoting good governance and responsible business conduct and fair competition in markets in order to improve the global competitiveness of the formal private sector;
- Establishing simplified trade arrangements (exemption from customs duties) and simplifying customs clearance formalities for small-scale transactions, usually carried out by small traders, especially women;
- Enhancing regional integration, in particular economic cooperation between the different regional economic communities to remove persistent barriers to intra-regional trade;
- Strengthening the fight against smuggling at borders and ports;
- Establishing and developing regional power pools to reduce electricity connection costs and link markets to resources;
- Establishing mutually beneficial trade agreements to attract more investors; boosting intra-regional trade through digital technology;
- Diversifying the energy market with a focus on promoting solar panels to improve the competitiveness and productivity of businesses and also to reduce the costs of connecting to the power grid;
- Expanding the telecommunications market, especially the digital market, to improve access to the electronic network for businesses and enable them to increase their competitiveness in the global market;
- Establishing effective cyber security and cyber defence strategies at regional level;
- Strengthening the African Continental Free Trade Area (AfCFTA).

This publication was produced with the financial support of the European Union. Its contents are the sole responsibility of the International Organisation of Employers (IOE) and do not necessarily reflect the views of the European Union.



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