

PROMOTING ECONOMIC DEVELOPMENT
AND EMPLOYMENT GENERATION
THROUGH DECENTRALIZATION
IN SENEGAL

EXECUTIVE SUMMARY

Submitted to:

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Submitted by:

Research Triangle Institute
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EXECUTIVE SUMMARY

Although the government of the Republic of Senegal (GOS) now has a highly centralized administrative system, it has enacted a number of laws since the early 1970s to decentralize administrative and fiscal responsibilities to local governments, and to regionalize some of the operations of central government ministries.

Senegal faces serious challenges in diversifying its agricultural economy and in strengthening the private sector's capacity to expand manufacturing and services. It must cope with rapid urbanization and the concentration of population and production activities in the Dakar metropolitan area, and expand employment for a rapidly growing labor force.

As the GOS attempts to recover from national economic problems and to stimulate economic growth in a more geographically dispersed pattern during the 1990s, its ability to implement decentralization policies will become more important.

Decentralization will be necessary to enable local governments to provide services, infrastructure and administrative functions that create a conducive environment for private investment and employment expansion, especially in secondary cities and market towns in areas outside of the Dakar Metropolitan Area. Deconcentration of central government operations will be crucial to facilitating private investment at the local level and in creating an administrative and legal environment that encourages rather than stifles private enterprise and investment.

The Challenges of Economic Development in Senegal

Senegal is in the midst of an extensive structural adjustment program to recover from a long period of economic stagnation. The need to stimulate economic growth, raise production and productivity, and increase incomes is paramount if the country is to tackle the serious economic and social problems that lie ahead. Four major issues must be addressed by the GOS and by USAID in the 1990s. These include: 1) stimulating economic growth and raising productivity; 2) expanding employment; 3) coping with rapid urbanization and the spatial distribution of population and economic activities; and 4) improving the quality of life for the Senegalese people.

As the USAID's current Country Development Strategy Statement points out, Senegal's poor record of economic performance requires the USAID Mission to formulate "a very simple, pragmatic and measurable goal, namely, a positive per capita rate of increase in Gross Domestic Product." Both the GOS and USAID/Senegal place

high priority on economic growth by raising per capita gross domestic product, expanding employment opportunities, and raising the incomes of the Senegalese people.

Expanding employment opportunities will be crucial because over the next 35 years the size of the labor force in Senegal will double from a little more than 3 million to slightly more than 7 million. The growth in the size of the labor force in manufacturing and service occupations is expected to be substantially higher than that in agriculture. The number of economically active population in nonagricultural activities is projected to increase from about 687,000 in 1990 to 2.1 million over a 35 year period. (See Table 1).

Despite the declining percentage of the economically active population in agricultural occupations, and the slower growth rate of the agricultural sector, the size of the agricultural labor force will double over the next 35 years.

Substantial changes will also occur over the next two decades in the location of Senegal's population. Urban population growth has been, and will continue to be, very high. (See Table 2). It is projected to increase to 4.2 percent a year during the first half of the 1990s, and to 4.6 percent annually during the early years of the next century. By the year 2025, just 35 years hence, more than 60 percent of the population in Senegal will be urban dwellers. The number of people living in urban areas will nearly triple in size over the next 35 years from a little less than 3 million in 1990 to more than 11 million in 2025.

Senegal is also experiencing an increasing concentration of population and economic activities in the Western one-quarter of the country, in and around Metropolitan Dakar and in the Cap Vert Region. This increased concentration has occurred despite the fact that the municipality of Dakar itself has had a relatively low growth rate over the past 12 years. Moreover, the fastest growing secondary cities and towns in Senegal are within a 150 kilometer distance from Dakar.

The GOS faces the prospect of either investing in the services and infrastructure necessary to support modern economic activities in secondary cities and towns, or accommodating in Dakar and the Cap Vert region a steady stream of migrants in search of employment.

The 1988 population census indicates that despite their relative disadvantages compared to Dakar, many secondary cities and small towns in regions outside of the Dakar Metropolitan Area are growing. The urban populations of Ziguinchor, Kolda, Velingara, Richard Toll and Tambacounda, among others, grew at a higher rate than the national average. Each of these secondary cities and towns supports nonagricultural economic activities and has important economic linkages with surrounding rural areas.

Table 1
GROWTH OF ECONOMICALLY ACTIVE POPULATION IN SENEGAL
1960-2025

	Economically Active Population (000s)	Economically Active Population In Agri- culture	In Non- Agriculture	Percent of Econ- omically Active Population in Agriculture
1960	1,472	1,234	238	83.8
1970	1,911	1,580	331	82.7
1980	2,641	2,128	513	80.6
1990	3,192	2,505	687	78.5
2000	3,929	2,993	936	76.1
2010	4,946	3,648	1,298	73.7
2020	6,308	4,494	1,814	71.2
2025	7,142	4,997	2,145	69.9

Source: United Nations (1988).

Table 2
PROJECTED URBAN POPULATION GROWTH IN SENEGAL
1960-2025

	Population in Urban Areas (000s)	Percent Population in Urban Areas
1960	971	31.9
1970	1,340	33.4
1980	1,982	34.9
1990	2,834	38.4
2000	4,345	44.5
2010	6,705	52.2
2020	9,653	59.3
2025	11,188	62.6

Source: United Nations (1988).

Those growing secondary cities and towns represent an opportunity to stimulate economic growth and employment in areas outside of the Dakar metropolitan area. If the government can identify the factors accounting for their growth and reinforce their expansion, secondary cities and towns with growth potential can serve as important "staging areas" for a more geographically widespread pattern of economic development in the future.

Finally, quality of life indicators in Senegal remain rather low. Senegal has a relatively high rate of population growth. Low levels of health and education in Senegal seriously reduce the productivity of labor. Without a healthy, educated and productive labor force, Senegal has little hope of emerging from economic stagnation.

Adverse Effects of Centralization

Both GOS officials and those of international assistance organizations recognize that the high degree of centralization in the government and its strong intervention in the national economy have created problems in promoting economic growth. The public sector's dominant role in the economy has been a bottleneck to progress.

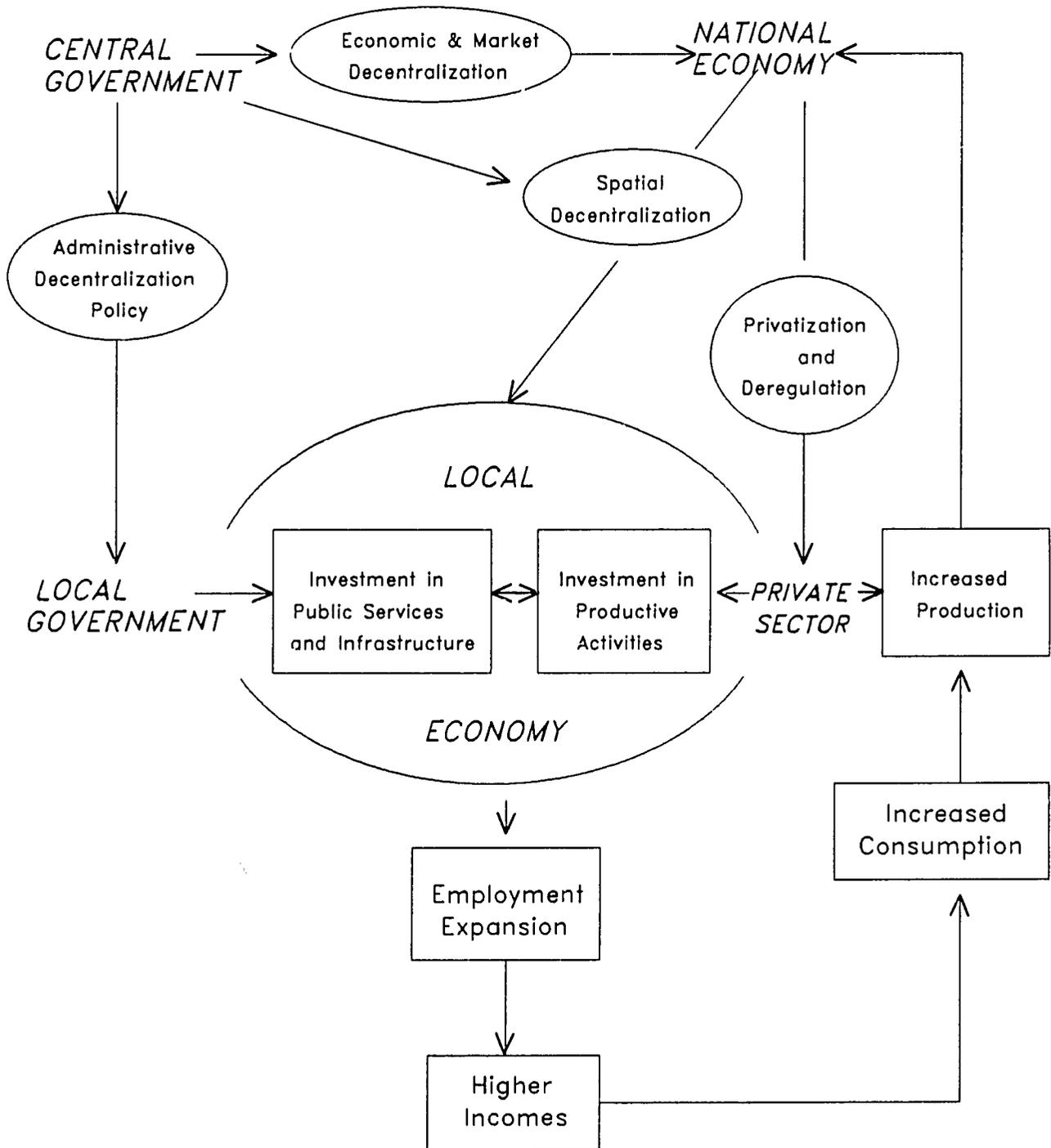
The public sector accounts for about half of modern sector employment in the country, and the high public wage bill absorbs about half of national budget expenditures. Assessments of government structure by international assistance organizations generally conclude that the civil service is overstuffed, underproductive, and poorly motivated.

Policy making and program implementation in Senegal is highly centralized and compartmentalized government structure are slow and, often, ineffective. Much of the authority to take action--on both major policy issues and seemingly routine personnel actions--is centralized in the Presidency. The President of the Republic, as head of state in Senegal's parliamentary system is responsible not only for policy guidance and direction, but also for the approval, appointment, promotion, reclassification and retirement of all civil servants down to the level of department director. Each year, the President must sign thousands of authorizations for administrative actions that in most governments are delegated to lower level officials. The President can amend or discard any regulation or procedure. As a result, conflicts over or recommendations for changes in routine administrative processes often are resolved only by actions in the Presidency.

At the same time, the government structure is also highly compartmentalized. It is composed of many ministries, agencies, departments, bureaus, commissions and institutes that operate with little coordination and cooperation. The ability of ministries and agencies to take action expeditiously is hindered further by a pervasive and

Figure 1

DECENTRALIZATION AND ECONOMIC DEVELOPMENT STRATEGY



hierarchical system of controls. In the tradition of French public law, the government is a vast network of units charged with regulation, verification, auditing and supervision. These controls apply both prior to and after the completion of administrative activities. Each control function is carried out by a separate organizational unit to achieve a tightly woven web of monitoring and supervision.

The combination of extreme centralization, compartmentalization and control has led to stagnation or even paralysis in carrying out government functions and in making decisions, unless the highest executive officials take a personal interest in expediting action.

Pervasive regulation of private organizations and land ownership, a large network of public corporations and enterprises that operate much like the government bureaucracy, and strong State intervention in labor and commodity markets make expansion of productive activities difficult. The World Bank reports that "the strict control by the Department of Labor over hiring and layoffs, as well as the legal guarantee of virtually permanent jobs for most industrial workers, have severely constrained the efficient functioning of the modern-sector labor market." Although some changes are now being made in labor laws, the adverse effects of strong central government control are still being felt in the economy.

Increasing recognition both within and outside of Senegal of the economic and social costs of a highly centralized government structure and of a highly regulated economy has brought increasing interest in improving the implementation of decentralization policies.

Framework for Assessing Decentralization

This report examines the contribution that decentralization can make to economic development and employment expansion. It focuses especially on ways of expanding production and employment opportunities in cities and towns outside of the Dakar Metropolitan area so that the incomes and living conditions of the Senegalese population can be raised in all regions of the country. Decentralization can be instrumental in allowing the public sector to create and maintain conditions that are conducive to private sector investment and production which, in turn, can lead to economic growth and employment generation.

Any assessment of decentralization policies must recognize that decentralization is not an end in itself. Decentralization should be used as an instrument for attaining other objectives. Attempts to determine the effectiveness of decentralization must refer to the broader economic, political and social goals that decentralization can achieve. USAID/Senegal's objective has been to "participate in a cooperative effort

with the GOS and other donors to restructure the Senegalese economy and lay the groundwork for positive growth."

Both GOS officials and those of international assistance organizations recognize that the high degree of centralization in the government and its strong intervention in the national economy have created problems in promoting economic growth. The public sector's dominant role in the economy has been a bottleneck to progress.

The public sector accounts for about half of Senegal's modern sector employment and the public wage bill absorbs about half of national budget expenditures. Assessments of government structure by international assistance organizations generally conclude that the civil service is overstaffed, underproductive, and poorly motivated. Policy making and program implementation in the highly centralized and compartmentalized government structure are slow and, often, ineffective. The ability of ministries and agencies to take action expeditiously is hindered further by a pervasive and hierarchical system of controls. The combination of extreme centralization, compartmentalization and control has led to stagnation or even paralysis in making decisions and carrying out government functions.

Pervasive regulation of private organizations and land ownership, a large network of public corporations and enterprises that operate much like the government bureaucracy, and strong State intervention in labor and commodity markets make expansion of productive activities difficult.

Ultimately economic growth depends on raising agricultural output and on stimulating private investment in cities and towns throughout the country. But local economic development depends on a healthy national economy and on national economic policies that encourage private sector investment. Widespread economic development also requires local governments to provide the social services and physical infrastructure in small towns and secondary cities that allow private enterprise to operate efficiently. Local economic development depends on creating stronger economic and physical linkages between towns and cities as markets for agricultural goods, distribution points for rural products, and supply points for the agricultural inputs needed for rural development.

In order for Senegal to achieve higher levels of economic growth in the future, the government must create an environment that at least does not restrict--and ideally would encourage--the expansion of private sector investment in agriculture, manufacturing and services. The centralized system of government and the control-oriented administrative and legal processes in Senegal increase the costs of production and obstruct efficient operations in the private sector.

Four types of decentralization can contribute to economic growth, especially at the local level. These are: 1) administrative decentralization, 2) spatial decentralization,

3) economic or market decentralization, and 4) privatization and deregulation.

Although the government of Senegal has policies and programs in each of these areas of decentralization, significant problems remain in implementing them effectively.

1. Administrative Decentralization

This report focuses most heavily on administrative decentralization. Over the past two decades, the government of Senegal has attempted three major forms of administrative decentralization-- deconcentration, delegation, and devolution--each with different characteristics. (See Figure 2).

Deconcentration is the redistribution of decision-making authority and financial and management responsibilities for providing public services and infrastructure among different levels within the central government. Although the GOS has established regional and departmental offices of many technical ministries and there has been some discussion about authorizing them to undertake a larger number of functions, the implementation of deconcentration is far from complete. Decision making responsibility remains highly centralized and field offices lack the resources to carry out their functions effectively.

In Senegal, field staff of technical ministries are, at least theoretically, organized at the arrondissement level to provide technical support for rural communities through the "centres d'expansion rurale" (CER). However, insufficient staffing and strong vertical lines of authority have prevented the effective integration of deconcentrated technical staff with local administrators.

The GOS deconcentrated initially by establishing field offices of the Ministry of Interior. Officials are responsible for coordinating the activities of the central government in their localities and controlling the activities of the communes and rural communities. This hierarchy includes governors, prefets, and sous-prefets who report to the Department of Territorial Administration in the Ministry of Interior. This administrative hierarchy corresponds to the spatial organization of regions, departments, and arrondissements. To provide a participative structure at each level of administration, the law provides for councils composed of elected officials from local governments and some appointed representatives of other organizations. Coordinating committees were established to provide for horizontal coordination of technical ministries at each level.

This elaborate network of institutions for participation and coordination clearly reflects the policy concern for decentralization. In reality, however, upper level participative organs are ineffective and compartmentalization of the administration

Figure 2

Decentralized Structures for Territorial Administration

Territorial Unit	Executive	Deliberating Body	Coordinating Body
Region	Governor (Appointed)	Regional Council (Elected officials from communes, rural communities)	Regional Development Committee
Department	Prefet (Appointed)	Departmental Council (Elected officials from communes, rural communities)	Departmental Development Committee
Arrondissement	Sous-Prefet (Appointed)	Arrondissement Council (Elected officials from communes, rural communities)	Arrondissement Development Committee
Commune	Mayor (Elected)	Municipal Council (Elected)	
Rural Community	President (Elected)	Rural Council (Elected)	
Village	Chief (Appointed)		

10

(technical services particularly) inhibits real horizontal coordination.

Although a government circular requested all appropriate ministries to transfer staff to the CER's, in fact only the Ministry of Interior has done so significantly. When technical staff are available, they do not always respect the priorities and directives of the rural councils, following instead the directives of their technical ministries.

In addition to staffing difficulties, the CERs are experiencing serious financial constraints. Office space and equipment are insufficient if not lacking altogether. Transportation, critical to serve the dispersed villages that compose each rural community, is generally not available.

These problems are aggravated by another equally important difficulty: the composition of the CERs, which consist of several agents from different technical ministries, varying in number from region to region. Although the head of the CER is supposed to manage the center's staff, in fact, each of his agents reports only to his respective ministry supervisor, who issues his rating at the end of the year, and decides on his career advancement, and other personal matters. This limits the ability of the CER chiefs to exercise real authority over these agents.

The Territorial Development Department (DAT) is also experiencing problems. The DAT's mission is not clearly understood by the other ministries and their regional administrations, and thus it cannot effectively coordinate investments at the regional level. Because it lacks clear authority over the other administrations, the DAT can only "encourage" action. Although the DAT has the power of approval over the location of investments at the regional level, DAT representatives rarely use their authority.

Indeed, the regional offices of the different technical ministries (Equipment, Urban Development, Health, etc.) that are supposed to be providing services for regional and local authorities, really serve only as "mail drops" for their respective national ministries. They have no real decision making power, and, in most cases, only monitor regional activities. Consequently, they merely carry out the decisions made by their central offices and oversee the application of central regulations at the local level. Field officials are sometimes asked their opinion on a problem, but are rarely assigned the task of solving local problems on their own.

The resources the central ministries provide their regional offices are so meager that the communes sometimes have to assist them (most often in the form of fuel and sometimes transportation) in order to benefit from their services. This anachronistic situation is explained by the fact that the central ministries in Dakar consume the lion's share of the operating budgets and make only meager allocations to their regional offices.

Delegation is a somewhat more extensive form of decentralization. Through delegation, the central government transfers responsibility for decision-making and administration of public functions to semi-autonomous organizations not wholly controlled by the central government, but ultimately accountable to it. In Senegal, the government has delegated responsibility for some agricultural and rural development functions to various types of public enterprises since the 1960s. Senegal now has about 180 public corporations and enterprises. Examples of delegation include SONEES, which provides water and sanitation services and SENELEC, which produces and distributes electricity. The Urban Community of Dakar has a contract with SIAS--a parastatal organization--for garbage collection and landfill management.

Not all of the public corporations and enterprises in Senegal have been effective and efficient in delivering services, however, and under the current structural adjustment policy the GOS, with assistance from the World Bank, is reforming some public enterprises and liquidating or privatizing others.

The government is committed through contracts with some public enterprises to remedy many of the problems that inhibit their efficient operation. It has promised to do this by paying arrears, permitting them to raise tariffs and charges, and providing financial support for equipment purchases. Some of the agreements have been undermined, however, by the failure of the GOS actually to pay bills for services provided by the public enterprises and to make reliable financial commitments.

A third type of administrative decentralization is devolution. When governments devolve functions, they transfer authority for decision-making, finance and management to autonomous units of local government with corporate status. Devolution involves transferring responsibilities for services to municipalities that elect their own mayors and councils, raise their own revenues, and have independent authority to make investment decisions. Senegal is relatively advanced compared to other African countries in having created communes and rural communities. Mayors and municipal councils of the communes are elected, as are the presidents and councils in rural communities. (See Figure 3).

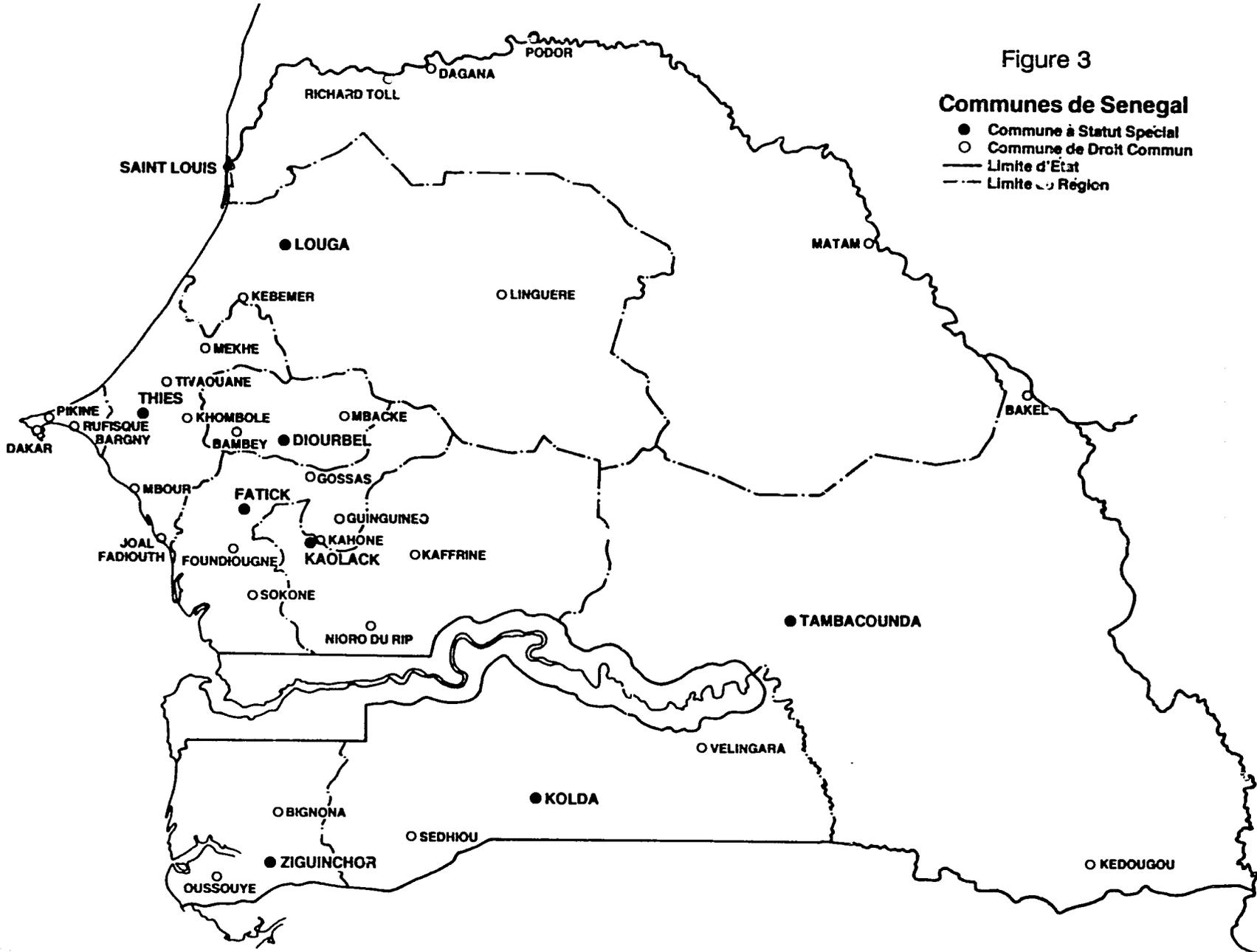
Rural communities have deliberative assemblies, the rural councils, in which two-thirds of the members are elected by universal suffrage, and one-third by the cooperatives, for five-year terms. The president of the rural council, who must be selected from the council members elected by universal suffrage, executes the council's decisions under the supervision of an sous-prefet and serves as vital statistics officer.

The sous-prefet is the executive of the local administration, and, in this capacity, is responsible for managing financed activities, signing contracts, entering into leases and awarding contracts, subject to the verification of the Rural Council and the supervision of higher administration. As executive, he is solely authorized to issue

Figure 3

Communes de Senegal

- Commune à Statut Spécial
- Commune de Droit Commun
- Limite d'Etat
- - - Limite de Région



197

payment vouchers.

Moreover, the rural communities were given responsibility for raising local revenues and for managing the community budget. But this study found that local governments in Senegal remain highly dependent on central government authority and lack the financial and human resources fully to carry out their missions.

Although the formal legal roles of communes--other than assuring a high quality of life for the population--are poorly defined, municipal governments take the initiative in providing a variety of basic urban services and development oriented infrastructure. Most of these services are provided solely by communal staff and funding although some services are offered in collaboration with central government agencies.

Most communes have some sort of garbage collection service although it generally falls far short of an acceptable level. A variety of vehicles are used in the collection process including dump trucks, compactors, bin collectors, and tractors and wagons. This equipment is generally in moderate to poor condition as little maintenance is performed and equipment is retained long beyond the normal operating life of vehicles. Communes are also responsible for the maintenance of all roads except national thoroughfares in their jurisdiction. Public water standpipes are provided by SONEES at communal request. Communes have traditionally been responsible for water provision through this mechanism at no cost to consumers. Public lighting is another basic service provided by communes through the electricity utility, SENELEC, which installs the light poles.

Communes and rural communities are universally responsible for the construction and maintenance of market facilities ranging from simple hangars to complexes of hangars, stalls, and storage facilities. Most of these facilities focus on retail activities while wholesaling takes place in shops at the edge of market facilities. A number of towns provide traveller's facilities such as small hotels, restaurants, and sanitary facilities near the transport stations.

The larger communes are more active than small towns in providing infrastructure and staff for education and social services. Many towns fund the construction of primary schools and health posts or clinics which are staffed by central government personnel.

Implementation of devolution in Senegal has been undermined by a number of problems related to Communal organization and personnel. One problem is inefficient local organization. Although municipal organization charts describe the basic relationships of communal departments, little guidance is available to organize work effectively and efficiently. A second problem is that local governments have excessive numbers of administrative personnel in relation to qualified technical personnel. The

lack of qualified technical personnel has produced very serious problems in providing sanitation and garbage collection services, for instance, in most communes and rural communities. A third problem is with personnel recruitment. While the Decree of 1974 specifies the general conditions for recruiting communal personnel, it seems clear that, based on the three communes studied, the recruitment of communal personnel does not adhere to the strict rules for meeting needs and is not based on clearly defined job descriptions. Finally, there is no system for monitoring personnel and their performance and little incentive for local officials to dismiss personnel who do not perform their tasks.

Rural communities are prohibited from paying staff salaries and therefore have no personnel of their own. The Sous-prefet functions as the executive of the rural communities in his arrondissement, aided by his administrative staff, if it exists. In many cases, the Sous-prefet has no assistant and only a small secretariat, therefore the administrative support of rural communities is minimal.

Just as the communes are not masters of their responsibilities, they are not masters of their own resources. When the law established the conditions under which the decentralized local governments would exercise their status as legal entities, it gave them financial autonomy, that is, the authority to prepare, adopt and execute their own budget, financed by locally-generated resources, but within the context of a strict legal framework controlled by the central government.

But revenue mobilization appears to vary considerably among the three cities studied--Richard Toll, Kaolack and Ziguinchor. The most important municipal revenues are local taxes, collected by the Treasury and including the business tax, head tax, property tax, and alcohol tax. Although important, their relative volume depends on different factors in each town. Of the local taxes, the property tax is the least productive. Although exonerations recently introduced to the property tax has greatly reduced its potential contribution as a revenue source, it remains underutilized due to ineffective property registration procedures, and inefficient tax mapping, administration and billing procedures.

Revenue constraints limit the amount of funds that municipalities can budget for operating expenses and capital investments in order to provide services more effectively and efficiently. Communal budgets list expenditures by type of expense and to a certain extent by service. However, given that personnel costs compose approximately 40% of expenditures but are grouped together rather than by cost center, it is difficult to obtain an estimate of the costs of services that the commune provides.

In the three communes studied--Kaolack, Ziguinchor and Richard Toll, personnel costs average slightly over 30% of total operating costs. Contractual personnel constitute 90% of personnel costs. The DCL has vigorously pursued a

policy of maintaining personnel costs under 40% by limiting recruitment. However, the pertinent questions are not only level of personnel but also qualifications and distribution of staff.

The administrative expenditures include many overhead-type direct costs as well as the stipends for mayors and the operation of the mayor's cabinet. It is a significant portion of total expenditures.

Utilities (water and electricity) constitute another significant and problematic element of the budget. These expenses include water consumed primarily at public standpipes and electricity for street lighting. Communes have experienced great difficulty in paying for these services and as a result have built up considerable arrears with the utility companies, SONEES and SENELEC. A ministerial committee has been established to try to find a solution to the arrears problem. The DCL is also trying to find a solution by formulating a new policy regarding public standpipes. The current policy urges municipal governments gradually to disengage themselves from water supply by encouraging individual hook-ons.

The investment expenditures constitute transfers from the operating budget to the capital budget and thus the municipality's ability to self-finance capital investments. DCL policy has encouraged communes to transfer at least 20% of their operating budgets to the capital budget. In fact, this figure is closer to 8%.

The final type of expenditure that deserves attention is technical services, which includes many direct service costs such as the operations of the municipal public works workshops, gas and oil, maintenance of buildings, public gardens. As services such as garbage collection, road maintenance, building maintenance (including schools, and clinics) are vital to the economic and social health of the commune, it is perhaps surprising that this cost element does not receive a higher level of funding. In the three cities studied, the garage and workshop component of these costs is the highest and includes gas provisions for the entire fleet of municipal cars, not only those of the public works department.

2. Spatial Decentralization

Spatial decentralization is a process of diffusing urban population and economic activities geographically among settlements of different sizes to prevent or reverse high levels of concentration in one or two large metropolitan areas.

In Senegal, the government has begun to use its resources to develop the economic capacity of secondary cities and towns. Provisions of the new GOS investment code are intended to encourage the location of industry in areas outside of the Cap Vert region. Varying periods of tax exoneration are accorded to industrial and commercial firms depending on how far away from Dakar they locate. The

government has also established industrial zones in Saint Louis, Ziguinchor, Kaolack and Thies.

Spatial decentralization is an important strategy for promoting widespread economic growth because--when they have adequate services, facilities and infrastructure--secondary cities and small towns can play important roles in rural, regional, and national development. Most of the regional capital cities and towns in Senegal are commercial, service, handicraft and small manufacturing centers. The 1976 census of employment showed that less than one-third of the economic activities in regional capital cities were agricultural. Business and services accounted for 18 to 30 percent, handicrafts and industries accounted for 38 to 51 percent of the economic activities in the regional capitals.

Some smaller towns in Senegal are also market centers offering a wide variety of agricultural and consumer goods and the collection, transfer, storage, brokerage, credit and financial services needed by farmers. Even small towns have sufficiently large populations and the locational advantages to foster the growth of artisan and cottage industries. These enterprises satisfy demand for low-cost manufactured goods.

Much of the industrial activity in secondary cities and towns in Senegal is related to agro-processing. About 46 percent of the commerce and 44 percent of the nonfarm jobs are in agroprocessing activities in the larger secondary cities.

Of course, not all secondary cities and towns in Senegal perform all of these functions, and many do not perform them well. The objective of spatial decentralization should be to distribute investments in urban services, facilities and infrastructure that support productive economic activities more widely among cities and towns with growth potential, and to strengthen local administrative capacity to raise revenues and maintain services and facilities more effectively.

The programs encouraging spatial decentralization in Senegal are quite new, and little is known about their effects. This study, however, found several obstacles to effective urban development in secondary cities and towns. Among the most important problems is land management. Law 64-46 of June 17, 1964 pertaining to the national domain has constrained economic investment in Senegal. The 1964 land management law made radical changes in the status of categories of land (civil code, common law and other ownership) by placing them in the national domain. The law intended to clear this land of any ownership claims and to turn its use over to the nation, with the central government simply being the holder rather than the owner. Thus, with the exception of the public domain and land for which deeds had already been issued, the rest of the national territory (95%) was cleared of any right of ownership. Property owners were allowed a period of two years under the civil code to apply for registration of the rights to the property, under penalty of forfeiture and

possible incorporation into the national domain.

As a result of the centralized system of land management, many urban areas have not had access to a clearly-defined property status guaranteeing the rights of individuals and of public authorities. The consequences are the expansion of anarchic settlement areas, the encouragement of land speculation (through legal forms of purchase or sale of deeded land), and discouragement of investment by non-secured landholders.

The urban communes have experienced serious problems with the process of land management because this system does not favor the registration of land in the name of local governments. Consequently, urban communes could not establish their own real estate equity, and now, 25 years later, they find themselves without the effective means to control urban development (through land reserves, for example), without property resources, and without the option of mortgaging to gain access to credit.

Problems of land management also inhibit economic development in rural communities, despite the fact that the land management law was adopted to facilitate rural development. The reform made it possible to clear away common law rights at a low cost: with the land henceforth belonging to no one, no indemnities had to be paid. The power to assign land was entrusted initially to the president of the rural community, and, since 1980, to the Rural Council.

But the reform is resented by the elite groups in the rural communities as a violation of common law rights, since local leaders are no longer in control of land occupation. Frustration is even greater when land is wanted for a small-scale industry or agro-industrial enterprises because Rural Council assignment no longer applies. The procedure for registering land is quite complicated, adding to the problems of those wanting to use land for economic purposes in rural communities.

3. Economic and Market Decentralization

Market decentralization is a process of creating conditions in which goods and services are provided primarily through the revealed preferences of individuals by market mechanisms. Market decentralization involves the enactment of policies that create the conditions allowing relatively free operation of land, capital and labor markets. These are conditions that allow people, as consumers of goods and services to act in economically rational ways to maximize their individual welfare, and allow market mechanisms to operate effectively by providing the opportunities for large numbers of institutions to provide public goods and services competitively.

In 1986, the GOS eliminated all restrictions other than those imposed by common law on the marketing of grains other than paddy rice. The government is

also in the process of eliminating price controls on agricultural goods and food commodities. The government of Senegal recently revised its investment code to simplify procedures for creating private companies, amended the labor code to allow private companies to recruit and manage personnel more flexibly, relaxed price controls for manufactured goods and eliminated some restrictions on the production and distribution of consumer goods. (See Table 3).

4. Privatization and Deregulation

Finally, the most extensive types of decentralization from the government's perspective are privatization and deregulation. Privatization is usually, but not always, accompanied by economic liberalization policies and market decentralization. It allows services to be provided by businesses, community groups, cooperatives, private voluntary associations, individuals, small enterprises in the informal sector and other nongovernmental organizations.

The GOS is privatizing by offering shares to preselected and limited groups of private investors in several public enterprises, including SNCDS (fish processing), COSENAM (shipping), SIV (textiles), and SISCOMA (farm tools) (Vuylsteke, 1988). The GOS is privatizing some public activities in agribusiness and housing by offering management contracts to private firms. And, as part of Senegal's new agricultural policy, the recent reforms of the agricultural marketing system permit greater private sector participation in the purchase of peanuts and rice from producers.

But public-private partnerships or contracting with private enterprises to provide public services is complicated by central government control and approval procedures. At present, all public contracts in excess of FCFA 20 million are evaluated in Dakar. There is also a great deal of apprehension concerning cooperation between the communes and private operators.

The GOS has recently undertaken major reforms designed to improve conditions for business creation and industrial expansion. Among the most important measures are a reduction in protective trade tariffs, Investment Code revisions to encourage small business formation and decentralization, and the introduction of graduated benefits to assure a smooth transition to the regular commercial system. Additional modifications to administrative procedures and the labor laws are intended to encourage the private sector.

It is still too early to assess the impact of changes in the investment code, but this study found that few applications have been made to obtain benefits, and only a small percentage of those have been approved.

Although deregulation has reduced the restrictions on private enterprise, widespread economic and social problems in Senegal continue to impede economic

Table 3

Summary of the Investment Code
 Various Programs and Benefits provided
 by the Investment Code Law 87/25

Program	Eligibility	Benefits	Length
Regular Program	<ul style="list-style-type: none"> - All companies operating in certain sectors stipulated in the code. The entire list is subject to modification by decree according to national development needs. 	<ul style="list-style-type: none"> - Customs duty and fee exemption for equipment and materials not produced or manufactured in Senegal - Sales tax exemption for goods and services supplied locally for the execution of the approved investment program. 	<ul style="list-style-type: none"> - Two-year maximum investment performance period for small and medium-scale firms; 3 year for others (Duty on equipment) - Exemption from 5 to 12 years depending on the region in which the firm is established. Benefits are reduced during the last 3 years of the exemption.
Small and medium-sized company program	<ul style="list-style-type: none"> - Amount of investment net of deductible VAT and net of permanent working capital between FCFA 5 and 200 million; - Minimum of 3 permanent Senegalese employees; - Commitment to keep regular books according to Senegalese accounting plan. 	<ul style="list-style-type: none"> - Exemption from fees for acts of incorporation and capital increases - Exemption from the business tax if the firm is located outside of the Dakar metropolitan area. - Exemption from the minimum tax - Exemption from employer's minimum tax. 	
Program for firms processing local resources	<ul style="list-style-type: none"> - Senegalese input consumption costs in excess of 65% of total input consumption. 	<ul style="list-style-type: none"> - Tax exemption. - Exemption from business tax for companies established outside of the Dakar metropolitan area. 	

Table 3 (continued)

Summary of the Investment Code
 Various Programs and Benefits provided
 by the Investment Code Law 87/25

Program	Eligibility	Benefits	Length
Program for companies developing technological innovations	<ul style="list-style-type: none"> - Investment of a percentage of revenues in research within the context of a contract with a Senegalese research institute. - Companies using individual researcher - Conducting R & D activities within a framework defined by decree. 	<ul style="list-style-type: none"> - Exemption from a percentage of the employer's minimum tax equal to the proportion of the investment to revenues. - Companies using results of studies by Senegalese researchers receive the same benefits as small and medium-sized firms established in the same locality. 	<ul style="list-style-type: none"> - The year the investment is executed.
Program for decentralized	<ul style="list-style-type: none"> - Companies established outside of the Dakar metropolitan area 	<ul style="list-style-type: none"> - Exemption from employer's minimum tax. 	

187

expansion. Among the most obvious problems seem to be insufficient literacy and educational levels, especially in the technical and scientific fields, and the high costs of inputs relative to other countries in the region. The land ownership regulations make it difficult to own land, the market is limited, and incomes are low. Another problem is that private sector promotion is often assigned to government officials with seniority and experience, but who are not familiar with the problems of private companies and the management of the national economy in general.

In brief, although it has enacted formal programs for administrative, spatial, and economic decentralization and is encouraging privatization and expansion of private enterprise, in reality, the government of Senegal still remains highly centralized. Centralized administration, the concentration of economic activities in Dakar and the Cap Vert region, government regulation and control of economic activities, and restrictions on the private sector, all impede economic development and employment expansion.

Policy Options

The options for improving the implementation of decentralization programs presented in this study take into account the broad spectrum of problems that the terms of reference identified as contributing to the current economic problems in Senegal.

This study explores the roles of three principal actors who influence economic development: the private sector, the central government and local government. It finds that five types of improvements can be made in order to implement decentralization more effectively:

1. National policy reform--modifying national-level policy to make it more responsive to local economic development needs.

Among the actions that can be taken are the following:

- Clarify and modify the role of local governments
- Enlarge the base of the property tax by improving cadastral coverage and modifying the exoneration for owner occupied dwellings.
- Increase the resources available for financial management, particularly revenue generation, by increasing staffing and material resources at departmental Treasury offices and, eventually, by increasing the responsibility of communes in

revenue generation.

- Reallocate resources and decentralize more authority to regional offices of technical ministries.
- Modify control functions to reduce the emphasis on procedures and increase the emphasis on performance of local governments.
- Modify the budgeting procedure to include a mandatory capital reserve and strengthen the capital budgeting process.
- Clarify and simplify land policy to increase access to land for economic development.
- Reduce factor costs of production, particularly wages, to make private investment more attractive.
- Establish incentives for the banking sector to provide credit to small-scale businesses.
- Facilitate the participation of small and medium businesses in urban services provision by adapting contracting procedures to the needs of small scale enterprise.

2. Institutional development--strengthening the capacity of key institutions to carry out a critical role in the local economic development process.

Options include the following:

- Strengthen the capacity of the DCL and regional services to provide management and technical assistance to local governments.
- Strengthen the capacity of the Treasury to manage local finances, particularly revenue generation.
- Create or strengthen professional associations of mayors, city managers, and other key local officials to become voices for effective decentralization.

- Provide assistance in developing local government organizational models and staffing schedules.
- Strengthen training institutions' capacities to provide management and technical skills training to local government officials.
- Strengthen the capacity of local private associations for economic development promotion and participation in public-private partnerships.

3. Human resource development--improving the capacity of individuals to carry out specific functions that will lead to stronger local economies.

Among the options that should be explored are the following:

- Conduct a variety of training programs for central agency staffs so that they can play a more supportive role in decentralization.
- Conduct training programs that emphasize technical, management, and economic development-related skills for senior local government staff and elected officials.
- Increase management training for small and medium-scale businesses.

4. Development financing--providing financing for major initiatives by Senegalese institutions to carry out programs or investments that are required to promote local development.

Two policy options are particularly important:

- Provide financing, such as a HG loan, to the Communal Credit Loan Fund housed in the BHS for the construction of basic urban infrastructure.
- Extend small business credit operations to other towns and tie a portion of lending to innovative approaches to urban service provision.

5. Research and pilot projects--undertaking activities that provide information needed by decision makers to change policies, strengthen local and national

institutions, develop human resources, provide effective financing, and adapt and diffuse technology that will help local governments provide needed services and infrastructure more effectively, and private enterprise to invest in activities that will provide jobs and increase income.

Among the options that should be considered for the near term are the following:

- Conduct research on rural-urban linkages to determine the economic development potential of secondary cities and towns.
- Design and sponsor a pilot private-public partnership project involving the planning and design of investments for innovative ways of delivering urban services.
- Design pilot service delivery arrangements involving the private sector.
- Design and conduct pilot projects promoting the privatization of urban services.

The most effective strategy for USAID/Senegal would be to begin by supporting applied research and pilot projects to test alternative interventions and policy changes that will be needed to improve the implementation of decentralization programs.

A.I.D. can most effectively use its limited assistance resources by focusing its initial support for decentralization in a single region in Senegal. The region should have strong agricultural and urban economic development potential, rapidly growing population, and high priority in terms of A.I.D.'s overall objectives. A rural-urban linkage study would define the role of secondary cities and market towns in regional development. It would identify principal economic activities, commodity flows in the region, service and infrastructure conditions, and employment and labor force characteristics. The result of the study will determine what types of service and infrastructure investments would best support the existing economic base, and in which towns interventions are likely to have the most impact on economic growth and employment. The results would be used in selecting two or three towns for intensive pilot activities.

Pilot activities are intended to demonstrate expected outcomes from national policy reforms and innovative approaches to local economic development. The advantage of undertaking pilot activities is that they would provide the Mission and the GOS with valuable lessons that would be applied on a larger scale in later phases. They would familiarize the Mission with the key public and private actors who would be vital to launching larger scale activities. Finally, they would demonstrate the

effectiveness of new approaches to local service and infrastructure provision that local officials from other regions in Senegal could adapt. The pilot activities would pave the way for policy reform, institutional development, and development financing activities in the future.

The pilot activities should address three principal issues which this study has identified as currently constraining local economic development.

1. improving the public decision making process so that it becomes more responsive to the needs of the private sector and economic development;
2. improving local service delivery capacity and introducing innovative programs for service expansion, particularly those involving the private sector or community groups.
3. improving local resource mobilization and channeling increased revenue flows into activities that promote economic development and employment generation;

Although the cities and towns participating in pilot activities would use a common, integrated approach to economic development and employment generation, each town would have a package of activities suitable to its needs. This would allow the GOS and USAID to test a wide range of innovations.

It is expected that a number of supporting activities, including training will be necessary to implement the pilot activities, to disseminate their results and to discuss the implications for larger scale application, policy reform, and institutional strengthening. Training to implement the pilot activities should include seminars for municipal staff, private entrepreneurs, and elected officials. In addition, observational tours for central government staffs can help them to see the benefits of innovations in local service delivery and joint public-private partnerships for economic development.