EBS/83/182
Supplement 2

CONFIDENTIAL

September 20, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: Senegal - Stand-By Arrangement

Attached for the records of the Executive Directors is the text of the stand-by arrangement for Senegal agreed at Executive Board Meeting 83/144, September 19, 1983.

Att: (1)

Senegal - Stand-By Arrangement

Attached hereto is a letter, with annexed memorandum, dated August 11, 1983 from the Minister of Economy and Finance of Senegal requesting a stand-by arrangement and setting forth the objectives, policies, and measures that the authorities of Senegal intend to pursue for the period of this stand-by arrangement.

To support these objectives, policies, and measures, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from September 19, 1983 to September 18, 1984 Senegal will have the right to make purchases from the Fund in an amount equivalent to SDR 63.0 million, subject to paragraphs 2, 3, 4, and 5, without further review by the Fund.

2. a. Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of:

SDR 15.75 million until December 15, 1983;
SDR 31.50 million until March 15, 1984; and
SDR 47.25 million until June 15, 1984.

b. None of these limits shall apply to a purchase under this stand-by arrangement that would not increase the Fund holdings of Senegal's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of supplementary financing or borrowed resources beyond 12.5 percent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary and borrowed resources in the ratio of 1 to 1.2 until total purchases under this arrangement reach the equivalent of SDR 54,298,758, and then each purchase shall be made with borrowed resources, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Senegal will not make purchases under this stand-by arrangement, other than the initial purchase of the equivalent of SDR 15.75 million, that it may request not later than within 15 days of the effective date of this arrangement, that would increase the Fund's holdings of Senegal's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of supplementary financing or borrowed resources beyond 12.5 percent of quota:

a. during any period in which the data at the end of the preceding period indicate that:

(i) the limit on total domestic credit of the banking system described in paragraph 7 of the annexed memorandum; or

(ii) the limit on net bank credit to the Government described in paragraph 7 of the annexed memorandum; or

(iii) the limit on contracting of government and government-guaranteed external debt described in paragraph 7 of the annexed memorandum; or

(iv) the limit on arrears of the Government and public enterprises described in paragraph 7 of the annexed memorandum; or

(v) the limit on reclassified crop credit described in

paragraph 7 of the annexed memorandum is not observed;

or

b. after March 14, 1984, until suitable performance clauses have been established in consultation with the Fund pursuant to the review contemplated in paragraph 8 of the annexed memorandum, or after such clauses have been established, while they are not being observed; or

c. if Senegal:

(i) imposes restrictions on payments and transfers for current international transactions, or

(ii) introduces multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Senegal is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Senegal and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Senegal's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Senegal. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Senegal and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Senegal, the Fund agrees to provide them at the time of the purchase.

7. The value date of a purchase under this stand-by arrangement involving borrowed resources will be normally either the 15th day or the last day of the month, or the next business day if the selected day is not a business day. Senegal will consult the Fund on the timing of purchases involving borrowed resources.

8. Senegal shall pay a charge for this arrangement in accordance with the decisions of the Fund.

9. a. Senegal shall repurchase the amount of its currency that results from a purchase under this arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Senegal's balance of payments and reserve position improves.

b. Any reductions in Senegal's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

c. The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed no later than seven years from the date of purchase.

10. During the period of the stand-by arrangement, Senegal shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Senegal or of representatives of Senegal to the Fund. Senegal shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Senegal in achieving the objectives and policies set forth in the attached letter and annexed memorandum.

11. Senegal will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria under paragraph 7 of the annexed memorandum have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of this stand-by arrangement and while Senegal has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Senegal's balance of payments policies.

Washington, August 11, 1983

Dear Mr. de Larosière:

The Senegalese authorities had adopted a financial program for fiscal year 1982/83 supported by a stand-by arrangement with the International Monetary Fund in the amount of SDR 47.25 million. Senegal was able to draw only the first tranche of SDR 5.9 million under this arrangement because certain performance criteria could not be met. This was due in part to developments over which Senegal had no control. World prices for groundnut oil declined far more than anticipated, to their lowest level in over a decade. This, combined with a continuous depreciation of the CFA franc, aggravated the public finance situation and the balance of payments.

Conscious of the seriousness of the financial situation, the authorities have decided to implement a program of budgetary austerity which will impose harsh sacrifices on the people of Senegal. The application of these austerity measures will reduce the budget deficit by CFAF 35 billion in 1983/84, or by about 4 per cent of GDP. These steps are part of a medium-term adjustment program involving strict controls over the size of the civil service, improvements in the financial condition of public agencies, and significant measures for raising agricultural productivity, in particular in the groundnut sector.

In support of this program, the Senegalese authorities would like to make use of International Monetary Fund resources in the framework of a one-year stand-by arrangement in the amount of SDR 63.0 million, the equivalent of 100 percent of quota. In this connection, the Senegalese authorities wish to cancel the existing stand-by arrangement upon the approval of the new arrangement.

The Senegalese authorities believe that the combination of measures described in the attached memorandum will make it possible to achieve the objectives set for fiscal year 1983/84. They will periodically review the situation with the Managing Director of the International Monetary Fund and will provide the Fund with the information needed to monitor the results obtained under the program. In any event, the Senegalese authorities will consult with the International Monetary Fund by mid-March 1984 to establish performance criteria for March and June 1984, as indicated in paragraph 8 of the attached memorandum. In accordance with the International Monetary Fund's policy on consultation, the Senegalese authorities will consult with the Fund during the period of the stand-by arrangement on any additional measures that might prove to be necessary.

Very truly yours,

/s/

Mamoudou Touré
Minister of Economy and Finance

Encl:

Mr. J. de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431

Memorandum on Certain Aspects of the Economic and Financial Policies of the Senegalese Government for Fiscal Year 1983/84

The financial difficulties afflicting Senegal today have been seriously aggravated by the decline in world prices for groundnut oil, the rise in real interest rates, and the appreciation of the U.S. dollar. These economic developments have underlined the structural weakness of the Government's finances, particularly the excessively rapid growth of current spending, on wages and subsidies above all. The authorities have therefore decided to attack the causes of the structural public finance deficit. Although this problem can be resolved only in the medium term, the authorities will initiate vigorous adjustment measures with the start of fiscal year 1983/84. These measures will be designed primarily to reduce the growth of the civil service, the deficit of the Price Equalization and Stabilization Fund (CPSP), and subsidies to public enterprises. The budget deficit in terms of payment authorizations should be reduced to about 5 percent of GDP in fiscal year 1983/84--4 points below the 1982/83 level. The current account deficit of the balance of payments should be reduced to 11 percent of GDP, or 3 points below the level of the previous year. The equilibrium of the program is based on normal rainfall.

The cash flow position will nevertheless remain strained during fiscal year 1983/84. It will require a rescheduling of debt service with the members of the Paris and London Clubs and at least CFAF 34 billion in budgetary assistance from abroad.

The major components of the financial recovery program are described below:

1. Budgetary operations

In 1983/84 the deficit of the Government's financial operations in terms of payment authorizations will be limited to CFAF 48 billion. Revenue will increase 13.0 percent while current expenditure, especially with respect to the wage bill, will increase only 7.0 percent.

To limit the growth of the civil service, the authorities will take the following measures: (i) A census will be taken of civil service and public enterprise employees as of June 30, 1983. A retirement and recruitment timetable will be established for each ministry and public enterprise so that the staff size for December 31, 1983 and June 30, 1984 can be projected. A similar census will be taken at civil service training schools. (ii) No recruitment or announcement of competitive examinations may take place without the authorization of the Minister of State, Secretary-General of the Office of the President, who will make sure that the size of the civil service does not increase by more than 2.5 percent during fiscal year 1983/84. Admissions to civil service training schools will be reduced so that growth in numbers does not exceed 1.3 percent in 1984/85.

2. CPSP, SONAR, SAED

A series of measures will be taken to reduce the combined deficit of the CPSP, SONAR, and SAED by about CFAF 19 billion in 1983/84. They are the following:

a. Rice: The retail price of rice will rise from CFAF 105 per kg to CFAF 130 per kg on August 19, 1983. Since the volume of rice sales is 360,000 tons, the CPSP's receipts will increase by CFAF 9 billion, enabling it for the first time to pay the customs duties on rice, estimated at CFAF 4.9 billion. This increase in the price of imported rice will reduce the CPSP's overall deficit and stimulate cereal production in Senegal.

b. Sugar: The selling price of sugar will be raised an average of CFAF 50 per kg on August 19, 1983, boosting CPSP's income for a full year by CFAF 4.0 billion. The revision of the agreement between the Senegalese Government and the Compagnie Sucrière du Sénégal will bring the CPSP an additional CFAF 1 billion in revenue.

c. Oils: The selling price of imported oil will rise from CFAF 245 per liter to CFAF 300 per liter on August 19, 1983, and the price of groundnut oil will increase from CFAF 339 per liter to CFAF 400 per liter on the same date. The combined positive effect of these price increases will net the CPSP an additional CFAF 3.8 billion.

d. SAED: The subsidy to SAED will be limited to CFAF 1.7 billion in 1983/84.

e. Fertilizer: Savings in an amount of CFAF 2.5 billion will be realized by the withholding of CFAF 5 per kg of marketed groundnuts.

f. Groundnut sector: In the crop year 1983/84 SONACOS and SEIB will be the employers of the weighers and, as such, will be responsible for any losses between the weighing of the groundnuts sold by the producer and the weighing at the mill. The contract between the oil producers and the CPSP will be concluded no later than September 5. A method for reducing the cost of seed storage and distribution will be established by the same date. The amount of seed distributed to producers in 1984 will amount to 120,000 tons and will be proportional to the amount of groundnuts marketed by them in the 1983/84 crop year, and an additional CFAF 5 per kg will be withheld, thus eliminating the CFAF 4 billion loss on the distribution of seed.

3. Petroleum products

The selling prices of petroleum products will be increased an average of 8 percent on August 19, 1983. The increase, which will vary with the product, will yield an additional CFAF 3.7 billion for the SAR and an equal amount for the National Energy Fund. A study will be made prior to the December review to determine what additional measures are needed to absorb the SAR's cumulative deficit by the end of 1984.

4. Investment

The closing figure of the Fifth Plan settlement account was CFAF 11 billion, of which CFAF 5 billion was paid on June 30, 1983 while the CFAF 6 billion balance was added to the list of government arrears. In addition to the CFAF 5 billion contribution to the Treasury's special accounts, the budget limits capital spending to CFAF 10 billion. This ceiling may be raised when the December review is held if savings are achieved under other chapters.

In cooperation with the CCCE and the World Bank, the Ministry of Planning will draw up a flow-of-funds table for investments, based on physical monitoring of the progress of work and specifying the means of financing. For each project, the table will show the amount of payments arrears as of the end of the previous fiscal year, the value of the work to be done during the current fiscal year, and the means of financing. The table will be updated twice a year.

5. Public enterprises

A study of public enterprises will be conducted in cooperation with the World Bank with a view to halting the steady deterioration of their financial condition. The conclusions of the study, which will cover SAED, SENELEC, SODEVA, SOMIVA, and SONES, will be submitted to the IMF staff during the December review.

6. External sector

The measures taken under the program are designed to limit nominal import growth to less than 5 percent in 1983/84. This, together with an increase of about 20 percent in exports, should reduce the current account deficit to 11 percent of GDP--an improvement of more than 3 points over 1982/83. The authorities have informed creditors of their intention to request a rescheduling of Senegal's debt service payments due in fiscal year 1983/84.

7. Performance criteria

a. New external borrowing

New government and government-guaranteed borrowing with maturities of at least one year but less than 12 years will be limited to SDR 20 million during the second half of 1983. Of this amount, borrowings with maturities of one to five years (inclusive) will be limited to SDR 2 million. These limits will not include borrowings by the multinational companies Air Afrique and Asecna, or new borrowings for refinancing existing debts in the context of debt rescheduling with the members of the London and Paris Clubs. The exchange rate applicable to these borrowings will be the SDR rate vis-à-vis the contract currency at June 30, 1983.

b. Domestic credit

The ceiling set for domestic lending by banks as of September 30, 1983 is CFAF 472.3 billion, and the subceiling on the banking system's net claims on Government as of that date is CFAF 106.2 billion. For December 31, 1983, these limits are CFAF 501.4 billion and CFAF 115.1 billion, respectively. If external budgetary assistance exceeds CFAF 6.0 billion between July 1 and September 30, 1983 and CFAF 9.0 billion between July 1 and December 31, 1983, the excess will be used (1) to repay the crop loans reclassified as ordinary loans in December 1982; (2) to repay the crop loans made for crop year 1982/83; (3) to complete the repayment of the arrears on ONCAD's debt due by the end of July 1983; and (4) to make the quarterly repayments due on ONCAD's debt for fiscal year 1983/84. Hence, the domestic credit ceilings would be reduced proportionately, while the subceilings would remain unchanged. If external budgetary assistance is less than the amounts mentioned above, the domestic credit ceiling will be increased by the amount of the shortfall, up to CFAF 3 billion.

No other exceptional external financing having the effect of reducing net claims on Government pro tanto when the funds are collected by the Treasury has been anticipated for the last six months of 1983. If such financing is received, the ceilings and subceilings on credit will be reduced by that amount, net of actual spending against these funds, as of September 30 and December 31, 1983.

c. Reclassified crop loans

The amount of crop loans reclassified as ordinary loans as of the end of December 1983 for crop years 1981/82 and 1982/83 will not exceed CFAF 7.8 billion after payment of financial charges (agios). If the amount of budgetary assistance received by the end of December is less than CFAF 9 billion, the reclassified loans could exceed CFAF 7.8 billion by an amount equal to the difference between the anticipated and the actual assistance, up to CFAF 3 billion.

d. Payments arrears of the Government and public agencies

The payments arrears of the Government and public agencies will not increase between June 30 and December 31, 1983.

e. Exchange and trade system

During the period of the stand-by arrangement, Senegal does not intend to impose restrictions on payments and transfers for current international transactions, introduce multiple currency practices, conclude bilateral payments agreements with Fund members, or impose or intensify restrictions on imports for balance of payments reasons.

8. December review

The performance criteria identified in paragraphs 7(a), (b), (c), and (d) above will be established for March 31 and June 30, 1984 at the time of the December review, which will also consider the following matters:

a. Civil service manpower: On the basis of a manpower census as of June 30, 1983 and of recruitment and retirement data for the second half of 1983, measures will be drawn up to limit the growth of staff to under 2.5 percent in 1983/84. In addition, admissions to civil service training schools in calendar year 1984 will be programmed in such a way as to limit the growth in civil service manpower to 1.3 per cent in fiscal year 1984/85.

b. Agricultural policies: On the basis of a comprehensive review of agricultural policies and rural development agencies, to be conducted during the second half of 1983 in cooperation with the World Bank and the Caisse Centrale, the authorities will present proposals for increasing the efficiency of the groundnut sector (notably, through improving the distribution of seeds and fertilizers and the marketing of groundnuts), and for raising domestic cereal production in the medium term.

c. <u>Repayment of 1983/84 crop loans</u>: A schedule for repayments by SONACOS, SEIB, and the CPSP will be drawn up for each quarter of calendar year 1984. Adherence to this schedule by the CPSP will be considered a performance criterion during the first half of 1984.

d. <u>Financial reform of public agencies</u>: A financial reform program will be drawn up in cooperation with the World Bank.

e. <u>SAR</u>: Petroleum product prices will be adjusted to market prices so as to wipe out SAR's financial deficit by the end of 1984.

f. <u>Government leases</u>: The authorities will develop a package of measures for replacing direct rental payments to those entitled to housing by lump-sum allowances and for strict application of the laws and regulations concerning housing allowances, thus yielding significant savings.

g. <u>Real estate tax</u>: A study will be undertaken to identify ways and means of increasing substantially the yield of the real estate tax beginning in 1984.