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Minutes of Executive Board Meeting 83/144

3:00 p.m., September 19, 1983

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
A. Alfidja	W. B. Tshishimbi
	G. Ercel, Temporary
	X. Blandin
	R. J. J. Costa, Temporary
R. D. Erb	
	N. U. Haque, Temporary
	T. Yamashita
	I. R. Panday, Temporary
	D. I. S. Shaw, Temporary
	H. A. Arias, Temporary
G. Laske	
	G. Gomel, Temporary
	A. S. Jayawardena
	J. E. Suraisry
	M. Eran, Temporary
	K. G. Morrell
	O. Kabbaj
	M. Camara, Temporary
	M. Toro, Temporary
	I. Fridriksson, Temporary
	C. Taylor
	Wang C. Y., Temporary

A. Wright, Acting Secretary
R. S. Laurent, Assistant

Also Present

African Department: J. B. Zulu, Director; O. B. Makalou, Deputy Director; L. M. Goreux, Deputy Director; E. L. Bornemann, E. A. Calamitsis, F. d'A. Collings, S. E. Cronquist, A. B. Diao, C. Enweze, C. A. François, P. C. Ugolini. Exchange and Trade Relations Department: S. Kanesa-Thasan. Fiscal Affairs Department: A. Tazi. Legal Department: J. M. Ogoola. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: A. A. Agah, C. J. Batliwalla, T. A. Connors. Assistants to Executive Directors: H. Alaoui-Abdallaoui, R. Bernardo, M. K. Diallo, C. Flamant, V. Govindarajan, J. M. Hull, W. Moerke, J. C. Williams.

1. SENEGAL - 1983 ARTICLE IV CONSULTATION, AND REQUEST FOR STAND-BY ARRANGEMENT

The Executive Directors considered the staff report for the 1983 Article IV consultation with Senegal and a request for a 12-month stand-by arrangement equivalent to SDR 63 million (EBS/83/182, 8/24/83). They also had before them a report on recent economic developments in Senegal (SM/83/199, 9/6/83).

Mr. Alfidja made the following statement:

> Notwithstanding the difficulties connected with the implementation of the 1982-83 program, to which I will return, my authorities and I agree with the analysis of recent economic and financial developments and with the medium-term outlook and economic policies that are presented. On behalf of my Senegalese authorities, I will begin by examining the problems facing the Senegalese economy, especially the reasons for which the 1982-83 stand-by arrangement did not succeed. I will then turn to the medium-term prospects for the economic and financial policies that the Government intends to pursue and that form the setting for the 1983-84 program.
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> In the past 20 years, Senegal's real growth rate has been slow and irregular. During that period, final consumption has accounted for a large and growing portion of the gross domestic product (GDP). Despite low domestic savings, investment, particularly in the public sector, has grown sharply in the past 10 years, leading to a sustained large gap between resources and expenditure and a rapid growth of the external public debt. As a result, the economy was not prepared to meet the consecutive shocks of the drought and international economic conditions and therefore has been experiencing serious balance of payments and government finance problems since 1978.
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> Almost without interruption since then the Government, which adopted a recovery plan in December 1979, has had agreements for the use of Fund resources. Cooperation with the Fund was fruitful, and in 1981-82, thanks to improved weather and substantial foreign aid, the Senegalese Government was able to halt the deterioration of the financial situation by implementing rigorous adjustment policies under a one-year financial program supported by the Fund. All of that program's performance criteria were respected; in addition, the public sector current deficit was reduced by more than 4 percent of GDP, and the current account deficit of the balance of payments by more than 5 percent of GDP. Unfortunately, this progress toward adjustment was interrupted in 1982-83, despite the Government's efforts.

In November 1982, the Fund approved a one-year stand-by arrangement for 1982-83 of SDR 47.25 million--75 percent of quota--in support of an economic and financial program that sought to reduce the balance of payments and fiscal deficits while preserving the conditions necessary for real medium-term economic growth. In setting the targets for 1982-83, the program assumed that rainfall would be normal, and that as a result 520,000 tons of groundnuts would be pressed in 1982 and 580,000 tons in 1983. A rise in world prices in terms of CFA francs of 17 percent for refined and unrefined groundnut oils and 20 percent for groundnut cake between 1982 and 1983 was anticipated. The program further assumed that practically all of the 1981-82 deficit of the Equalization and Stabilization Fund (CPSP) had been paid off by June 30, 1982.

Except for the normal rainfall in 1982, none of these assumptions of the program was borne out. As a result, unforeseen pressures burdened the balance of payments and government finance.

The Senegalese Government made great efforts to implement the policies and meet the targets and performance criteria of the program.

A number of measures were taken with respect to prices and taxes in 1982-83. Pursuant to the program, petroleum product prices were raised by an average of 14 percent in July 1982, and the price of milk sugar was raised by 50 percent on November 1, 1982.

In February 1982, the National Assembly passed a 30 percent increase in the excise tax on alcoholic beverages and a 58 percent increase in that on cola nuts. It raised the import duty by 5 percentage points at the same time. The law on import duties was promulgated in May and that on excise taxes in June 1983. The slow implementation of tax laws this year--a year marked by presidential and legislative elections and a change in the legislature--reflects the democratic nature of the Senegalese system, which does not allow the Government to modify taxes without parliamentary approval. Even if slowly, however, the measures were adopted, and, owing to the effort to improve the assessment and collection of taxes, the Government's current revenue in 1982-83 was CFAF 2 billion higher than that forecast under the program.

In the groundnut sector, the Government made the oil producers responsible for marketing and processing. It signed an initial contract with them on February 15, 1983, setting both the normal _prix de revient_--cost to the oil mills--and the _prix de cession_--calculated selling price--thereby limiting the compensation required of the Government.

In September 1982, the Government also announced its decision to apply a new seed distribution policy in 1982-83. This new policy, which encourages farmers to retain 20,000 tons of seeds themselves and sets a ratio for each producer between the quantity of seed to be received from the Government in 1983-84 and sales volume in 1982-83, could not be carried out because the farmers saved only 700 tons of their own seeds and the vouchers certifying amounts sold could not be checked. The Government therefore expanded the nation's seed supplies and distributed them as in the past, but intends to apply its new policy in 1983-84.

With respect to fertilizer, the Government raised its average price from CFAF 25 to CFAF 50 per kilogram in September 1982 and, in accordance with the program, signed a basic contract giving responsibility for distribution to the Société Industrielle des Engrais du Sénégal (SIES), a producing enterprise.

Since the Société Nationale de L'Approvisionnement du Monde Rural (SONAR) no longer distributes fertilizer and its role in distributing seed is to be reduced, the Government discontinued the recruitment of permanent employees for SONAR and cut its temporary staff by more than 40 percent. In addition, as stipulated in the program, the Government signed a decree in April 1983 calling for advance supervision of SONAR's financial operations by the Ministry of Economy and Finance.

The Government has continued to effect improvements in other sectors of the CPSP. With respect to rice, while the program provided for limiting the buffer stock to 50,000 tons, equivalent to almost two months' imports, the Government saved over CFAF 4.5 billion by establishing no buffer stock at all. With respect to sugar, the authorities entered into negotiations in September 1982 to revise the agreement with the Compagnie Sucrière Sénégalaise (CSS). These are long, difficult negotiations, but the Government has already made it known to CSS that the final agreement will be retroactive to January 1, 1983.

To improve the quality of investments, the Government set up a project evaluation unit in the Ministry of Planning and Cooperation, in conjunction with the World Bank and in accordance with the program. To expand nontraditional exports, the Government increased the export subsidy rate from 10 percent to 15 percent and extended the list of eligible commodities to cover those food products and goods produced by the engineering industries for which Senegal has excess productive capacity. Further, it introduced a method of calculation which more accurately reflects the value added by export industries. The law on these export subsidies was passed in November 1982 and promulgated in February 1983.

All in all, it must be acknowledged that the Senegalese authorities have applied essentially all the adjustment measures called for in the 1982-83 program. They recognize that there have been lags. It should be stressed, however, that taking so many measures in less than six months is in itself a difficult task. Some of these measures are structural in nature and call for changes in practices and in institutions. There is, however, a weak point to which the authorities readily admit.

I am referring to the Government's inability to control the growth of public sector employment. However, the slippage in terms of the wage bill was relatively modest--7.6 percent instead of 6.5 percent, or a difference of 1.1 percentage point.

Unfortunately, the positive effect of these adjustment efforts was nullified by the deterioration in external conditions. I refer above all to the decline in groundnut oil prices on the world market. Instead of increasing by 17 percent as foreseen under the program, the average price of unrefined oil declined by 10 percent to its lowest level in over a decade. Similarly, oilcake prices stabilized instead of rising 20 percent as expected by the program.

The recent improvement in the oilseed market had only a limited effect on the 1982-83 financial program. As a result, 1983 export receipts have been below the level projected in the program, and from the government finance standpoint, the CFAF 1.3 billion equalization surplus with respect to groundnut products in 1982-83 expected by the program turned into a subsidy of CFAF 13.6 billion, meaning a shortfall of CFAF 14.9 billion.

Furthermore, the depreciation of the CFA franc vis-à-vis the dollar and the high real interest rates raised the interest on Senegal's external debt above expectations, from CFAF 23.8 billion to CFAF 27.8 billion. These two factors alone account for CFAF 19 billion--2.4 percent of GDP. This largely explains why Senegal was unable to meet the performance criteria for end-September and end-December 1982 or to achieve program targets in the fiscal and balance of payments areas.

In order to meet the initial targets, the Government agreed to revise the program, bridging the gaps by incorporating new measures and additional external assistance in the financing plan. Senegal's successful mobilization of an exceptional grant of $50 million (CFAF 17.5 billion) was made a prerequisite to save the program. In the end, it proved impossible to do so, but the Government did implement further measures to strengthen the program.

With respect to the nation's rice supplies, the Government reduced the CPSP prix de cession by $13 per ton, increasing the equalization surplus by that amount. In the petroleum sector, it revised its intergovernmental contracts and authorized the refinery to buy direct from the free market beginning in February 1983 so as to take advantage of the decline in prices. The Government also reduced public investment by CFAF 16 billion below the level projected under the program, including a reduction of CFAF 8 billion for the national investment budget.

As I have indicated, the Senegalese authorities are in full agreement with the staff analysis of the medium-term outlook. In view of the clearly structural nature of the problems analyzed, the authorities would have preferred to place their financial relations with the IMF in that time frame, as the Fund has a range of facilities appropriate to different situations. They wish and hope that, through further contacts, they will ultimately convince the Fund staff that there are no further obstacles to the use of longer-term facilities and that the difficulties of forecasting in situations as fluid as those of the world economy, especially those characterizing the economies of countries like Senegal, must not be allowed to bring sound, necessary action to a halt.

In 1983, GDP is likely to improve markedly in real terms for the second consecutive year by 5.6 percent. This renewed economic growth has been made possible by the return of normal rainfall in both years, the implementation of adjustment measures, and the obtainment of external assistance. But the risk of drought is considerable in 1983/84 and cannot be ruled out over the medium term. Government finance and the balance of payments both deteriorated in 1982-83, and servicing of the external public debt became an intolerable burden.

The Government's objectives in the next few years will be to reduce the fiscal and balance of payments deficits while raising the rate of real growth. Several adjustment policies will be required if these objectives are to be attained.

With respect to prices and income, a policy of applying realistic prices (verité des prix) will be followed. In the public sector, the Government will improve tax assessment and collection without raising current tax rates. It will curb the growth of current expenditure, mainly by sharply reducing the growth of civil service manpower and the associated wage bill. The Government will also restore the soundness of financial channels by reducing its payments arrears and will encourage improvements in the management of public enterprises.

With respect to money and credit, the authorities will seek to adjust the liquidity of the economy to economic growth. They will improve the condition of the banking system completing the repayment of the Central Bank's debt, but without resorting to a credit freeze.

As regards the productive sector and investment, the Government will reorganize the groundnut sector by vesting responsibility in the oil producers, and will reduce the cost to the Government of seed and fertilizers. A second contract with the oil producers was signed on September 1, 1983; it seeks to strengthen water management and increase cereal production incentives, in particular through the use of appropriate pricing policies aimed at achieving self-sufficiency in food. The Government will also promote a vigorous policy of industrial incentives designed to foster the growth of manufacturing for export. Senegal's chemical industry will be on line in 1984 and, if the economic outlook in the industrial countries brightens, the Government will carry out other mining projects. It will also exploit Dome Flore oil, peat, and lignite. Generally speaking, however, the Government will slow public investment with a view to promoting private investment in productive projects.

In the external sector, application of the medium-term policies I have just mentioned will have the effect of improving the balance of payments on current account. But Senegal requires large-scale, sustained external assistance, not only to solve the problem of its external debt and achieve overall balance of payments equilibrium, but also to finance its development projects with emphasis on the far-reaching rehabilitation program that it has started. Hence, together with a succession of debt reschedulings, the Government will seek official grants and capital, chiefly from multilateral and bilateral public sources, and will encourage the private sector to seek direct investment from abroad.

The 1983-84 program is part of the medium-term recovery policy described by the authorities during the Article IV consultations. Its objective is to reduce the overall fiscal deficit/GDP ratio from 9 percent in 1982/83 to 4.8 percent in 1983/84, and the external current account/GDP ratio from 14.4 percent to 11 percent. The adjustment policies and measures are well described in the August 11, 1983 letter of intent from the Senegalese authorities and the memorandum attached to it; they are also analyzed and evaluated in the Fund staff report before us.

I will merely say, on behalf of my Senegalese authorities, that the social cost of the 1983-84 program is very high and that it entails major sacrifices on the part of the Senegalese people. Still the Government finds it quite appropriate for solving the financial problems facing the country.

To implement the program successfully, the authorities are convinced that they will have to monitor closely the various facets of the economy and of government finance. Despite the high level of financial effort required of the Government during the first six months of the 1983-84 program, my authorities believe that the program's balance of payments and government finance targets can be achieved. Pursuant to that conviction, it has already begun to apply the measures described and has made all the decisions required to implement them fully. The Chief of State himself is taking the lead to this end. He has called upon the nation to muster all its strength in support of the recovery effort, and addressed the nation on August 19 to report on the reasons for and details of the program. After announcing the price increases and the amounts withheld from groundnut producer prices for fertilizer and seed, the President of the Republic declared, "However great our efforts and the sacrifices they impose on all classes of the population, they clearly will not suffice to solve our problems; they do, on the other hand, constitute an important starting point for a national renewal, a national leap forward."

The Government of Senegal is aware of the fact that the 1983-84 program is but one step along the path toward medium-term recovery on which it has placed the nation, but a crucial step which must be completed with success. I, therefore, urge the Executive Board to adopt the draft decisions submitted by the staff and to approve the request for a stand-by arrangement.

Mr. Laske observed hat Senegal's balance of payments position seemed vulnerable and would probably remain so even after the successful completion of the stand-by arrangement presented to the Executive Board. Even if full rescheduling of the debt service payments falling due during the program period were granted, the remaining overall deficit would amount to almost SDR 100 million. Aside from the use of Fund resources, the deficit would have to be financed by further running up Senegal's short-term monetary indebtedness with the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), a source of financing that, according to the staff, had not been designed to deal with the structural adjustment problems of Senegal, or indeed of any country. Although the lowering of the ratio of the current account deficit to GDP from 1982/83 to 1983/84 was far from being insignificant, it represented only a small step toward achieving a viable balance of payments position in the medium term. Even under the optimistic assumptions of the Fund program--normal weather and successful debt rescheduling--another four years would pass until a sustainable balance of payments position could be established. That bleak prospect made it clear that the authorities would have to follow strict policies of demand management for some time and would have to make determined efforts to improve the economic structure.

Senegal had had a satisfactory record of close cooperation with the Fund, although the most recent Article IV consultation had been held three years previously, Mr. Laske noted. In the meantime, of the three arrangements that Senegal had concluded with the Fund--an extended arrangement and two stand-by arrangements--two had had to be abandoned. For that reason, he endorsed the staff proposal that Senegal should be put on a 12-month standard cycle for Article IV consultations. In any event, the program was a renewed attempt to tackle the serious maladjustments in the economy. While the unpredictable climate complicated the formulation and implementation of economic policy, practices and habits had developed that complicated the authorities' task.

Senegal's major problem was a large deficit in the public sector, Mr. Laske considered. Under the program for the current fiscal year, the deficit was to be reduced by almost one half as a percentage of GDP, an impressive figure. Unfortunately, little further progress was envisaged for the following years. The major contribution to the projected decline would stem from an improvement in the financial position of the Equalization and Stabilization Fund resulting from far-reaching price increases announced by the President of Senegal about one month previously. The increases would cause real hardship for the Senegalese especially since they were to be combined with a restrictive wage policy. In the future, the authorities would have to modify their recruitment policies for the civil service, which had apparently been overexpansionary in previous years. The authorities' commitment to limiting employment growth in the civil service and reducing the number of entries into public service training had become inescapable.

The efforts made by the authorities so far were commendable, Mr. Laske concluded. However, as the medium-term scenario appeared far from satisfactory, the authorities would need to pursue a determined continuation, if not a strengthening, of the adjustment efforts even after successful completion of the program. Since the authorities had again undertaken their efforts to adjust with strong and vigorous measures, he could support the proposed stand-by arrangement and the decision regarding the Article IV consultation.

Mr. Blandin said that, when assessing the economic and financial performance of Senegal under the most recent stand-by arrangement in 1982/83, Executive Directors should bear in mind that Senegal depended on three factors beyond its control. First, it depended on groundnuts, which still accounted for more than 25 percent of export earnings. Second, like other Sahelian countries, it depended on unpredictable and fluctuating rainfall. Third, it depended on prices set in the world market for primary commodities, which were subject to sharp fluctuations.

He thus did not find it surprising that Senegal was experiencing difficulty in complying with performance criteria based on assumptions that had proved optimistic. To be sure, some of the policies had not been implemented as quickly or completely as projected, particularly with respect to recruitment in the civil service. Nevertheless, as illustrated in Table 3 on page 6 of EBS/83/182, the performance criteria had been breached by only small margins, and a number of the measures taken had laid the foundations for the new 1983/84 program.

The magnitude of the effort undertaken by the authorities under the new program should be emphasized, Mr. Blandin continued. For instance, the fiscal deficit was to be reduced by 4.2 percentage points of GDP, a sizable adjustment that amply justified the proposal to provide 100 percent of Senegal's Fund quota. Moreover, nearly all the measures designed to bring about the needed adjustment had already been carried out. President Diouf himself had announced the measures to the nation on August 19 in a straightforward speech that had demonstrated his strong commitment to the success of the program. Many of the measures were unpopular and painful, being increases in prices for basic consumer goods that could not but reduce the purchasing power of the people. Therefore, the authorities were to be commended for the political courage that they had shown.

In the coming years, much of the evolution of the Senegalese economy would depend on the performance of agriculture, in which much remained to be done, particularly in the groundnut sector, Mr. Blandin considered. One measure taken recently had amounted to a 10 percent reduction in the producer price for groundnuts in CFA francs per kilogram. To be sure, it might be assumed that the price had formerly been set too high when the world market price had been quite low, a practice that, combined with abundant harvests, had resulted in losses for the stabilization fund. He was however unconvinced that the authorities had been wise to reduce the producer price, at a time when the international price for groundnut oil had more than doubled in U.S. dollar terms and when the crop could be greatly reduced by drought or flooding. In any event, the price reduction would amplify the loss in incomes for producers, precisely the opposite result of what a stabilization fund was intended to accomplish. The authorities would certainly have done better to reduce the cost of distributing seeds and fertilizer, which was too high at present, than to transfer the burden to producers.

Another issue that would have to be tackled in the years to come was the efficiency of the parapublic sector, Mr. Blandin continued. Some public enterprises such as the Société d'Aménagement et d'Exploitation du Delta (SAED)--in charge of rice production--needed to be completely reorganized. Finally, recruitment into the civil service would have to be adapted to the possibilities of the economy. As shown on page 83 of SM/83/199, the number of civil servants had risen by 18 percent during the past three fiscal years, and Senegal could no longer afford to continue the expansion at such a pace. Therefore, he welcomed the measures that had been prepared to limit entry into public service training schools in 1984.

In conclusion, he was confident that the Senegalese authorities would do their utmost for the success of the latest Fund program, Mr. Blandin said. They were well aware of the medium-term problems that he had mentioned and were prepared to address them. He therefore fully supported the proposed decisions.

Mr. Shaw expressed agreement with the staff appraisal and support for the request for a one-year stand-by arrangement, although he had some concerns. The Senegalese authorities had been grappling with their economic problems through a series of one-year stand-by arrangements with the Fund that should have contained some provisions for structural adjustment. The Executive Board had approved the previous program in order to begin the medium-term adjustment, but the program had failed primarily because the authorities had not been prepared to take the required fiscal measures. He hoped that those measures had been carried out. Moreover, as Mr. Laske had noted, more than three years had passed since the Executive Board had conducted an Article IV consultation with Senegal; since that time, the Board had approved one extended arrangement, which had failed, and two stand-by programs, one of which had failed. The staff papers correctly focused on the third stand-by arrangement but only sketchily described the Senegalese economy's longer-term prospects. It might have been useful to the Board if, during the previous year, an Article IV consultation could have been held so that those prospects could have been discussed.

The present program looked as if it had been designed to replace the program that had failed in 1982, Mr. Shaw continued. If anything, Senegal's economic problems had been exacerbated during the past year, and the imbalances had become greater. The program called for halving the fiscal deficit as a percentage of GDP in one year, and for reducing the current account deficit from 14.4 percent of GDP to 11 percent of GDP. Even more striking, the overall balance after rescheduling would still be minus SDR 96 million at the end of the program in 1983/84, only about SDR 5 million less than the balance of minus SDR 101 million recorded at the end of 1982/83. Despite the progress made during 1981/82, the soundness of the economic policies had left much to be desired during the most recent program, and the situation had remained difficult. As Mr. Blandin had noted, the prospects for the terms of trade continued to be unfavorable, and, even allowing for additional rescheduling, the external debt situation remained strained. Any additional shortfalls in groundnut production would exacerbate the situation, and the importance of the commodity in Senegal's economy could inhibit any improvement in the balance of payments, a point on which he agreed with Mr. Blandin. Furthermore, owing to Senegal's membership in a monetary union, the exchange rate was not available as a policy tool, so that a heavy burden fell on demand management policies. Domestic consumption would have to be constrained in the coming years.

The question was whether the adjustment measures that had been only partly implemented in 1982 could be fully implemented to support the program currently being considered by the Board, Mr. Shaw noted. The authorities were committed to the program, as shown in the speech given by President Diouf delineating pricing changes to be implemented in all areas of the economy. He himself believed that the program had a reasonable chance of success and that the authorities were committed to it. The external position would continue to be fragile throughout the program period, so that additional debt relief would be required. Concessional capital inflows would also be required for many years to come.

Finally, the World Bank had canceled a $16.65 million structural adjustment loan on June 30, 1983, Mr. Shaw recalled. Was the World Bank considering any further additional structural assistance loans to Senegal? After all, the Fund was providing a significant amount of financing during the coming year under a stand-by arrangement, yet the World Bank seemed less eager to encourage structural adjustment in Senegal.

Mr. Taylor observed that, as far back as 1981, the authorities had recognized that Senegal could not carry through the prolonged effort at structural adjustment that would have been required by the extended arrangement. Instead, they had opted for a series of stand-by arrangements, each covering 12 months, during which the authorities could more realistically commit themselves to certain specific stabilization policies and structural adjustments. At least in principle, the decision had been wise; the country was dependent upon a single major crop, had a slim natural resource base, and would continue to be beset by serious periodic droughts and fluctuating world commodity prices. Nevertheless, he shared Mr. Shaw's regret that for some time the Board had been unable through Article IV consultations to review the economy of Senegal, and he was also worried about the structural side of the current approach.

It was not surprising in an economy in which interest and exchange rate policies were constrained by institutional arrangements that Senegal's problems had been reflected in an uncomfortably high public sector deficit, Mr. Taylor remarked. He commended the authorities for undertaking to reduce the deficit by more than 4 percentage points of GDP during the program. However, the rather mild reductions beyond the program period sketched out in the medium-term scenario had appeared unambitious. While the proposals amounted to only a scenario, he would nevertheless be surprised if a stronger adjustment effort did not have to be carried through into the medium term. The authorities understandably wished to give priority to capital expenditure; if the tax base could not be easily broadened, they might be led to impose additional constraints on current expenditure.

As others had stressed, the key element would be control of the civil service wage bill, Mr. Taylor noted. He was pleased that the authorities recognized that recent growth in the civil service was unsustainable. Even under the proposed plan, employment in the public sector would still grow by 2.5 percent during the program period and would continue to grow thereafter. Civil servants' salaries already accounted for almost 11 percent of Senegal's GDP. As the authorities were worried that a large reduction in recruitment of civil servants would require a fundamental restructuring of the country's entire training and educational system, he invited the staff or Mr. Alfidja to provide some information on the redesign of the recruitment procedures.

On the revenue side, the authorities' main effort should be directed at improving the efficiency of the system in collecting taxes and reducing arrears, Mr. Taylor said. How confident were the authorities that the proposed measures would yield the assumed increase in revenue? Could they benefit from some technical assistance from the Fund?

The authorities were considering raising property taxes, Mr. Taylor observed, and had introduced a tax on imported rice. While appreciating their wish to improve the competitive position of home-produced foodstuffs, he wondered whether the goal was best handled through the tax system. He had also noticed that food prices had been increased substantially since 1981. Measures clearly had to be taken to hold down domestic consumption, which represented 97 percent of GDP. Fiscal policy required that subsidies should be reduced, but the authorities had to achieve that goal without making the cost of food intolerable, as he was sure they were only too well aware.

Taxing imports of food would of course be unnecessary if domestic production were adequate, Mr. Taylor continued. At about 10 percent of total imports, rice imports seemed to be an unnecessary drain on Senegal's resources. Could the staff give Executive Directors any information on the prospects for increasing domestic production of foodstuffs, including rice and other major alternatives? Did the staff think that Senegal had a prospect of achieving self-sufficiency in foodstuffs during the next few years?

Agriculture remained the main vehicle for growth in Senegal, Mr. Taylor considered. Any diversification was naturally to be encouraged, provided that it was economically self-financing. Like other Directors, he would have liked to see more information on prospects for various agricultural sectors in the medium term. He hoped that the staff would find an opportunity to discuss those questions with the authorities during the mid-term review. He had also noted that fisheries had been growing rapidly in recent years, and indeed only in "normal years" were fishery exports exceeded by groundnut exports, according to the report on recent economic developments.

Regarding public sector enterprises, he had discerned the all too familiar pattern of poor management and deficiencies in revenue collection, Mr. Taylor observed. The authorities were conducting a survey of the problems of public enterprises, and he hoped that the survey would be completed in time for the mid-term review. It should cover the two groundnut marketing organizations.

He would be glad if the staff could confirm that Senegal's debt servicing problem was primarily budgetary, Mr. Taylor went on. The debt service ratio was high at 18 percent, even after rescheduling, and the foreign exchange reserves were equivalent to about ten days' imports, a feature that underlined the importance of succeeding with corrective fiscal measures and perhaps carrying them forward at a faster pace than currently planned. He also commended the authorities for their intention to reduce public expenditure by nearly CFAF 24 billion and welcomed the diminution of payments arrears as a performance criterion.

In conclusion, he supported the staff appraisal and the proposed decisions, Mr. Taylor said. The program for 1983/84 was a strong one. The authorities should pursue it with some sensitivity and should continue to explain carefully the strategy and objectives of the program to the ordinary working people of the country, who would have to endure severe austerity. At any rate, funds were likely to be needed for several years. Thus, the fiscal deficit and the current account deficit could be reduced later on by proportions not totally dissimilar to those proposed under the present program. It would be important for the authorities to maintain their adjustment effort.

Mr. Kabbaj expressed broad agreement with the staff appraisal of Senegal's economic situation and medium-term prospects for financial adjustment. He also supported the two proposed decisions dealing with the 1983 Article IV consultation and the request for a one-year stand-by arrangement. For various reasons, the economy of Senegal had had a mixed performance since 1980. After cancelling in 1981 an extended arrangement approved only one year previously, the Senegalese authorities had concluded a one-year stand-by arrangement with the Fund and had completed a relatively successful adjustment program during 1981/82. In order to bring about a further reduction in the ratios of the fiscal deficit and the current account deficit to GDP, the Fund had approved another request for a program, which had regrettably not achieved its objectives. While the failure could be related to the unfavorable evolution of Senegal's terms of trade, the economic and financial deterioration had been caused principally by an incomplete or delayed implementation of the measures included under the program, perhaps an inevitable development in an election year.

The economic and financial problems of Senegal called not only for Fund assistance but also for several immediate corrective internal measures to be taken by the authorities themselves, Mr. Kabbaj suggested. He found it encouraging that the authorities were reaffirming their earlier commitment to economic and financial adjustment and were requesting Fund support for a strong, comprehensive program that aimed primarily at correcting the country's financial imbalances, both domestic and external. The seriousness of the authorities' renewed commitment was particularly evident in the fiscal measures that they had implemented or intended to implement, including sharp upward adjustments in prices, a substantial curtailment of outlays, strong control over spending, and commendable efforts to improve the financial position of ailing public enterprises. The proposed measures were impressive and should help to achieve the program's main objective of reducing the public sector deficit to less than 5 percent of GDP in 1983/84, compared with 9 percent in 1982/83, while also alleviating severe pressures on the balance of payments. Nevertheless, owing mainly to Senegal's serious debt problem, the external position would probably remain under strain in the medium term. Indeed, if the proposed adjustment policies and austerity measures were implemented effectively, it would still take more than the 12 months of the proposed stand-by arrangement to move away from the present imbalances.

As the staff had pointed out, external debt rescheduling would provide only temporary relief, Mr. Kabbaj concluded. The early completion of rescheduling negotiations and the adoption of reasonable terms, taking into account Senegal's present difficulties, could ensure that the proposed adjustment program was implemented under relatively favorable circumstances. Finally, he agreed with Mr. Alfidja on the importance of the structural measures implemented by the authorities and the need for them to maintain patience in pursuing the difficult task of adjustment.

Mr. Camara expressed support for the proposed decisions. In recent years, the economy of Senegal had experienced a serious setback, the result of numerous exogenous factors ranging from persistent droughts to worldwide recession. The previous adjustment programs undertaken by the Senegalese authorities had been substantially altered, and the targets set forth in 1982/83 had turned out to be extremely difficult to reach, leading to an eventual cancellation of the programs. The authorities had cooperated with the Fund, and an understanding had been reached, regarding the need for a strong adjustment effort.

Financial imbalances were still at the root of Senegal's problems, even though the authorities had made a considerable effort to lighten the burden, Mr. Camara observed. Tax administration had improved, however, and the authorities considered that they could attain a viable financial position in the medium term, an effort in which debt rescheduling would play an important role. As was evident from Mr. Alfidja's statement, the authorities were aware of the country's external position and the additional measures needed for a successful achievement in the future. The improvement foreseen in 1983--5.6 percent real growth--should be attained, provided that rainfall returned to normal.

Mr. Suraisry said that he was in general agreement with the staff and could support the proposed decisions. Recently, the Senegalese economy had suffered from large problems caused by external as well as domestic factors. He supported the authorities' present efforts, which represented an appropriate response to Senegal's difficulties. The program aimed at a sharp reduction of the fiscal deficit in 1983/84; the authorities had recently announced increases in the prices of rice, sugar, cooking oils, and petroleum products. Although the price adjustments would entail considerable hardship for consumers, they were necessary for maintaining financial discipline. Strict controls were also being exercised over current expenditure, especially on recruitment and on acquisition of materials and supplies.

He agreed with the staff that world groundnut prices could be substantially higher than assumed in the program, which might reduce the deficit of the stabilization fund and thus provide a useful safety margin in the fiscal program, Mr. Suraisry continued. However, that possibility should not lead to any relaxation of the authorities' adjustment efforts. After all, the fiscal imbalances would remain large even if groundnut prices turned out to be higher than assumed. Equally important, higher groundnut prices could reduce the Government's demand for bank credit and permit a much needed expansion of credit to the private sector within the overall credit ceiling.

Both the nominal and the real effective exchange rates for the CFA franc had depreciated during the past three years as a result of a depreciation of the French franc and the pursuit of relatively restrictive policies in Senegal, Mr. Suraisry noted. He agreed with the staff that the present exchange rate seemed appropriate.

Senegal would find it difficult to service its external debt during the next few years unless new reschedulings took place, Mr. Suraisry observed. The authorities' request to reschedule in June 1984 would be considered by the Paris Club before the end of November 1983. However, Senegal's position on new reschedulings with the commercial banks was less clear. In view of the important assumptions made in the program, it would be helpful if the staff could shed more light on the likelihood that commercial rescheduling would indeed take place and on the probable terms and conditions.

The previous Article IV consultation with Senegal had been held more than three years previously, Mr. Suraisry concluded. He agreed with Mr. Shaw and Mr. Taylor that it would have been helpful if the Board had been able to discuss the Article IV consultation with Senegal a little earlier. In sum, the present stabilization program was commendable, and he wished the authorities every success.

Mr. Erb expressed support for Senegal's request for a stand-by arrangement and for the decision concluding the 1983 Article IV consultation. Like other Executive Directors, however, he noted that, of the three recent Fund-supported adjustment programs, only one--the 1981-82 stand-by arrangement--had been moderately successful. Although there had occurred major developments beyond the authorities' control, there had also been failures in policy implementation and delays in responding to changing circumstances. The record of Senegal made the three-year delay since the previous Article IV consultation even more disturbing, a point on which he agreed with Mr. Taylor, Mr. Shaw, and Mr. Suraisry.

He was pleased with the scope of adjustment called for under the current stand-by arrangement and with the degree of political commitment to the adjustment effort, Mr. Erb went on. Like other Directors, however, particularly Mr. Taylor, he wondered whether the pace of the adjustment foreseen for the current program period and for the medium term would prove to be sufficient, as Senegal's current account deficits were projected to remain large, and debt relief would probably be necessary for as long as five years. His authorities felt that stronger adjustment would be needed as a follow-up to the proposed program. It was their position that credible progress toward achieving a sustainable balance of payments position should depend on repeated recourse to debt relief only under exceptional circumstances.

The Senegalese authorities should be commended for the steps already taken, Mr. Erb remarked. It had been essential for those prior actions to be implemented so that the ambitious but necessary objective of reducing the fiscal deficit as a proportion of GDP from 9 percent to 4.8 percent would be within reach. As pointed out by the staff, many of the consumer pricing changes would also bring about structural benefits over time if the proposed degree of adjustment were at least preserved. Furthermore, the authorities should be open to further real changes in some prices as a means of improving distribution in the pattern of consumption in Senegal.

The key indicator of credit policies seemed appropriate, Mr. Erb continued. However, he would emphasize the need for vigilance so that the growth of the aggregates did not exceed targeted levels. Moreover, he would have preferred a more extensive treatment of the supply-side policies that the authorities intended to pursue. In that connection, he joined Mr. Shaw in asking about the future activities of the World Bank in Senegal.

To promote nontraditional exports, the subsidy scheme introduced in August 1980 had been expanded in February 1983 to cover a greater number of products, and the subsidy rate had been raised from 10 percent to 15 percent, Mr. Erb recalled. How extensive was the scheme with respect to the number and value of export products? What was the cost of the scheme? How were the costs treated under the budget? Finally, to what extent did those subsidies lead to distortions in the allocation of resources? He welcomed the extremely comprehensive mid-term review and supported the recommendation that progress under the program should be monitored. Could the staff elaborate on its statement that Senegal might have to rely on sources of financing that had not been designed to deal with Senegal's structural adjustment problems?

In conclusion, he could support the program, although the commitment of Fund resources amounted to 100 percent of quota, Mr. Erb said. Given Senegal's mixed performance in the past, its uncertain medium-term prospects, and the large imbalances that existed, it might have been more suitable for the Fund to have made a commitment somewhat lower than 100 percent of quota.

The Deputy Director of the African Department recalled that Executive Directors had stressed that the structural problems faced by Senegal were such that strong adjustment measures would have to be implemented for several consecutive years before Senegal could reach a viable balance of payments position. Some Directors had wondered whether on the present occasion, as in the past, the adjustment measures had not been unduly front-loaded, with a large effort in the first year and smaller ones in the following years. It was true that the adjustment had been stronger in 1981/82 than in 1982/83, but the latter year had been an election year for both the Assembly and the President, and, as stressed by Mr. Blandin, the world price of groundnut oil per ton had fallen sharply from about $1,100 in 1981 to $440 at the beginning of 1983, before rising again to more than $1,000 in recent weeks. With the fall in world prices, the subsidy per ton of groundnut oil exported had increased, and, in view of the abundant crop, the total subsidy had become quite large in 1982/83. Following his recent election to a five-year term, the President had decided that it was time to announce to the nation and to the international community that Senegal had to follow an austerity policy. The President had also decided to take strong measures immediately, in order to restore Senegal's credibility.

Price changes were relatively easier to implement than structural changes, the Deputy Director noted. He would not dispute the view of Mr. Blandin, who suggested that reducing direct payments to groundnut producers might not be the best way of reducing the government deficit at the present juncture. As a matter of fact, the Fund mission had suggested other measures, but the authorities preferred to act on prices because a price action was easier to implement quickly.

Noting that the World Bank had terminated the second tranche of a structural adjustment loan to Senegal at the end of June, Mr. Shaw had wondered what the Bank's future role in Senegal would be, the Deputy Director recalled. The World Bank had been impressed by the measures taken by President Diouf in August and by the political determination of the Government; it was consequently reconsidering its position. The World Bank's strategy for Senegal was to be reviewed under the chairmanship of Vice President Stern on the following Friday before the Bank decided on appropriate action. In the mid-term review of the program, to be held in Dakar in December 1983, Senegal's agricultural policy would be a prominent item for discussion with technical experts of the World Bank, the "Caisse Centrale," and the U.S. Agency for International Development.

On the agricultural sector, Mr. Shaw and Mr. Taylor had inquired about the tax on rice imports, the Deputy Director continued. The tax had been established three years earlier but had not been applied. The recent increase in the price of rice had made it possible to reinstate the 15 percent tax agreed upon with the Fund and the Bank at the time of the extended arrangement and the beginning of the IBRD structural adjustment loan. Senegal, which might be the largest importer of broken rice, had managed to obtain favorable terms from Thailand. However, producers of rice and millet in Senegal could not compete with rice imports from Thailand, if the latter were sold at cost. Various experts had come to the conclusion that cereal production could not be expanded in Senegal without raising the price at which imported rice was sold to consumers: that conclusion had been the main reason for raising consumer prices from CFAF 80 per kilo to CFAF 105 in February 1982, and to CFAF 130 in

August 1983. Mr. Taylor had also mentioned that, in a normal year, fish had become Senegal's largest export after groundnuts. The fishing industry had good prospects and was being stimulated at the cost of some subsidies both direct and indirect, such as a subsidy on fuel for small fishing boats.

The export subsidy scheme had been relatively modest, and its cost did not exceed a few billion CFA francs, the Deputy Director noted. The authorities had nevertheless been encouraged by the results achieved in the first 18 months, which they had taken as the reason for recently expanding the scope of the export subsidy scheme.

The signing of the debt rescheduling agreement with the commercial banks had been delayed, because Senegal had not been current in its interest payments until recently, the Deputy Director said. He had been told the previous Friday by Minister Touré that Senegal was now current in its interest payments until the end of fiscal year 1982/83, and that the agreement with commercial banks was expected to be signed shortly. The Senegalese authorities were also expected to sign shortly the remaining bilateral agreements with Paris Club members for 1982/83, and a meeting of the Paris Club to reschedule Senegal's debt service due in 1983/84 had been set tentatively for mid-November.

The present program had been negotiated shortly after the elections, when new ministers had been nominated, and more time was needed to study medium-term adjustment policies, the Deputy Director noted. Policies, notably those dealing with agriculture and public enterprises, would be discussed in December. The staff would, therefore, be in a better position to describe the country's medium-term prospects at the time of the mid-term review.

A question had been asked by Mr. Erb about the meaning of a sentence in the staff report indicating that Senegal had to rely on sources of financing that were not designed to deal with its structural adjustment problems, the Deputy Director of the African Department added. That somewhat cryptic sentence was intended to mean that, in the authorities' view, Senegal should have essentially relied on grants and long-term loans on very concessional terms to solve its structural problems, but had been unable to obtain such grants and loans in sufficient quantity and had relied also on loans with unduly short maturities. In that connection, the authorities had stated that they would be interested in an extended arrangement with the Fund after completion of the present arrangement. The staff had, however, been relatively reserved on that issue because, as several Directors had mentioned, the outlook for Senegal was still uncertain and because the authorities would do well to restore their credibility before engaging in a three-year program.

Mr. Alfidja said that he wished to lay additional stress on his earlier statement about the Senegalese authorities' strong wish to negotiate a medium-term program in the form of an extended arrangement with the Fund. During the discussions with the Fund staff held the previous

August in Dakar, they had reiterated their disagreement with the mission's view whereby a Senegalese request for an extended arrangement could not be considered because of the weak statistical base and apparatus of the country. He was unclear about the fact that the Fund staff made and published medium-term forecasts in the context of the World Economic Outlook involving Senegal while not being able to assist the Senegalese authorities in the preparation of a medium-term program supported by an extended arrangement. Perhaps the staff's reluctance was based on considerations other than the adequacy of the statistical information. If so, he would certainly be pleased to know them.

The Chairman made the following summing up:

Executive Directors expressed broad agreement with the thrust of the staff appraisal. They regretted that there had not been an Article IV consultation since 1980 and welcomed the intention to hold future consultations on the standard 12-month cycle. Noting with regret the lack of performance by the Senegalese authorities on some of the 1982/83 financial program measures, they welcomed the strong adjustment measures announced by President Diouf in his address of August 19 and the commitment of the authorities to reduce the public sector deficit and Senegal's external imbalances. While realizing that the price increase of basic consumer goods and the restrictive wage policies would create additional hardship on low-income consumers, they considered that the authorities had no alternative for correcting severe disequilibria, particularly the extremely high level of domestic consumption in relation to GDP. Many Executive Directors also welcomed the determination of the authorities to reduce employment growth in the public sector, which had reached an unsustainable level. They stressed that the new employment policy was overdue and would need to be pursued with greatest resolve.

Several Directors noted that in view of unsatisfactory rainfall during the last two months, the volume of agricultural production would be lower than had been envisaged in the program, but that the shortfall in groundnut production could be offset by the increase in the export price of groundnut oil. However, any improvement in prices should not result in any relaxation of adjustment efforts. The authorities should be ready to adjust to future developments and take appropriate actions in order to preserve the basic objectives of the program. Directors welcomed the comprehensiveness of the mid-term review under the stand-by arrangement and the part to be played by the World Bank and other agencies in assisting the authorities in defining appropriate agricultural policies. The importance of adopting appropriate pricing policies for groundnuts and imported rice in particular was stressed in relation to the needed incentives to agriculture.

In view of the weakness of the present and medium-term external position of Senegal, Directors stressed that Senegal would need to pursue strong and, if anything, stronger adjustment efforts for several consecutive years in order to reach a viable balance of payments position. The uncertainty of prospects for the terms of trade and the serious external debt situation were noted, and the importance of early completion of debt rescheduling was emphasized. Most Directors believed that the Fund could play an important role in assisting Senegal in its adjustment efforts, but stressed that Senegal's performance under the 1983/84 program would be critical in assessing the extent and the form of any possible future Fund assistance to Senegal.

It is expected that the next Article IV consultation with Senegal will be handled on the standard 12-month cycle.

The Executive Board then took the following decisions:

Decision Concluding 1983 Article XIV Consultation

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Senegal, in the light of the 1983 Article IV consultation with Senegal conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Senegal continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions.

Decision No. 7536-(83/144), adopted
September 19, 1983

Stand-By Arrangement

1. The Government of Senegal has requested a stand-by arrangement in an amount equivalent to SDR 63 million for a period of 12 months from September 19, 1983 through September 18, 1984.

2. The Fund approves the stand-by arrangement attached to EBS/83/182, Supplement 2, and waives the limitation in Article V, Section 3(b)(iii).

3. The Fund notes the cancellation on September 19, 1983 of the stand-by arrangement approved by the Fund for Senegal on November 24, 1982 (EBS/83/198, Sup. 1).

Decision No. 7537-(83/144), adopted
September 19, 1983

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/83/143 (9/19/83) and EBM/83/144 (9/19/83).

2. MAURITANIA - TECHNICAL ASSISTANCE

In response to a request by Mauritania for technical assistance, the Executive Board approves the proposal set forth in EBD/83/237 (9/14/83).

Adopted September 19, 1983

APPROVED: March 15, 1984

LEO VAN HOUTVEN
Secretary