Real Instituto Elcano

Documento de Trabajo
Working Paper

Is Spain Coherent Regarding Senegal's Development? (WP)

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5/9/2007

Working Paper 5/2007 (Translated from Spanish)

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Summary
This paper's aim is to propose a series of recommendations to improve the overall coherence of Spain's economic policies for the economic and social development of Senegal.

Acronyms

ACP	Africa, Caribbean and Pacific
AECI	*Agencia Española de Cooperación Internacional*
AGS	Accelerated Growth Strategy
APIX	*Agence Nationale Chargée de la Promotion de l'Investissement et des Grands Travaux*
APRPI	Agreement for the Promotion and Reciprocal Protection of Investments
ADB	African Development Bank
ECB	European Central Bank
BCEAO	*Banque Centrale des États de l'Afrique de l'Ouest*
EIB	European Investment Bank
CDEAO	*Communauté Économique des États de l'Afrique de l'Ouest* (ECOWAS)
EC	European Community
CECO	*Centro de Estudios Comerciales*
CESCE	*Compañía Española de Crédito a la Exportación*
CFA	*Communauté Française d'Afrique*
CIFAD	*Comisión Interministerial del Fondo de Ayuda al Desarrollo*
COFIDES	*Compañía Española de Financiación del Desarrollo*
CSP	Country Strategy Paper (Spain)
DPS	*Direction de la Prévision et de la Statistique*, Ministry of Economy and Finance, Senegal
ECOWAS	Economic Community of West African States
EFP	European Financial Partners
EPA	Economic Partnership Agreements
EU	European Union
FAD	*Fondo de Ayuda al Desarrollo*
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FIEX	*Fondos de Inversión en el Exterior*
FONPYME	*Fondo de Inversión para la Pequeña y Mediana Empresa*
GATT	General Agreement on Tariffs and Trade
IMF	International Monetary Fund
HIPC	Heavily Indebted Poor Countries
ICEX	*Instituto Español de Comercio Exterior*
ICO	*Instituto de Crédito Oficial*
IDA	International Development Association
IFA	International Financial Architecture
INE	*Instituto Nacional de Estadística, España*
LDC	Less Developed Country
MAEC	Spanish Ministry of Foreign Affairs and Cooperation
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MICT	Spanish Ministry of Industry, Trade and Tourism
MIGA	Multilateral Investment Guarantee Agency
ODA	Official Development Assistance

OECD	Organisation for Economic Cooperation and Development
PRSP	Poverty Reduction Strategy Paper
SSPT	*Société Sénégalaise des Phosphates de Thiès*
UEMOA	*Union Économique et Monétaire Ouest Africaine*
UNCTAD	United Nations Conference for Trade and Development
UNDP	United Nations Development Programme
WHO	World Health Organisation
WTO	World Trade Organisation

Introduction

This paper's aim is to propose a series of recommendations to improve the overall coherence of Spain's economic policies for the economic and social development of Senegal. This initial case study on development policy coherence seeks to define and contrast –for an individual donor (Spain) and recipient (Senegal)– the analyses previously undertaken for donors and recipients as a whole (Olivié & Sorroza, 2006a) and for the Spanish administration (Olivié & Sorroza, 2006b).[1] The case study, added to those to be undertaken for other development aid recipients, should ultimately allow us to fine tune our analysis and general recommendations for the Spanish administration.

Why Senegal? The choice was made on the basis of several criteria. First, it was felt that a Sub-Saharan country should be chosen. According to the Master Plan for Spanish Cooperation for 2005-08 (MAEC, 2005a) there should be a greater focus on the area, which is earmarked for a considerable increase in aid and is to become a higher priority for Spanish action abroad.[2] Hence, it had to be country that is a priority for Spanish cooperation as defined in the Master Plan. The third criterion was that the recipient had to have a certain volume of economic relations (ie, trade and financial flows) with Spain.

As in the case study on aid-receiving countries as a whole (Olivié and Sorroza, 2006b), development is defined within the framework of the achievement of the MDGs and the general goals pursued by Spain's international development cooperation policies, as stated in the current Master Plan (MAEC, 2005a). On the other hand, the policy (in)coherences considered are whole of government (in)coherences, as defined by Picciotto (2005a and b) and limited to the economic arena.

Within the general framework for analysis and recommendations on the coherence of development policies included in Olivié and Sorroza (2006b), the concept of whole of government economic coherence focused on the coherence of the policies sustaining the flows of trade, remittances, direct investment and debt, as well as on the set of regulations making up the IFA for the development of aid-receiving countries.

This paper does not cover the institutional aspects of policy coherence which, however, are reviewed in the general framework (Olivié & Sorroza, 2006b). Neither does it address the IFA's implications for Senegal, given the lack of data to assess the impact of, for instance, the new Basle standards on the country's access to private international financing. In general terms, this paper

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[1] This paper is part of the project on *Coherencia de Políticas para el Desarrollo*, initiated by the Elcano Royal Institute in 2005; for further details on the project see *http://www.realinstitutoelcano.org/wps/portal/rielcano/CoherenciaDesarrollo*.
The project has been supported by the Spanish Ministry of Foreign Affairs and Cooperation, via its General Directorate for Planning and Assessment of Development Policies, within the framework of the research agreement with the Elcano Royal Institute, approved by the Cabinet on 2 December 2005.
[2] To a certain extent, Spain is thereby contributing to the general trend since the end of the 90s, allocating a greater weight to sub-Saharan Africa in the geographical distribution of aid worldwide (Olivié, 2004).

places a greater emphasis on the effect on Senegal of its bilateral relations with Spain than on policies developed at a supra-governmental level.

Two experts on the Senegalese economy –Mamadou Dansokho and Carlos Oya– have contributed to this work, and information and assessments on foreign affairs, international development cooperation, the impact of migrants' remittances, foreign debt, agriculture, fisheries and instruments in support of foreign investment were provided by representatives of the Senegalese and Spanish public administrations, members of international bodies and experts.

The first section provides an overview of the institutional framework within which economic relations between the two countries take place. In the paper's second part, following a brief analysis of the recent evolution of trade and financial relations between the two countries, further details are given on the features of bilateral trade, migrants' remittances, direct Spanish investment in Senegal and operations of debt conversion or cancellation. Under these headings, we also analyse the potential of the policies implemented by the Spanish administration, and international bodies of which Spain is a member, to increase the positive impact of these flows on Senegal's economic and social development. The paper's final section offers conclusions and recommendations.

Table 1. Basic development indicators for Senegal

	Year(s)		Unit
Land	2005	196.7	thousand km^2
Population	2005	11.7	million inhab.
OECD and World Bank score	2005	LDC – OECD IDA – World Bank	
Political			
Presidential republic	2005		
EIU democracy index	2006	94th of 167 5.37	position index
Satisfaction with the working of democracy	2004	51	%
Economy			
GDP	2005	8,200	US$ million
Agriculture	2005	17.7	% of GDP
Industry	2004	19.7	% of GDP
Services	2004	63.3	% of GDP
Human Development – Achievement of MDGs			
HDI	2004	156th of 177 0.460	position index
Poverty US$1	1990-2004	22.3	%
National poverty line	1990-2003	33.4	%
Net primary enrolment rate	2004	66	%
Ratio of boys/girls in primary education	2004	0.95	
Infant mortality rate	2004	137	per 1,000 live births
Maternal mortality rate	1990-2004	560	per 10,000 live births
Proportion of adult AIDS sufferers	2005	0.9	%
CO2 emissions	2003	0.4	metric tonnes per capita
Gini coefficient	2001-02	34.2	
External economic links			
Principal trade agreements	2005	WTO Cotonou	
Trade	2005	59.3	% of GDP
FDI inflows	2004	0.92	% of GDP
Main debt cancellation and conversion initiatives	2005	Paris Club HIPC MDRI	
Debt servicing rate	2004	7.6	% of exports
Aid dependency	2004	13.5	% of GDP

Notes:
LDC: Less Developed Country
OECD: Organisation for Economic Cooperation and Development
IDA: International Development Association (World Bank soft loan window)
WTO: World Trade Organisation
HIPC: Heavily Indebted Poor Countries
MDRI: Multilateral Debt Relief Initiative
Sources: Afrobarometer, World Bank, Economist Intelligence Unit, IMF, UNDP and official data from the government of Senegal.

1. The institutional framework for Spanish-Senegalese economic relations

The framework for Spanish-Senegalese relations is based on the same agreements, standards, strategies and international, European and national plans that explain the need to improve the coherence of Spanish economic policies in relation to the development goals set by the Spanish administration for all aid-receiving countries. In this respect, according to Olivié and Sorroza (2006b), for policy making to have an impact on Senegal's economic and social conditions it should take into account the Millennium Declaration, the MDGs,[3] the Monterrey Consensus (United Nations, 2002), the Treaty of Maastricht, the Spanish Law 23/1998 on International Development Cooperation and the Master Plan for Spanish Cooperation for 2005-08 (MAEC, 2005a).

There are further regulations, agreements and plans on specific bilateral, European and multilateral policies specifically for Senegal; of these, the most relevant on a multilateral level are the HIPC initiative for external debt relief and the more recent MDRI; and, at the European level, the Cotonou agreement and the forthcoming partnership agreement. As stated in the Spanish government's Africa Plan (MAEC, 2006a), in European terms, Spain will also have to work in line with the objectives set by the European Council in the ongoing negotiations with Sub-Saharan Africa: (i) peace and security; (ii) human rights and good governance; (iii) official development aid; (iv) sustainable growth; (v) regional and trade integration; (vi) and investment in human beings.

Bilateral relations must be framed within the context of the recently approved Africa Plan (MAEC, 2006a) and take into account the objectives for development cooperation included in the CSP for Senegal (MAEC, 2005b). In addition, as with all the HIPC initiative countries, Senegal has its own development strategy document, the PRSP, agreed at a national level and supported by the donor community. This strategy also provides the framework for Spanish action in Senegal.

The HIPC and MDRI initiatives will be considered in more detail in section 2.5 as part of the analysis on debt flows between Spain and Senegal, while the implications of the Cotonou agreement, and the partnership arrangement currently being negotiated, are reviewed in section 2.2. Thus, there now follows a summary of the principles and objectives of the Africa Plan (MAEC, 2006a), the CSP for Senegal (MAEC, 2005b) and the PRSP II, the second version of the Senegalese strategy for poverty reduction which will shortly replace the current version of the PRSP.

1.1. The Spanish administration's priorities: the Africa Plan and the Senegal CSP

Although the MDGs are not one of Plan's guidelines, the fight against poverty and development in accordance with the regional agenda (objective 2) is one of the general objectives of Spanish policy for Africa (MAEC, 2006a). It is argued that to achieve this aim it is not only necessary to increase the amount of aid for the region –50% of increases in ODA will be channelled to Africa– but also its quality. Furthermore, the list of objectives –Spanish support to consolidate democracy, peace and security in Africa, promoting cooperation to control migratory flows and the strengthening of cultural and scientific cooperation, among others– also includes the promotion of trade and investment, with a special emphasis on fisheries and energy security (objective 5).

The Africa Plan stresses the importance of the principle of ownership in Spain's relations with Africa as well as the principle of coherence, highlighting the need to ensure 'decisive support for achieving a greater synthesis between the policy on cooperation and the remaining Spanish policies affecting Sub-Saharan Africa, on issues including trade, agriculture and migration' (MAEC, 2006a, p. 32).

In particular, the document identifies Senegal as a priority for Spain and highlights its importance as a source of migratory flows.

[3] www.developmentgoals.org

Similarly, the aims of the CSP for Senegal are in line with both the contents of the Master Plan for Spanish Cooperation (MAEC, 2005a) and the priorities for Senegal included in the country's poverty reduction strategy. The CSP's content will have to be implemented within the Basic Scientific and Technical Cooperation Agreement between Spain and Senegal, as a result of which the first Hispano-Senegalese Joint Committee will be held.

Since it integrates the proposals of the different ministries, the CSP also applies the principle of coherence to the different policies of the General State Administration.

1.2. Development guidelines for Senegal: the second version of the PRSP

In December 2002, the IMF and the World Bank approved the Poverty Reduction Strategy Paper for Senegal (PRSP), which is designed to guide both national policies and the actions of donors present in the country. Following two monitoring reports, a new strategy was produced. This redirects the proposals contained in the first PRSP and will therefore replace the former once it has been approved by the two international institutions.

Both strategies include the same two overriding aims: halving poverty between now and 2015 and transforming Senegal into an emerging economy during the same period. More specifically, the new PRSP seeks to: (i) double per capita income by 2015 by means of strong economic growth; (ii) generalise access to basic social services through the swifter starting up of the infrastructures required to strengthen human capital before 2010; and (iii) the eradication of all forms of exclusion and the achievement of gender equality by 2015, particularly in primary and secondary education. Hence, the new Senegalese development strategy is focused on economic growth that will bring about an improvement in social conditions in the country. Thus, the goals established by this PRSP II are also in line with the MDGs.

Wealth creation and, more specifically, economic growth, is one of the strategy's pillars and is to be developed by means of the AGS, or accelerated growth strategy, subject to the PRSP's more general objectives. The AGS aims to focus economic growth efforts on five sectors: (i) agriculture and agro-industry, (ii) sea products; (iii) textiles; (iv) information and communications technologies and teleservices; and (v) tourism, the cultural industry and crafts.

Of these sectors, the priority will be agriculture, in accordance with the general aims of the new PRSP and Senegal's poverty profile. Targets will include increased production, enhanced productivity, diversification, development of non-agricultural rural activities and environmental sustainability. To achieve them, support will be given on the one hand to transforming the country's family-based agriculture, which is extensive, into intensive systems that are diversified, durable and respectful of the environment and, on the other hand, to creating an agricultural and rural business class.

In regard to marine fisheries, the poverty reduction strategy identifies over-exploitation of resources as one of the main problems to be addressed, especially given the concentration of national production and employment in this sector. Water pollution is a related problem, as it aggravates the deterioration of marine resources. Measures promoted both by the local administration and the donor community should therefore include the reasonable and responsible use of fisheries, the development of a legal and institutional framework adapted to the sector's environmental problems and the improved distribution of sector products throughout the country.

The PRSP also prioritises the development of teleservices –the country's main information and communication technologies sub-sector–, both in rural and urban areas. To achieve this, it will be necessary to extend telephone and Internet access, organise training programmes adapted to sector requirements and improve the electricity supply in rural areas.

In order to further develop the tourist sector, the PRSP considers it necessary to break through the limit set on investments by the dearth of adequate infrastructure, to achieve a greater involvement of local agents and to boost the promotion of tourism. The sector therefore requires greater investments –and incentives–, in addition to adequately prepared areas for its use.

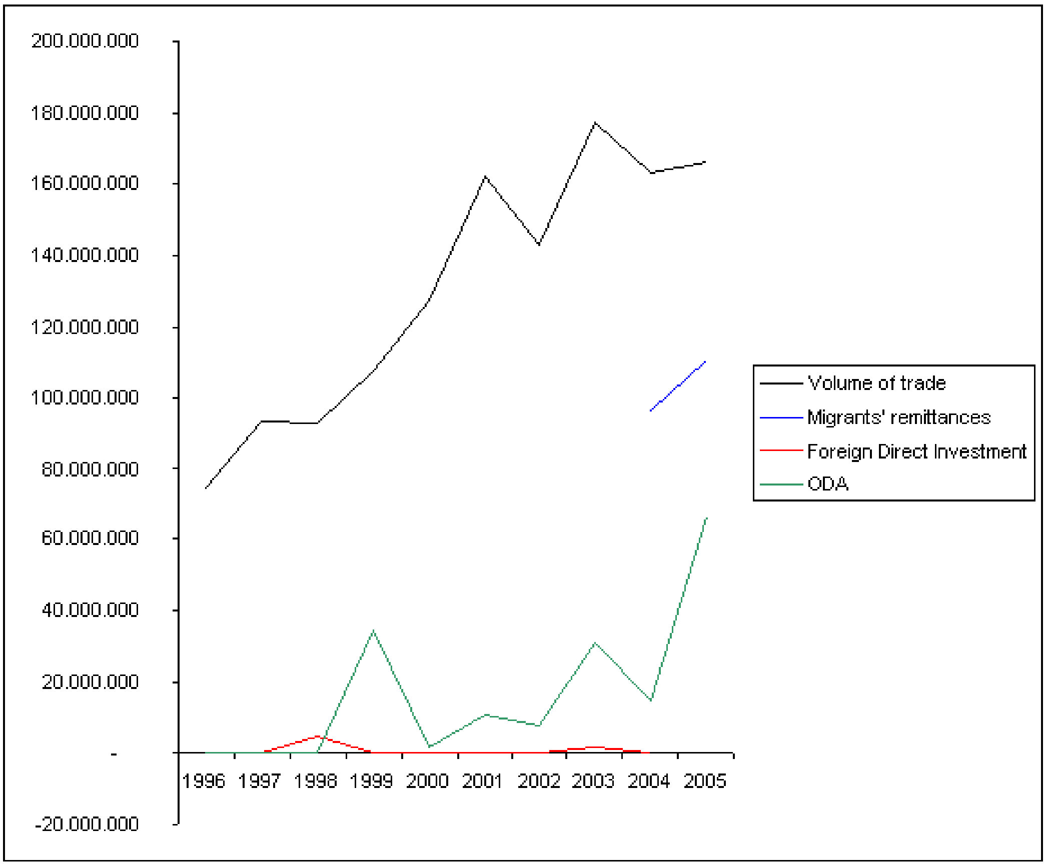
2. Spain's impact on Senegal: trade and financial relations

2.1. An overview of Spanish-Senegalese trade and financial relations

As shown in Graph 1, a significant part of the commercial and financial relations between the two countries is concentrated in trade. The total for imports and exports is higher than for any other type of economic exchange between Spain and Senegal.

Furthermore, the value of goods and services exchanged between the two countries has almost continually increased in recent years. In 1996, imports and exports, according to data from the *Direction de la Prévision et de la Statistique* of the Senegalese Ministry of Economy and Finance, totalled €74.5 million. Following a gradual increase to €162 million in 2001, in 2002 there was a drop to slightly less than €143 million, before rising in 2003 to total imports and exports of €177 million. In the past two years, however, there has been a downward trend in the exchange of goods and services, with the total at the end of last year standing at €166 million.

Graph 1. Summary of economic relations between Spain and Senegal in euros



Sources: Bank of Spain, DPS, IMF, the Spanish Ministry of Foreign Affairs and Cooperation, the Spanish Ministry of Industry, Tourism and Trade, OECD, and the authors' estimates.

In recent years the phenomenon of migrant remittances has attracted the attention of both academic circles and different sectors have identified them as an effective means to combat poverty. However, the drawback is the lack of information on these flows and the unreliability of published data –largely due to the wide variety of informal channels used for transfers–.

This is the case with Senegal. There is insufficient public data on the exact volume of remittances. Furthermore, the unreliability of available data makes it impossible to study the impact on development of the remittances sent from Spain by Senegalese emigrants. The BCEAO office in Dakar does not provide a breakdown of remittances by country of origin. There is data for the EU and for the main sending countries, such as France and Italy, but not for Spain.

Nevertheless, the Bank of Spain has started to include the remittances sent to Senegal in its statistics. Data, which is only available for 2004 and 2005, reveals a volume of remittances from Spain to Senegal of slightly over €96 million in 2004 and over €110 million in 2005. Thus, in 2005, remittances were equivalent to 67% of total imports and exports of goods and services between the two countries, making them the largest inflow from Spain to Senegal. It is also important to assess the capacity of remittances to combat poverty, a factor reflected in their weighting for the receiving economy as a whole. Remittances originating in Spain were equal to 1.5% of Senegal's GDP in 2004 and 1.6% in 2005.[4]

Financial relations between the two countries have also been somewhat erratic. Fluctuations in Spanish ODA for Senegal over the last 10 years have been extreme: for instance, ODA in 1999 was 560 times greater than in 1998 (Graph 1). In any event, and despite these significant variations, Spanish aid to the country has been on an upward trend since 2002. Starting from just over €15,000 in 1995, Spain's net bilateral ODA to Senegal was negative the following year (€-40,041) and remained at moderate levels before rising to €34 million in 1999. This up-and-down trend –almost €1.5 million in 2000, over €10 million in 2001, slightly less than €8 million the following year, almost €31 million in 2003 and just over €14.7 million the following year– led to a total of €66 million in net bilateral aid from Spain to Senegal by 2004.

This can be partly explained by the type of Spanish aid to the Sub-Saharan country, dominated by repayable loans for large-scale projects –specifically, FAD loans– and, over the past year, a debt cancellation operation, as shown in Table 2. Between 2002 and 2005, FAD loans to Senegal from the Spanish administration totalled around €53 million, leading the weight of this instrument in total net Spanish aid to Senegal to range from 74% to 87%. In 2005, FADs were overshadowed by a debt cancellation operation of almost €54 million, accounting for over 80% of the year's aid. Thus, given the nature of aid to the country, the two main agents of Spanish cooperation in Senegal are the Ministry of Industry, Trade and Tourism and the Ministry of Economy and Finance.

Although the volume of FAD loans has decreased since 2003, in 2005 there were new FAD loans to the value of €7 million. There is no public document stating the orientations, principles or mid and long-term objectives for FAD loans to Senegal, Africa or the LDCs, and there is also a lack of details as to how they are managed. Although the Africa Plan (MAEC, 2006a) refers to the introduction this year of a new type of FAD, to be specifically focused on the achievement of the MDGs –and with a budget of over €300 million– it remains the case that the information available on this instrument is limited. The information available for 2004 shows an FAD loan of around €4.5 million for the implementation of the second phase of a solar power rural electrification project by the company Isofotón. In 2005, the CIFAD did not approve any operations in Senegal but the information provided by MAEC indicates that FAD expenditure in recent years has been on projects for photovoltaic electrification, rural electrification by means of solar power, the construction of an agricultural centre, improvement of agricultural products and the start-up of refrigeration plants (MICT, 2005 and 2006; and MAEC 2005b and 2006b).

For their part, the debt cancellations computed as ODA correspond to bilateral cancellations following Senegal's completion of the HIPC initiative. There were other cancellations, not accountable as ODA, which will be considered in section 2.5. below.

[4] The authors' calculations based on Bank of Spain and IMF data.

Table 2. Distribution of net Spanish ODA to Senegal (€ and %)

	2002	2003	2004	2005
Net bilateral ODA	7,699,537	30,730,488	14,750,583	66,269,834
Net refundable debt (FAD loans)	6,485,143	26,747,432	11,013,037	6,067,174
	(84.23) a	(87.04)	(74.66)	(9.16)
Gross payments	6,819,737	27,611,441	11,372,686	7,094,997
Gross repayments	334,594	864,009	359,649	1,027,823
Debt related activities	0	433,707	0	53,912,900
	(0)	(1.41)	(0)	(81.35)

a: the brackets indicate %.
Source: MAEC (2006b).

In principle, the present study does not analyse the flows of Spanish aid, since it does not focus on their internal coherence or effectiveness. Nevertheless, we highlight the prevalence of FAD loans in Spain's aid to Senegal. There are various studies which have assessed this instrument's effectiveness in terms of its two objectives: as a development cooperation tool and as support for the international expansion of Spanish companies.[5] Our focus here is on its potential for contributing to Senegal's development as regards the second objective. Although this might seem to be a merely semantic nuance, it does have important implications for the reform of the instrument which is currently underway. In this respect, the present study is based on the idea that relations between Spain and the developing countries should be conceived as a whole in order to ensure that there are a coherent set of goals, rather than on a one-off basis in terms of each of the pillars involved –development cooperation, promotion of investment, promotion of exports, etc–. In this context, although essential with regard to the volume of funds freed up for other development cooperation uses, the debate on the computation of FAD loans as ODA is set aside. Regardless of whether or not they are computed as aid, they remain one of the tools for economic relations between Spain and developing countries and we therefore believe that they should conform to the general objectives established for these relations.

Finally, Spanish FDI in Senegal has seen considerable fluctuations and, moreover, has remained at a low level. The annual variations in direct investment can sometimes be as great as for development aid, as revealed by the statistics published by the Spanish Ministry of Industry, Tourism and Trade: between 1997 and 1998, the inflow of FDI rose from just over €33,000 to over €4.5 million. But these fluctuations are invariably based on very low volumes, being significantly lower than those for bilateral trade, for aid –direct investment flows have only been greater than aid flows in one year, 1998– or for remittances –in 2004 remittances totalled more than €100,000, while the net flow of FDI was €4,500– (see Graph 1).

Direct Spanish investment in Senegal has not tended to increase. From a starting point of €3,760 in net FDI in 1996, the flow has amounted to less than €80,000 in almost every year in the past decade, with the exception of the two peaks of €4.5 million in 1998 and €1.85 million in 2003. These figures clearly outline one of the features of FDI, which we will analyse in greater detail below: similarly to ODA, it is a flow for large-scale projects with a greater involvement of Spain's leading companies than its SMEs.

2.2. Spanish-Senegalese trade relations

Most of Senegal's foreign trade is currently focused on its African neighbours and the EU. According to DPS and UNCTAD figures, in 2004 trade with Africa accounted for 40% of all Senegalese exports –up from 28% in 2000– and 21% of imports, while exchanges with the EU accounted for 26% of exports and 49.5% of imports. The EU is therefore the main market for Senegalese imports and Africa the main destination for its exports. The recent growth in exports to Africa is largely due to three factors: (1) the refining in Senegal of oil derivatives –especially from Nigeria–, which accounted for 16% of total exports in 2004 and were mostly directed to neighbouring countries (with higher oil prices being mainly responsible for the increase); (2) the

[5] See, for example, González and Larrú (2004).

application of a common customs tariff for the UEMOA as a whole,[6] which has also resulted in increased trade relations, especially for Senegal and the Ivory Coast; and (3) Senegal's re-exporting role towards the interior, particularly Mali –reinforced by the Ivory Coast crisis–, while Dakar has become the region's main port of entry.

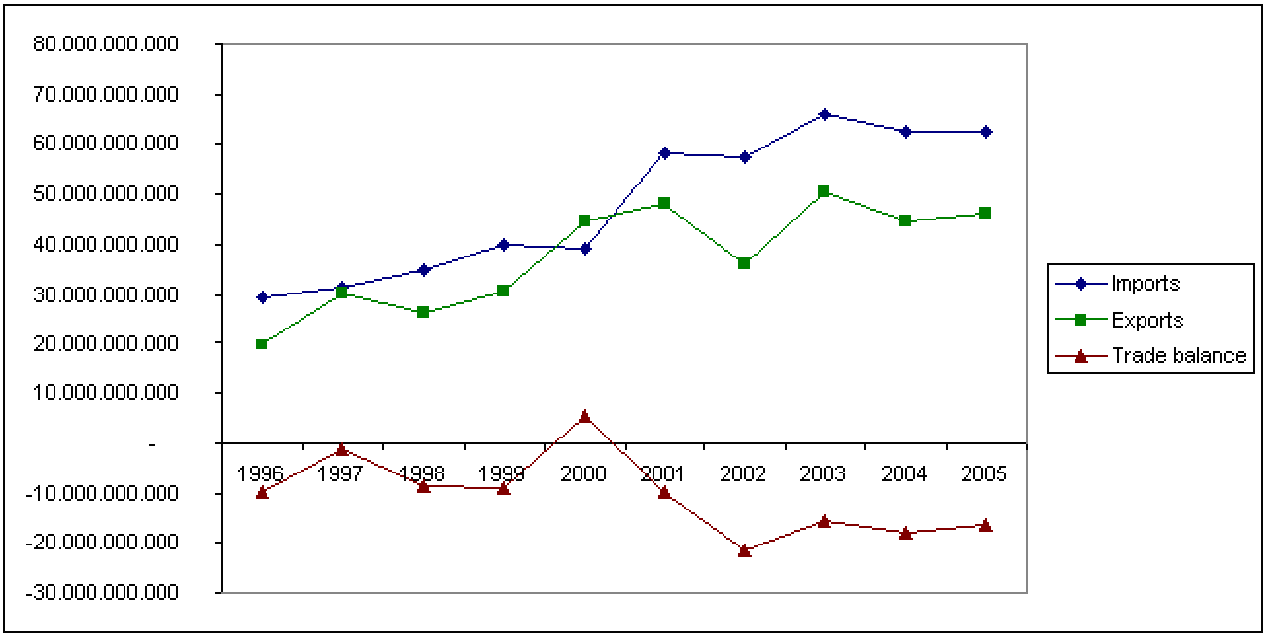
Despite the fact that exports to Spain account for less than 5% of Senegal's total exports, and imports from Spain for slightly less than 4.3% of its total purchases abroad, Spain is Senegal's third most important European partner. Although lower than with France –12,17% of exports and 24.91% of imports in 2003– and Italy –8.46% of exports and 3.57% of imports in the same year–, Senegal's trade relations with Spain are quantitatively greater than with Belgium, Germany, the UK or Portugal.[7]

As we have seen, trade between the two countries has increased over the past 10 years, from total imports and exports of €74.5 million in 1996 to €166 million in 2005. The growth in trade between Senegal and Spain has been paralleled by an increased bilateral trade deficit for the former, particularly in the past few years (Graph 2). In this respect, the situation is similar to Senegal's trade relations with its other trading partners, with which it has had an almost chronic trade deficit since independence. In 2000, Senegal recorded a trade surplus with Spain of almost 5,500 million CFA francs. The following year, the surplus became a deficit of almost 10 million CFA francs, which in 2002 practically doubled, before stabilising at more moderate levels –15,500 million in 2003, 17,900 million in 2004 and 16,400 million in 2005–. The negative balance is due, above all, to the strong growth in Spanish exports to Senegal in 2001. From just over 39,000 million CFA francs in 2000, Spanish sales rose to over 58,000 million in 2001, up almost 49%. Although Spanish exports did not register such spectacular increases in the following years –even recording a 1.02% drop in 2002– they have remained at high levels –57,600 million in 2002 and between 62,000 and 66,000 million– in more recent years. On the other hand, Senegalese exports have been more erratic than imports and have failed to record such large increases.

[6] Created in 1994, the West African Economic and Monetary Union comprises its seven founder members –Benin, Burkina Faso, Ivory Coast, Mali, Niger, Senegal and Togo– and Guinea Bissau, which joined in 1997. The UEMOA has a common currency, the CFA franc.

[7] Although it would be interesting to contrast these figures with the importance for the Spanish economy of exchanges with Senegal, the data provided by Spanish institutions does not include the weighting of these exchanges in terms of total Spanish foreign trade. Nevertheless, it is likely to be far lower than the weight of Spanish trade for the Senegalese economy.

Graph 2. Senegal's trade relations with Spain in CFA francs



Source: DPS.

Senegal's exports to Spain have a very similar pattern to those with its other European partners. According to DPS and CDEAO statistics,[8] Senegalese exports with all its partners are essentially centred on fisheries –31% of average exports in 1993-2003– chemicals (basically phosphate derivatives) –which have risen from accounting for 13% of exports in 1993 to 17% in 2003– and peanut-derived products –9% of the average for 1993-2003–. With Spain in particular, exports are concentrated in a small number of primary and manufactured products (but with a low level of processing). Over 93% of sales to Spain between 1996 and 2005 were centred on four types of product, with fisheries accounting for over half of Senegal's exports to Spain during the period (see Table 3).[9] In second place, wrought and iron products, ie, scrap, accounted for over 25% of sales in the period, while the remaining two products, salt and sodium chloride and sugar have recently been subject to an erratic sales trend, with peaks in certain years. In 2001, exports of salt and/or sodium chloride were larger than for any other product, accounting for almost 39% of total sales to Spain, while sugar, specifically molasses, has largely fallen away since reaching a peak in 1997, at just under 24% of exports to Spain.

Following the general trend for less-advanced developing countries, Senegal's imports are more diversified and cover a greater number of products than its exports, including capital goods, machinery and intermediate products. In recent years oil has also become more important, especially due to its higher price on the international markets. Although they also have a high degree of concentration, imports from Spain are more diversified than Senegalese exports to it, with only four products accounting for 63% of imports between 1996 and 2005. Contrary to exports, the main products Senegal imports from Spain differ significantly from its general importing pattern. The main Spanish goods sold to Senegal are not capital or intermediate goods but construction materials, which accounted for at least 35% of Spanish exports to Senegal in 1996-2005. For this period, salt, gypsum, lime and cement accounted for over 20% of Senegalese imports from Spain; ceramic tiles, bricks, ceramic products and other construction materials for over 14%; while several

[8] Better-known as ECOWAS, its acronym in English, and a forerunner of UEMOA, the CDEAO was created in 1975 by a group of 15 countries, with the addition of Cape Verde two years later. The eight CFA area countries, including Senegal, form part of ECOWAS, as do Cape Verde, Liberia, Gambia, Ghana, Guinea, Nigeria and Sierra Leone. Group objectives include economic cooperation between member countries, improved trade relations and the free movement of people.

[9] Furthermore, as shown in Table 3, concentration was consolidated throughout the period, increasing from 82.55% of total exports to 97.37% in 2005.

of the items included under the heading of wrought iron and iron were construction materials such as sheet metal and uralite.

Another feature of imports from Spain is that the main products have followed a more erratic trend than exports, which is also due to the fact that there has been a change in the import mix. Based on the data shown in Table 3, salt, gypsum, lime and cement products decreased considerably at the beginning of the period –from close to 40% of imports in 1996 to 2.17% in 1999– before increasing in subsequent years –from almost 7% in 2002 to over 42% in 2003–. However, the change can be explained in terms of the variation in the relative weighting of the various products under this heading, because in the last few years imports of granite, a material related to the construction sector, have increased dramatically.[10]

Table 3. Senegal's main export-import products with Spain (%)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Av
Exports											
Fisheries	21.59	52.01	54.89	67.85	65.45	32.13	54.41	59.75	42.79	53.06	50.
Sugar	12.00	23.98	0.00	13.86	4.50	10.88	11.38	0.00	7.48	0.00	8.
Salt/sodium chloride	29.28	0.00	0.01	0.09	0.16	38.96	1.79	10.29	14.57	0.00	9.
Wrought iron/iron	19.68	21.60	27.83	16.08	22.26	14.49	27.48	26.36	34.02	44.31	25.
% of total	82.55	97.59	82.73	97.88	92.37	96.46	95.06	96.40	98.86	97.37	93.
Imports											
Salt/gypsum/lime/ cement	39.59	34.80	25.16	2.17	1.45	1.00	6.98	42.54	23.43	25.96	20.
Mineral fuels: fuel/oil	2.84	4.16	11.65	17.00	57.43	41.17	3.56	2.38	4.44	26.90	17.
Ceramic tiles, brick, ceramic products and other building materials	4.33	4.49	9.26	13.60	10.42	14.97	29.68	21.29	23.05	13.85	14.
Wrought iron/iron	22.37	20.27	16.50	11.06	4.64	10.68	8.02	5.54	7.72	3.69	11.
% of total	69.13	63.72	62.57	43.83	73.94	67.82	48.24	71.75	58.64	70.40	63.

Source: ECOWAS, DPS and the authors.

Very briefly, it can be said that Spain's trade relations with Senegal have grown in recent years due to the increase in the sale of building materials and the purchase of fisheries products and, to a lesser extent, scrap metal.

The prevalence of construction materials in Senegal's imports from Spain could be partly due to FAD projects in the construction and infrastructures sector and also, in more general terms, to the sharp growth of the Senegalese real estate sector in recent years. Meanwhile, the Senegalese diaspora in Spain appears to have played a significant role in the growth of imports of certain building materials, such as ceramic tiles.

Senegal's foreign trade reflects its socio-economic conditions. It is a developing country with a very low standard of living, placed near the bottom of the list of developing countries. Its trade balance is evidence of a primary production structure centred on a small number of products and with serious difficulties in balancing its foreign trade and a practically permanent deficit with its trading partners in general, and with the EU and Spain in particular.

Following an initial protectionist phase, within the framework of a strategy of import replacement during the first years of independence, Senegal opened up its trade in the 1980s. Liberalisation was reinforced at the end of the decade as a result of structural adjustment programmes and was consolidated in the mid-1990s. The creation of the UEMOA led to the establishment of a common external trade tariff, considerably simplifying the country's customs structure. Senegal was a founder-member of the WTO and established relations with GATT in 1947.

[10] There were significant increases in the imports of gravel and lime imports, as well as in other construction materials.

A large part of Senegal's trade policy is governed by its relations with the EU. Since the beginning of EC cooperation with ACP, as defined in the Treaty of Rome, there have been a number of vital agreements for economic relations and, in particular trade relations, between the EU and Sub-Saharan Africa. The Yaoundé agreements were followed by the Lomé and Cotonou agreements, the latter being currently in force. The Cotonou agreement established the basis for the ongoing economic partnership negotiations since September 2003, which are mainly aimed at promoting trade between the two regions.

In principle, the agreement will eliminate the non-reciprocal trade preferences currently enjoyed by the ECOWAS, establishing a free trade area between the EU and the ECOWAS in 2020. As mentioned previously (Olivié and Sorroza, 2006b), the need of developing countries to achieve strategic trade insertion to guarantee a positive impact of foreign trade on local development might require reconsidering the partnership agreements in regard to the reciprocity of liberalisation measures. This should allow a greater protection for African countries for certain sensitive products, so that the competitiveness gap vis à vis their European partners does not have destructive effects on African production capacities. Hoebink (2005), however, questions the trade benefits of the partnership agreements in general terms: it is not clear that the removal of trade barriers between Africa and Europe has generated –or will generate– a systematic improvement in the former's exports. Similarly, in his analysis on the (in)coherences of European policy on Senegal, this author emphasises the problems faced by Senegalese exporters to place their agricultural products on the European market. On the one hand, there are tariff fluctuations, which are low in the off-season and high for products in-season. On the other, food safety measures –especially relating to aflatoxin– can also act as non-customs barriers to African exports, since the levels demanded for foodstuffs are far lower than in the Codex Alimentarius. Whereas the levels in the Codex are set by the FAO and WHO, European regulations are set by the member states.

The Africa Plan includes Spain's commitment to defining a European trade policy, based largely on EU negotiations with economic unions, thereby promoting trade integration (MAEC, 2006a). Within this framework, Spanish proposals aimed at ensuring a greater strategic foreign insertion in Africa should contribute to reinforce the impact of European-African trade on African development.

Furthermore, it is also important to prevent the abuse of quality standards –seasonal limitations, rules of origin, etc– and their misuse as non-customs barriers by international institutions of which Spain is a member, such as the EU.

A large number of the ways –identified in our general framework (Olivié and Sorroza, 2006b)– in which financial and trade relations between aid donors and recipients can have a positive impact on the development of the latter are the result of economic growth. But this impact on development –and on the MDGs in particular– can also be achieved in a more direct manner.

This is the case for fisheries in the relations between the EU and Senegal. We have just noted that fisheries are one of the main export items for Senegal and that their relative weight in its trade with Spain is rising. According to several analyses on the sector, the intensity of fishing and exports could lead to a serious reduction in the country's marine reserves (see, for example, Brown, 2005 and Hoebink, 2005). In particular, the lack of marine resources is having a serious effect on traditional fishing methods, a very labour-intensive sector in which production has fallen significantly since 2005 (EIU, 2006)[11]. Hence, there is an inconsistency between Spain's trade relations with Senegal and the Spanish administration's development objectives for the country, since these products are purchased despite the evidence that the country's natural resources are being affected by fishing operations and foreign sales. More specifically, the objective most

[11] It appears that traditional fishermen were heavily involved in the recent wave of migrations, both as candidates for emigration and in the construction of the vessels used.

affected is number 7, which, in its ninth target, refers to the need to integrate the principles of sustainable development in policies and programmes and to reverse the loss of natural resources. According to some authors (Barraud, 2001), fisheries agreements between the EU and Senegal in recent years have been marked by the over-capacity crisis in the European fisheries sector, which has been caused by the reduction in Europe's marine resources. While a future fishing agreement is being negotiated, there are currently none in force. The Spanish administration will consider establishing private agreements with developing countries with which EU negotiations have failed but in such cases any agreement should be subject to the same sustainability criteria set for the EU agreements.

One of the aims of the Africa Plan (MAEC, 2006a) is to promote trade and investment, with a special emphasis on fisheries and energy security. The plan mentions the need to address Spain's trade deficit with the Sub-Saharan countries as a whole. The deficit reflects mainly refers to its energy-supply dependence in regard to Africa. As noted above, Senegal is not a producer or exporter of power supplies to Europe[12] and neither does it have a trade surplus with Spain. One recommendation would therefore be that the action plan for Senegal issuing from Plan Africa –still being drafted by the MAEC– which will undoubtedly take into consideration the distinctive features of trade relations between Spain and Senegal, should also take into account both the environmental pressure of fisheries operations and the need for Senegal to achieve an even balance of payments. Thus, although Senegal would not be specifically affected by these measures, which are nevertheless part of the guidelines for Spanish action in the region as a whole, it should be borne in mind that foreign investment in energy resources or, in more general terms, in mining, has historically had a lower impact on development than investment in other production sectors, which are more capital-intensive or more labour-intensive and have a greater capacity to generate knock-on effects for the entire economy.

2.3. The Role of Remittances

According to the Senegalese government's most recent estimates, 700,000 Senegalese are currently living abroad. Of the OECD countries, France is the leading choice of destination, although Italy and Spain have gained ground in recent years. According to the INE, 5,718 Senegalese entered Spain in 2004. In September 2006[13] the Senegalese press estimated that 60,000 Senegalese were living in Spain.

Despite media coverage of the migratory phenomenon originating on the Senegalese coast, the truth is that flows of Senegalese migrants are increasing at a similar rate to the 1990s. Nevertheless, the networks trafficking in migrants seeking to reach Europe by sea have shifted their operations southwards, from Morocco, making Senegal an important focal point for the departure of African migrants. To a large extent, the factors explaining Senegalese migration can still be found in the rural crisis that has transformed large regions of the hinterland, such as the peanut-producing basin, previously places of destination for seasonal migrants seeking employment during the harvest, into focal points for emigration, first to the urban coastline –Dakar currently absorbs around a third of the country's total population– and then towards Europe. The crisis in the traditional fishing industry has also played a significant role.

According to BCEAO data, there has been a considerable increase in the flow of remittances to Senegal in recent years. For instance, there was an increase of over 70% in the transfers made by remittance agencies between 2000 and 2004. According to World Bank data, the sum of remittances and pay sent by workers to Senegal grew from just over US$100 million in the late 1980s to US$150 million in 1996, and now stands at over US$500 million. In 2005, migrants' remittances

[12] Although, to a certain extent, it does have such a role in relation to its African partners, due to its oil-refining operations.
[13] From the newspaper *Walf Djiri*, 7/IX/2006.

accounted for 8% of the country's GDP. Of this figure, the proportion of remittances originating in Spain is estimated at around 1.6% of GDP, ie, 12.3% of total remittances arriving from abroad. Figures published by the Bank of Spain show that migrants' remittances, which totalled over €96 million in 2004 and almost €111 million in 2005, were greater than any other flow from Spain in both years, at almost 142% and 157% of exports to Spain in 2004 and 2005, respectively, and 6.5 and 1.6 higher than Spanish aid in those years.

Table 4. Basic data on the despatch of remittances from Spain to Senegal

	2004	2005
Total remittances in euros	96.347.000	110.739.336
% of total remittances transferred from Spain	2,3	2,4
% of total remittances received by Senegal	12,17	12,3
% of Senegal's GDP	1,5	1,6

Source: BCEAO, Bank of Spain, IMF and the authors.

However, the volume of remittances channelled by informal and in-kind methods are very likely to imply a considerable increase in the official figures for remittances from Spain to Senegal, although at present there is no reliable data. The lack of statistics on remittances –a consequence of the fact that it is impossible to record the exact volume sent informally– is usually highlighted in any analysis on the subject. Nevertheless, there are reasons to believe that the size of the flow –and also of in-kind remittances– is higher for Senegal than for Latin America. This is because Senegalese immigration has a different profile. In the Senegalese community there appears to be a higher proportion of self-employed workers –small craft retailers, for example– who frequently travel to their country of origin and/or maintain close trade relations with Senegal in order to purchase crafts products (Cissé *et al.*, 2006). According to experts on the subject interviewed in Dakar, remittances sent by informal channels could comprise between 40% and 50% of the total remittances sent to Senegal. Moreover, such an estimate is consistent with the results of surveys on remittances sent from Belgium to Senegal undertaken by the World Bank (2005), which suggested that 42% of total remittances reaching the country did so by informal channels.

There is very little information or statistics available either on remittances –the profile of the diaspora, origin by regions, destination by regions etc– or on their use in the receiving-country –consumer uses, the proportion saved, details on the receivers etc–. Hence, it is important to insist on the need, already mentioned in the more general report on the coherence of development policies (Olivié and Sorroza, 2006b), for a greater effort to be made in this respect. Furthermore, the lack of information makes it difficult to draw conclusions or make recommendations regarding migrants' remittances.

The data provided by BCEAO for 2004 and 2005[14] on the modes of transfer and the use in the destination of remittances can serve as the starting point for this analysis. We shall see below that the use in destination partly depends on how remittances are sent. BCEAO distinguishes between two channels for sending remittances: traditional and quick. Traditional-type remittances are sent via the formal banking system, whereas the quick format is executed via remittance agencies, such as Western Union. In recent years there has been a distinct contrast in the weighting of each mode over the total. Despite their higher cost, quick transfers have gained ground compared with the traditional method (see Table 5). Although both modes increased in absolute terms between 2004 and 2005, quick transfers were up 22.31% and the traditional type only 1.32%. Speed is the main advantage of quick transfers over the traditional type.

[14] This database provides a breakdown of the modes of transfer for some countries of origin, but not for Spain. Therefore, the statistics given below refer to use in destination of the full set of transfers received or recorded by the central banking system, without specifying their origin.

Table 5. Remittances: traditional and quick transfers (millions of CFA francs and %)

	2004	2005	variation
Traditional transfers	210,317	213.101	(1.32)
	(40.51) (a)	(36.07)	(-10.97)
Quick transfers	308,804	377,711	(22.31)
	(59.49)	(63.93)	(7.47)
Total	519,121	590,812	(13.81)

(a): the brackets indicate %
Source: BCEAO and the author's calculations.

The same institution divides the use of migrants' remittances in the receiving-country into three categories: educational aid, family support and real estate construction, which together account for over 90% of the uses of total transfers at destination (see Table 6). According to this statistical source, over half of the total remittances, 52.78%, are used in the educational sector, thereby directly contributing to the achievement of the MDGs – specifically to goal number two–. This is largely explained by the use of quick remittances in the receiving-country: 82.5% of fast-track remittances are used in the educational sector. Traditional transfers are mainly spent on family support and construction –at 43.16% and 35.82% respectively–. Remittances sent via the formal banking system are more likely to be spent on real estate investment than those sent by other channels. Cash or in-kind informal transfers are largely made for trade activities involving importing and exporting.

Table 6. Use of migrants' remittances in the receiving-country (millions of CFA francs and %), average for 2004-05

	Education	Family Support	Real Estate Construction	Other	Total
Classic transfers	9,764	91,379	75,841	34,726	211,709
	(4.61) (a)	(43.16)	(35.82)	(16.40)	(100)
Quick transfers	283,149	60,109	0	0	343,258
	(82.49)	(17.51)	(0)	(0)	(100)
Total transfers	(52.78)	(27.30)	(13.67)	(6.26)	(100)

(a): the brackets indicate %.
Source: BCEAO and the author's calculations.

2.4. Direct foreign investment

As is well known, most FDI flows occur between developed countries and that, moreover, among developed countries this type of financing is dominated by a few dynamic economies, amongst them China (García, 2006).

Thus, Senegal's marginal role in this type of investment is hardly surprising. According to UNCTAD figures, with inflows of US$54 million, Senegal only received 0.006% of total FDI in 2005. The recent evolution of the volume of entries in absolute terms shows peaks and troughs, with no clear upward or downward trend (see Table 7).

What does appear evident is Senegal's declining role in direct world investments, having dropped in relative terms from an average of US$57 million in the 1990s to only US$54 million in 2006. It could be argued that its exclusion from the world financial circuits can be partly explained by the Asian boom and, more specifically, by the role of China. However, Sub-Saharan Africa and the group of LDCs have managed to increase their weighting in world FDI flows. The African sub-continent's weight in world FDI flows has doubled over the past 15 years, rising from an average of 0.972% in the 1990s to 2.016% in 2004. For their part, and despite their very low starting point, the LDC's capacity to attract funds has practically trebled, having risen from 0.513% of world FDI in the 1990s to 1.506% in 2004 (see Table 7).

In summary, Senegal's attractiveness for foreign capital has historically been very low or nonexistent. FDI in Senegal has declined both as a percentage of the world total and in relation with the volume invested in Sub-Saharan Africa and the LDCs.

Table 7. Direct foreign investment in Senegal (US$ million and %)

	1990-2000	2002	2003	2004	2005
Senegal	57	78	52	77	54
% Senegal / world total	0.012	0.013	0.009	0.011	0.006
% Senegal / Sub-Saharan Africa	1.183	0.793	0.369	0.537	–
% Senegal / LDC	2.244	1.233	0.502	0.719	–
% Sub-Saharan Africa / world total	0.972	1.592	2.526	2.016	–
% LDC / world total	0,513	1,024	1.855	1.506	–

Source: UNCTAD and the author's calculations.

The flow of direct Spanish investment to Senegal has been minimal in recent years. According to data from UNCTAD, the IMF and the Spanish Ministry of Industry, Tourism and Trade, average flows of Spanish FDI to Senegal in 1999-2004 totalled €67,260 per year, in other words, 0.54% of world FDI in Senegal. Hence, Spain is a very small investor –compared to France, Germany and the US– in a country which, moreover, is gradually losing its capacity to attract this type of foreign savings. Another feature of Spanish investments in Senegal is that they are erratic, with marked rises and falls over the last few years. As we shall see below, this factor is largely explained by their nature and the investment sectors involved.

A breakdown by sectors of the flow of Spanish FDI to Senegal in recent years shows that it has been highly concentrated in certain sectors, particularly the mining industry, which in 1996-2004 accounted for 86% of the flows of direct investment to Senegal (see Table 8). These figures are partly explained by the acquisition of the state's stake in the SSPT –which specialises in aluminium phosphates– by the Spanish company Tolsa in March 1998, for over US$2.1 million (EIU, 2005). The vehicle sale, maintenance and repair sector absorbs almost 13% of annual investments in the country.

Table 8. Sectoral distribution of flows of Spanish FDI to Senegal (€ thousands and %)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	total	%
Mining (non metal or power supply)	0	0	3,733	0	0	0	0	1,847	0	5,579	85.96
Vehicle sales, maintenance and repairs	0	33	797	0	0	0	0	0	0	830	12.79
Transport-linked activities	0	0	0	0	0	0	76	0	0	76	1.17
Other business activities	0	0	0	0	0	0	0	0	5	5	0.08
Total	0	33	4,530	0	0	0	76	1,846	5	6,490	100

Source: Ministry of Industry, Tourism and Trade.

Nevertheless, as we shall see, the sectoral distribution of these investment flows does not adequately reflect the presence of Spanish companies in the country. In particular, the presence of fisheries companies is undervalued. This is because, first, certain of the industries with a heavier presence made strong initial investments which are not included in the period for which we have data on FDI flows –joint ventures based in Senegal began to appear in the sixties–. Secondly, a large part of the fisheries companies operating in Senegal do so as joint-ventures and not as foreign companies; therefore they do not appear in databases on flows or stocks of foreign investment.

The DPS database, which includes the main features of the foreign companies operating in Senegal –trading name, sector of activity, share capital and turnover–, indicates the presence of a large number of Spanish companies in the fishing sector –although a decline has been noted from 2001– as well as the presence of Spanish capital in the mining, transport and construction sectors.

Building on our analysis of FDI's potential for contributing to development, as part of our more general framework on policy coherence (Olivié and Sorroza, 2006b), we believe this potential will be larger or smaller depending on a series of impact factors that can be summarised as follows: (i) a crowding-in effect in the sector of destination; (ii) a structural change effect; (iii) a certain export bias –not fully offset by higher imports or foreign debt–; (iv) whether they are start-up investments –as opposed to mergers or acquisitions–; (v) the level of labour-intensiveness; (vi) the generation of links with local industry; (vii) respect for local labour standards; (viii) the generation of technological spillovers; and (ix) the use of clean technologies.

Direct Spanish investments in Senegal reflect the importance of mining operations –specifically phosphate mining–. As argued previously (García, 2006), the mining industries usually generate less knock-on effects, involve less technology transfers, are less labour-intensive and, obviously, lead to less structural changes towards a more diversified economic structure than investments in other sectors. As regards investments in the fisheries sector, their impact on development depends on their labour intensiveness. Similarly, improvements in the capacity for processing, conserving, canning and so on increase the added value of Senegalese production and exports. As indicated in the section on trade relations, complaints have been made regarding the environmental pressure on the country's marine resources.

However, one of Senegal's main problems remains its limited capacity to attract FDI. More specifically, and in line with the scheme proposed as a part of our general framework for policy coherence (Olivié and Sorroza, 2006b), the principal FDI pull factors that require support for all developing countries are competitiveness –in cost and efficiency terms, for instance–, the size of the internal market and institutional features such as openness to trade and legal security. As stated, Senegal is relatively open from a commercial point of view. As regards judicial security and other institutional aspects relating to direct investments, the recently created APIX, an agency to promote investment under direct control of the President's office, is responsible for areas including the provision of information to foreign investors, but it also functions as a single-stop shop for the administrative processing of private investment projects in the country.[15] It has already been pointed out that labour-force cost-competitiveness is not a comparative advantage to be promoted if the idea is to foster development, as understood in the Master Plan for Spanish Cooperation (MAEC, 2005a). However, competitiveness can be supported by other means including, for instance, workforce efficiency. This would also be in line with one of the objectives included in the national development plan, which seeks to increase workforce productivity. In this respect, the constant, even increasing, power cuts and unreliable transport system are particularly relevant since they render economic activities in Dakar considerably more difficult.

We have also noted the marginal weight of direct Spanish investments in Senegal, both as regards the economic relations between the two countries as a whole and compared with the investments made by other countries. Hence, instruments to promote Spanish investments abroad can be particularly useful. At a time of low interest rates, and, therefore, of cheap private financing, measures for non-financial promotion may prove particularly useful –business forums or APRPI, for example– in that they can play a useful role in reducing the asymmetry of information for investors and, therefore, the risk for their projects. Likewise, one of the four fields of action for the recently created *Casa Africa* is economic and will include Spanish-African forums for business people, seminars on investment, trade development, fisheries and the management of oil resources, meetings on economic development and social equity; seminars on the ACP mechanisms with the EU, and programmes to publicise actual conditions on the ground in Africa.

We should stress once again that the administration's criteria for supporting the internationalisation of Spanish companies must be adapted to the development objectives which have been set for the country in question, both by the receiving country and the Spanish administration itself. In order to ensure this, the criteria should include some of the development factors highlighted above –technological spillovers, training, start-up investments and an export bias, for instance–. An important feature in this respect is Plan Africa's indication that support for the internationalisation

[15] http://www.investinsenegal.com/

of Spanish businesses should be geared towards job creation in destination countries (MAEC, 2006a). The support provided to companies with a significant export bias would also lead to a more balanced trade insertion in Senegal which, as stated, has a trade deficit with Spain in particular. Another crucial aspect are the sectoral priorities of the country receiving the investment, which in this case are reflected in the accelerated growth strategy –agriculture and agro-industry; sea products; textiles; information and communications technologies; and tourism, the cultural industry and crafts–.

Some of the financial instruments to promote Spanish investments in developing countries are provided by COFIDES, a company whose role is basically to support this type of projects. COFIDES manages FIEX and FONPYME as well as other lines of multilateral financing with financial institutions. For Senegal, the latter are granted by EIB, which is the institution responsible for ACP countries –an EFP line and ease of EIB investment–. According to Africa Plan figures (MAEC, 2006a), to date 14 Spanish investment projects in Sub-Saharan Africa have received financial and technical support totalling over €429 million. The recently approved Royal Decree, RD 1226/2006, considerably alters the operational mechanisms for these support instruments in order to make them more flexible. Thus, there will no longer be a requirement for support from FIEX and FONPYME to be restricted to direct investments in equity by companies in another country. It will now be possible for investments to be channelled via companies with a head office in third countries. Similarly, support that was previously sectorally limited to productive investments, will be extended to export activities, technological transfers, sub-contracting and franchises. There can be no doubt that these measures add flexibility to the use of the funds, probably ensuring thereby that they will be used to a greater extent by Spanish companies. However, it would also be important to assess how much this flexibility is also relaxing the criteria for development in the receiving country. Furthermore, COFIDES' general activity, which was previously focused on developing countries, has been extended to cover support for the internationalisation of Spanish companies in relation to developed countries. The degree to which this will reduce the financing available for the internationalisation of Spanish businesses with respect to developing countries will depend on COFIDES' total budget and its geographical breakdown. Lastly, COFIDES does not provide financial support –which is repayable, although at slightly better financial conditions than the market– in local currency, and therefore aggravates the developing country's foreign currency debt. As we shall see in the next section, the granting of new lines of repayable financing should take into consideration sustainability criteria and be coherent with multilateral and bilateral policies for debt cancellation. If not, a vicious circle could arise in which one body of the administration periodically cancels the financing awarded by another. Furthermore, in this particular case, adequate management of the exchange rate risk is essential.

Finally, it should be stressed that the spheres of action we have highlighted are not compatible with national, regional and international regulations aimed at harmonising and liberalising FDI legislation in developing countries. What we are considering in this section is the Spanish administration's support for strategic productive insertion as required by the development plans for Senegal designed by the donor community. To achieve this, the Senegalese authorities need to retain some room for manoeuvre, a policy space, in relation to its regulations for foreign investment.

2.5. External Debt

There are no statistics available on the flow of public and private debt from Spain to Senegal, or of their weight in relation to other sources of Spanish financing. Nevertheless, the fact that Spanish banks have practically no presence in Senegal suggests that the size of the private debt is likely to be low. Given the nature of ODA and the debt cancellation operations we will consider in this section, it would appear that Senegalese public debt with Spain derives from FAD credits.

In more general terms, and in line with the trend for Sub-Saharan countries outside the productive and portfolio investment circuits, public and private loans are Senegal's main source of external financing. In recent years, the other investments heading –largely made up of credits and loans– has accounted for around 90% of net public capital and 65% of private net capital in the balance of payments (see Table 9).

Table 9. Senegal's external financing (thousands of millions of CFA francs and %)

	1996	2000	2005
Net public capital	35.90	46.54	124.00
Other investments	46.14	40.59	116.90
% of the total for net public capital	(128.52) a	(87.21)	(94.27)
Net private capital	-4.63	128.37	151.90
Other investments	-14.78	80.21	102.40
% of the total for net private capital	(319.32)	(62.48)	(67.41)

a: brackets indicate %
Source: BCEAO and the author's calculations.

Senegal has traditionally registered high levels of foreign debt, with the result that it has been part of highly diverse international initiatives for renegotiation, conversion or cancellation –13 debt treatments since 1981, including the HIPC programme[16]–. Senegal is one of a small group of developing countries which have been able to take advantage of the most ambitious debt relief initiatives, such as the recent MDRI. Hence, with these debt cancellation initiatives the policies of the donor community, Spain included, are in general terms coherent with the development objectives for Senegal. However, as we shall now see, there is still some scope for Spain to have an even greater impact on Senegal's economic and social welfare.

Senegal is one of the 40 countries in the HIPC,[17] making this programme the framework for debt relief operations from Spain. Furthermore, in April 2004 it was amongst the 20 countries which reached the culmination point which, following the decision point and temporary debt relief, clears the way for total and definitive cancellation of multilateral and bilateral debt.[18]

As for multilateral debt, Senegal has benefited in the past few years from the financial relief provided by the fiduciary fund of the HIPC initiative; the fiduciary fund is supported by the IMF's own resources and by bilateral contributions from member countries. As at the end of January 2006, Spain's contribution to the HIPC fund amounted to US$165 million of the US$3,606 million provided by all the donors (IMF and IDA, 2006).

But Senegal was also one of the 17 HIPC countries able to cancel the debt contracted with the IMF in the framework of the MDRI. Following the G8 summit in Gleneagles in July 2005, the HIPC programme was replaced by the so-called MDRI, aimed at definitive relief of the multilateral debt – in relation to the IMF, World Bank and African Development Bank– of this reduced group of countries.[19] These three multilateral institutions independently administered their respective cancellations, and, having complied with the additional IMF conditions for transition from the HIPC programme to MDRI –requirements in terms of macroeconomic policies, implementation of a poverty reduction strategy and management of public spending– Senegal's debt to the Fund prior to January 2005 was cancelled in January 2006. The amount cancelled was US$145 million, charged to the MDRI-II fiduciary fund, which is financed by bilateral contributions from IMF member countries, and is operational for MDRI countries with per capita incomes of over €380.

[16] For further details see www.clubdeparis.org
[17] A comprehensive debt-relief programme for highly-indebted poor countries promoted by the IMF and the World Bank in 1996 and updated in 1999. In addition to satisfying maximum levels for per capita income and minimum levels for foreign debt, to join the programme it is necessary to draft a poverty reduction strategy. For further information on the programme see http://www.imf.org/external/np/exr/facts/hipc.htm
[18] One of the main novelties included in HIPC with respect to earlier debt relief initiatives is that cancellations also include multilateral debt, which until then had been considered preferential debt and did not qualify for cancellation.
[19] For further information on MDRI see http://www.imf.org/external/np/exr/facts/mdri.htm

Table 10. Senegal's debt servicing (US$ million and %)

	1998-99	2000-01	2002	2003	2004	2005	2006	2007	2008
			executed			provisional		forecast	
Expenditure on debt servicing	192.5	147.3	145.6	159.6	160.8				
Debt servicing following extension of HIPC						171.9	164.2	153	165.7
Debt servicing / exports (%)	13.5	10.9	9.5	8.7	7.6	7.6	7.2	6.4	6.6
Debt servicing / administration income (%)	24.0	18.6	14.1	11.8	10.1	10.7	9.6	8.4	8.5
Debt servicing / GDP (%)	4.0	3.3	2.9	2.5	2.1	2.1	1.9	1.7	1.7

Source: IMF and IDA (2006)

Senegal's bilateral debt with Spain is also included under the HIPC initiative and the cancellation decisions are still included within the Paris Club. Senegal's arrival in 2004 at the point of culmination of the HIPC framework involved the cancellation of bilateral Spanish debt –trade debt and ODA debt– from before the cut-off date, which was 1 January 1983 for Senegal, as stipulated by the Paris Club. In June 2005, the Cabinet approved an extension of its commitments on cancellation of HIPC countries' bilateral debt within the framework of the Paris Club.[20] Specifically, there was an agreement on cancellation of 100% of ODA debt after the cut-off date and before 20 June 1999 and the allocation of cancellation funds to programmes of debt conversion in public investment in education, the environment and infrastructures. For Senegal, this meant an extension of the cut-off date for its debt with Spain from 1983 to 1999, and the inclusion in the cancellation or conversion agreements of the volume of ODA debt generated over an additional 16-year period –largely FAD credits– in other words, an additional €1.9 million. For the beneficiaries of this extension as a whole, the operation represented an additional cancellation of US$2,800 million. The conversion funds will be managed by the World Bank, which will channel them towards technical assistance activities within the framework of the country's poverty reduction strategy. The specific sectors of destination have still to be set.

Since Senegal reached the culmination point and until now, cancellation of the country's debt with Spain has totalled approximately €65 million (see Table 11).[21] This is higher than the just under €54 million for ODA in 2005 (see Table 2), since the principal of the ODA loans that were cancelled was not computed as aid.

Table 11. Spain's bilateral cancellations with Senegal after the culmination point (US$ million and € million)

	Sum cancelled		Sum computable as ODA (a)	
Trade debt	45,439,617.26	US$	45,439,617.26	US$
Trade debt	8,109,829.21	€	8,109,829.21	€
Public loans (pre-FAD)	9,334,336.04	€	9,334,336.04	€
FAD debt	12,221,919	US$	106,347.47	US$
principal	12,115,571.77	US$	0	US$
interest	106,347.47	US$	106,347.47	US$

(a) Not all cancelled debt is computed as ODA: in calculating cancellations, the principal of the ODA debt is excluded. This applies in the case of FAD credits.
Source: Ministry of Economy and Finance, Spain

In summary, Spain has joined the international debt relief initiative for less-advanced and more indebted countries, and has contributed to reducing Senegal's financial burden by means of both multilateral and bilateral operations. In the light of this, certain of the recommendations made to the Spanish administration in relation to the management of developing countries' foreign debt (Olivié and Sorroza, 2006b) are not applicable to Senegal, one of the few countries to have managed to gain access to the HIPC initiative first and then to MDRI, and which have also benefited from Spain's bilateral cancellation initiatives.

[20] Resolution of the Cabinet of 8 July 2005. For a summary of the content relating to of debt cancellation policies see http://www.mineco.es/Portal/Areas+Tematicas/Internacional/Financiacion+internacional/Gestion+Deuda+Externa/Comunicado+Iniciativas+Deuda+Paises+HIPC.htm

[21] Applying the exchange rate applied by the Spanish Ministry of Economy on 31 December 2005 (€1 = US$1.1823).

Notwithstanding such successes in solving the debt problem, it is important to stress the recommendations aimed at avoiding over-indebtedness and other problems deriving from external debt in developing countries. Without these precautions, the problem solved through the HIPC and MDRI could reappear in a few years.[22] On the bilateral level, it is important to highlight the technical assistance to developing countries in relation to external debt. But there is a further field of more direct action for the Spanish administration as regards the push factors, proceeding with caution in regard to the volume of credit that the administration places at Senegal's disposal: mention should be made of the new ODA loans awarded in recent years and the COFIDES financing instruments. As we have seen, as late as 2005 considerable volumes of FAD loans were granted to Senegal (see Table 2), beyond the cut-off date of 1999 set in the extension agreement on operations of debt cancellation. While it is true that certain of the payments correspond to second or third phases in the execution of multi-annual projects, the administration should perhaps be extremely cautious when considering further ODA loans for countries with Senegal's domestic and external financial situation. Since the Ministries of Economy and Finance and of Industry, Trade and Tourism are the main players in Spain's cooperation with Senegal, the situation could be one in which most of its cooperation with Senegal amounts to the awarding of ODA loans which are subsequently cancelled or converted.

3. Conclusions and recommendations

The recommendations presented below focus on the bilateral instruments to be employed in Spain's economic action abroad that could have an impact on development in Senegal. Thus, this last section is the fruit of the analysis undertaken above, based on the volume and the features of trade, remittances, investments and flows of debt between Spain and Senegal. First, some aspects of Spain's relations with Senegal within a multilateral context have not been addressed in this paper. Such is the case with the impact of the regulations involved in the IFA, in which Spain participates and which can positively or negatively affect Senegal's economic and social development. Secondly, several of the recommendations offered to the Spanish administration on a multilateral level are general and not, therefore, liable to rejection or validation via country-specific case studies. An example is the respect for regulations agreed in the multilateral forums (R.3. p. 67 in Olivié and Sorroza, 2006b). More detailed analysis of this type of measures would doubtless require a further case study, although a sectoral analysis might be more appropriate. Thirdly, we do present a range of recommendations on the multilateral aspect that can be contrasted in country-specific case studies but which do not directly derive from the analysis of the trade and financial exchanges between the two economies. The methodology that would allow us to assess the policy space of the Senegalese administration in the international forums in which Spain also participates would require a study different from that undertaken in the two previous sections.[23]

Several of the recommendations now offered with a view to promoting the coherence of Spanish policies with regard to Senegal's development would come under the framework of the section on technical cooperation. In this respect, it is important to reiterate the existence of commitments on the sectoral allocation of aid –such as the 20/20 commitment– or the MDGs themselves, limiting the volume of aid that can be allocated for measures including those aimed at strengthening productive capacities or trade and technical assistance in relation to foreign debt.

R.1. Based on the analysis contained in this paper, it is possible to make specific recommendations on the relations between Spain and Senegal which were not considered for the aid-receiving countries as a whole. In regard to trade relations between the two countries, one recommendation

[22] In this context, IMF and IFA debt statistics (2006) forecast an increase in the servicing of Senegal's external debt from 2008 (Table 10).
[23] A recent UNCTAD report on Sub-Saharan Africa recommends reinforcing the policy space of the African administrations as regards the management of external savings and the adaptation of donors' policies to this requirement (UNCTAD, 2006).

would be to increase the monitoring of the environmental impact caused by the intensity of trade in fisheries, with a special emphasis on the impact of the sector's over-exploitation in traditional or small-scale fishing.

R.2 (4). Improved data on the sending and use at destination of remittances.[24]

Although the Bank of Spain now publishes information on the geographical distribution by country of the remittances sent from Spain since 2004, a more in-depth analysis of remittances and their possible developmental impact in receiving-countries would be possible with an increased volume of statistics. Use could be made of the information released by this and other institutions on the profile of migrants –whether self-employed or contracted, their income bracket in their country of origin, region of origin, etc–, the average volume of remittances, the frequency with which they are sent and the capacity to decide the use of transfers once they arrive.

In regard to their use in receiving countries, it would be interesting to know the use and impact of remittances at the macro and microeconomic levels (by families).

R.3 (7). Support for direct investment by Spanish companies subject to development criteria in receiving countries.

In regard to financial support instruments, these criteria are applicable to FAD loans, COFIDES financial instruments –FIEX and FONPYME– as well as to the ICO and CESCE support instruments. Generally speaking, a greater coherence would be achieved if there was a greater coherence between the impact factors of FDI on development which are included in the general framework –labour intensiveness, the crowding in effect, structural change, knock-on effects etc– and the criteria for awarding instruments for the international promotion of Spanish companies. Likewise, it is crucial to adjust the criteria for FDI support to the priorities set in this respect by the receiving country, in the PRSP and the AGS. In summary, the priorities are focused on the agricultural, fisheries, textile, technological and tourist sectors.

As we have already stated, at a time of cheap financing, non-financial support instruments might prove to be even more useful; for example, workshops, seminars or business forums that increase contacts between business people as well as the knowledge of Spanish business people on the economic situation of the country and its real investment possibilities. In this context, it is worthwhile mentioning again the recently created *Casa Africa*.

Action to support the internationalisation of businesses should take into account the trade requirements of the country as described below for companies with a significant export profile.

R.4 (13). Productive and trade capacities.

Given Senegal's primary-exporting structure, donor support for the country's productive and trade capacities would appear to be important. More specifically, the idea would be to focus such support on: (i) overcoming the country's dependence on its fisheries production which, moreover, is becoming increasingly vulnerable in environmental terms, a factor that also has a counter-productive effect in regard to the achievement of the 7th Millennium Goal. This aid would also contribute to: (ii) achieving equilibrium in the Senegalese balance of payments, which shows a severe trade deficit with its trading partners as a whole and also with Spain in particular. Similarly, the Spanish administration could: (iii) contribute to Senegal's agricultural diversification, for example through an improved insertion in vertical production chains and the distribution of agri-

[24] The use of brackets in numbering the recommendations follows the format employed in the general report (Olivié and Sorroza, 2006b).

food products –garden vegetables, fruits, flowers, etc– which, since their production is labour-intensive, normally contribute to a reduction in migratory pressure towards the cities or abroad.

R.5 (15). Technical assistance on external debt issues.

There are no technical assistance programmes with Senegal in the field of foreign indebtedness promoted by the Spanish administration. The Bank of Spain offers technical support for domestic debt, but focuses its operations on Latin America. It would be possible to analyse the existence and scope for improvement of this type of support by the multilateral organisations of which Spain is a member –the ECB, for instance–.

R.6 (16). Competitiveness of production factors.

For Senegal, Spanish technical cooperation in this field could focus on support for workforce efficiency, one of the key objectives selected for the country's poverty reduction strategy. A constant electricity supply is key in this respect, as is a reduction in transport costs.

R.7 (17). General support for FDI impact conditions on development.

The programmes of AECI, CECO and ICEX, many of them coordinated in conjunction with MIGA, are precisely focused on facilitating the existence of impact factors on development from FDI. These programmes could be considered as a means of supporting the conditions necessary to ensure that FDI achieves the maximum developmental impact.

R.8 (20). Improvement of statistics on developing countries.

This study has once again served to show how donors' possibilities for action are limited by the lack of information and analyses on the destination of migrant's remittances.

R.9 (21). Greater policy space for developing countries in trade negotiations.

Following on from the analysis of trade relations with Senegal, this recommendation could be tailored to the specific case of the partnership agreements currently being negotiated by certain Sub-Saharan countries and the EU. The elimination of non-reciprocal trade protection measures carries a risk of causing a significant reduction in Senegal's productive and exporting capacity. It will therefore be important for such an elimination to be subject to prior and detailed analysis to gauge the short and mid-term impact of the presence or otherwise of non-reciprocal protection on all of the affected areas.

R.10 (22). Review of the regulations for direct investment.

The emphasis on policy space for strategic productive insertion should be matched by the explicit acceptance of the Senegalese administration's room for manoeuvre in relation to development plans for the country approved by the donor community. It is important for Spain to defend the implementation of this principle in European negotiations.

In conclusion, there are additional lines of study arising from the present paper that might shed further light on the possible coherence or incoherence of Spain's relations with Senegal. The first of these is a profile of the Senegalese diaspora in Spain. An analysis of certain of its basic features –frequency and amount of remittances sent, factors influencing the propensity to remit, the capacity to decide on the use of remittances on arrival, etc– would make it easier to guide Spanish cooperation on co-development. Secondly, and based on the DPS data on Spanish companies operating in Senegal, a more detailed analysis could be undertaken on the impact of Spanish investment in Senegal. Information on capital stock, turnover and sector of activity, alongside a study on the links with local industry, reinvestment of profits, number of Senegalese employees per company and so on would allow an assessment of each of the factors relating to the developmental impact of FDI included in this paper.

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