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November 14, 1989

To: Members of the Executive Board

From: The Secretary

Subject: Senegal - Enhanced Structural Adjustment Facility - Medium-Term Economic and Financial Policy Framework Paper (1989/90-1991/92)

Attached for consideration by the Executive Directors is the policy framework paper under the enhanced structural adjustment facility for Senegal. This subject, together with the staff report for the 1989 Article IV consultation with Senegal and its request for the second annual arrangement under the enhanced structural adjustment facility (EBS/89/218, 11/15/89), will be brought to the agenda for discussion on a date to be announced.

Mr. Nsouli (ext. 6937) or Mr. Brou (ext. 6936) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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TRANSLATION

INTERNATIONAL MONETARY FUND

SENEGAL

Enhanced Structural Adjustment Facility

Medium-Term Economic and Financial Policy Framework Paper (1989/90-1991/92) 1/

Prepared by the Senegalese authorities in collaboration with the staffs of the Fund and the World Bank

November 1, 1989

I. Introduction

Since mid-1983 the Government of Senegal has implemented a series of adjustment programs involving wide-ranging structural and macroeconomic policies aimed at alleviating the obstacles to sustained economic growth and the domestic and external financial imbalances. These programs have been supported by successive stand-by arrangements from the Fund, as well as arrangements under the structural adjustment facility (SAF) and the enhanced structural adjustment facility (ESAF); two structural adjustment loans from the World Bank; and financial assistance from bilateral and other multilateral creditors and donors, including debt relief. During 1983/84-1987/88, the Government substantially liberalized the economy, reduced agricultural and industrial production distortions, strengthened public investment programming, initiated the reform of the public enterprise sector, reduced its overall fiscal deficit, pursued an appropriate credit policy, and put in place a prudent external debt management policy.

The policies implemented contributed to a revitalization of the economy, the dampening of inflationary pressures, and the strengthening of the external sector position. After a drought-related decline in economic activity in 1983/84-1984/85, real GDP grew at an average annual rate of 4.2 percent during 1985/86-1987/88, compared with a population growth rate of about 3 percent. The rate of inflation, as measured by the GDP deflator, declined from an annual average rate of about 11.0 percent during 1983/84-1984/85 to 2.5 percent in 1987/88. The external current account deficit, excluding official grants, narrowed from 21.7 percent of GDP in 1982/83 to 10.2 percent in 1987/88. The strengthening in external debt management and the improved financial position contributed to a reduction in the ratio of public and publicly guaranteed debt to GDP from a peak of 91.0 percent in 1984/85 to an estimated 76.7 percent in 1987/88, and a stabilization of the debt service ratio, before debt

1/ This paper updates the policy framework paper (PFP) of October 19, 1988, covering the period 1988/89-1990/91.

relief, at about 30 percent of exports of goods and services and private transfers.

II. Performance Under the 1988/89 Adjustment Program 1/

To consolidate the progress made and to further the adjustment process, the Senegalese Government pursued its efforts during 1988/89 in the context of an updated medium-term policy framework for 1988/89-1990/91. The strategy pursued involved a set of economic and financial policies designed to promote private sector economic activity and strengthen public resource management. Within this medium-term context, the program for 1988/89 aimed at achieving real GDP growth of 4.2 percent; limiting the rate of inflation, as measured by the GDP deflator, to 2.4 percent; and reducing the external current account deficit, excluding official grants, to 9.1 percent of GDP. Taking into account the envisaged external financial assistance, including debt relief, the balance of payments was projected to record a surplus of CFAF 28.7 billion (SDR 71.6 million) in 1988/89.

The implementation of the program in 1988/89 suffered from a number of adverse factors, particularly in the second half of the year. These included an uneven distribution of rainfall and the locust infestation of the agricultural crop, which was reflected in a marked drop in the harvest. The effects of these developments were compounded by a series of strikes in the third quarter of the year and by the emergence of social disturbances in the fourth quarter, following clashes at the border with Mauritania in April 1989. While the structural measures were implemented broadly as envisaged, the above factors and delays in the implementation of some of the envisaged revenue-generating measures combined to produce a major revenue shortfall. In the circumstances, the program's objective for economic growth was not achieved. With a fall of 12.3 percent in real value added in the agricultural sector, real GDP growth declined to 0.6 percent. However, the rate of inflation, as measured by the GDP deflator, rose by only 1.9 percent, reflecting in large part the downward revision in the producer price of groundnuts and the openness of the Senegalese economy. In the external sector, the current account deficit, excluding official grants, was reduced to 9.6 percent of GDP, broadly in line with the program target; the lower level of export receipts, stemming mainly from a fall in the export of fish, was offset by lower imports, owing primarily to lower-than-projected imports of intermediate goods. However, the financial slippages and the social disturbances contributed to a continuation of private capital outflows, although these are estimated to have been lower than in 1987/88. Accordingly, the overall balance of payments, after debt relief, recorded a surplus of CFAF 18.5 billion, below the program target.

1/ The analysis is based on estimates and preliminary data.

Substantial progress was made on the structural front. In the agricultural sector, the producer price of groundnuts was reduced; a number of measures to increase the efficiency of groundnut marketing and processing were implemented; the pricing and marketing of coarse grains were liberalized; the domestic processing of cereals was promoted; the phased elimination of fertilizer subsidies, which began in 1986/87, was pursued; agricultural extension services were further strengthened; and preliminary measures to preserve soil fertility and increase the efficiency of land use management were identified. In the area of industrial policy, the Government implemented a tariff reform aimed at rationalizing the system of effective protection; took steps to introduce some flexibility in the labor market; and eliminated all price controls, except those on essential goods and services. In the context of the Government's review of energy policy, a joint Fund-World Bank study to provide the basis for the rationalization of energy taxation and pricing was completed. The public investment program was effected as envisaged, achieving an implementation rate of 70 percent. The outlays were concentrated on rural development projects, as well as on rehabilitation operations. However, little progress was made in public enterprise reform, particularly with regard to increasing the number of the enterprises operating under performance contracts and privatizing those identified for this purpose.

On the financial front, the Government encountered serious budgetary difficulties. There was a major revenue shortfall of 9.9 percent, which reduced total revenue to 2.3 percent below the 1987/88 level. This was due primarily to the aforementioned adverse factors; delays in implementing some of the envisaged tax measures; the granting of tax exemptions, particularly to the textile sector; and slippages in tax administration. Total expenditure and net lending was 1.4 percent above the program target. The higher-than-programmed level of current expenditure was due to higher scheduled interest payments on external debt. The wage bill was limited to the programmed level, through the envisaged reduction in the size of the civil service and the absence of any cost of living adjustment. The increased level of expenditure on supplies and maintenance was more than offset by a reduction in subsidies and transfers. The higher-than-programmed deficit in the Treasury's special accounts resulted from an increase in maintenance expenditures of the Road Fund. However, capital expenditure was lower than programmed, owing to lower-than-envisaged counterpart expenditures under the tax retention scheme for project-related imports. In the circumstances, the budget deficit, on a commitment basis and including grants, amounted to CFAF 30.9 billion (2.1 percent of GDP), compared with a programmed surplus of CFAF 3.7 billion (0.2 percent of GDP). As a result, the Government was unable to reduce its domestic payments arrears, repay the outstanding crop credit, and fully service its obligations on the ONCAD debt as programmed. 1/ Net bank claims on the

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1/ The Office National de la Commercialisation Agricole et du Développement (ONCAD) was liquidated in August 1980.

Government declined by 2.9 percent of initial money stock, as against a programmed increase of 1.2 percent. This decline resulted, on the one hand, from the inability of the Government to draw on its deposits with banks in difficulty, and, on the other, from the buildup of deposits representing the counterpart of a CFAF 7.0 billion disbursement under a French loan for the reform of the banking system. While overall monetary developments in the first half of the year were in conformity with the program, there were marked deviations in the second half. In the first half, net domestic assets grew by 0.9 percent, as compared with an adjusted program target of 1.4 percent of beginning-of money stock, as both net credit to the Government and credit to the economy were lower than programmed. In the second half, net domestic assets grew rapidly by 5.0 percent of the end-December money stock, owing to an expansion in ordinary credit. Ordinary credit was higher than envisaged, due to the fact that the reclassified crop credit relating to the 1987/88 harvest was not repaid, as programmed, stemming from the aforementioned fiscal difficulties. In addition, an audit of a commercial bank, under the ongoing reform of the banking system, resulted in a restructuring of its balance sheet, accounting for a significant increase in the level of credit. Accordingly, for the year as a whole, net domestic assets grew by 5.7 percent of beginning money stock, as against a programmed reduction of 3 percent. Even though net foreign assets were lower than projected, the rise in net domestic assets led to a growth of 7.1 percent in domestic liquidity, compared with a program target of 5.2 percent. The Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) increased the interest rate structure twice, in December 1988 and in March 1989, with the aim of enhancing financial intermediation and dampening capital outflows. The reform of the Union Sénégalaise de Banque (USB) and the Banque Internationale pour l'Afrique Occidentale-Sénégal (BIAO-S) was pursued; and preparatory work was undertaken to lay the ground for a more comprehensive reform of the banking system. In addition, external debt management continued to be strengthened.

III. The Objectives and Policy Strategy for 1989/90-1991/92

The setback suffered in 1988/89 reinforces the determination of the Government to continue to implement structural and financial policies consistent with the thrust of its adjustment strategy, as outlined in its last three PFPs, with a view to ensuring that the medium-term objectives are achieved. In light of the recent experience, the specific elements of Senegal's medium-term strategy are being readapted and reinforced. First, the shortfall that occurred in government revenue underscores the urgency of implementing additional tax measures designed to reduce the vulnerability of revenue and enhance the elasticity of the tax system, while strengthening tax administration. Second, the minor increases in salaries for civil servants, along with special increases for schoolteachers, and health workers in 1989/90 have highlighted the need to adopt a reform of the civil service with the view to containing the growth of the wage bill and ensuring a more balanced allocation for salaries and other recurrent expenditures and basic services. Third, the opening of the industrial sector to outside competition has accentuated the importance of addressing the rigidities in the labor market, as well as the relatively high labor and energy costs. Fourth, the reform of the public enterprise sector has been beset by serious difficulties, and progress in concluding performance contracts with new enterprises and privatizing others has been slow. Fifth, the liquidity problems confronting the banking system continue to hinder financial intermediation, thereby impairing economic activity. Sixth, the restructuring of the public sector gives added urgency to reinforcing the efforts to promote job creation in the private sector and assisting workers in relocating. To address these issues, the Government, in consultation with the staffs of the Fund and the World Bank has readapted and extended its medium-term policy framework to cover the period 1989/90-1991/92.

The updated policy framework involves a reinforcement of the Government's medium-term strategy entailing, on the one hand, a reduction in the obstacles to private sector initiative and growth, and, on the other, the achievement of greater efficiency in public resource management, including a strengthening in government finances. On the financial front, the authorities aim at bolstering the fiscal position by introducing wide-ranging tax measures and improvements in tax administration, while implementing a fundamental reform of the civil service; pursuing a monetary policy designed to align aggregate demand with available resources, while emphasizing the provision of credit to the private sector; implementing a comprehensive reform of the banking system; and continuing a prudent external debt management policy. On the structural front, the strategy aims at pursuing policies to further liberalize the labor market, introduce greater flexibility in wage determination, and reduce energy prices; reassessing the reform of the public enterprise sector, to accelerate the privatization process and reduce this sector's burden on the budget; implementing the public investment program, focusing on projects supporting the directly productive sectors, while further strengthening the design and monitoring of public investment; and pursuing a rural development policy aimed at expanding and diversifying domestic production.

The envisaged policies are designed to contribute over the three-year period to the following basic quantitative objectives: (a) to achieve an average annual increase of 4.0 percent in real GDP, following the economy's recovery from the poor 1988/89 harvest; (b) to contain the inflation rate, as measured by the GDP deflator, at 2.4 percent by 1991/92; and (c) to narrow the external current account deficit, excluding grants, to 6.1 percent of GDP by 1991/92. Private capital outflows are expected to decline and turn around during the three-year period, reflecting the improvement in economic conditions. The balance of payments is projected to record a deficit, before debt relief, of CFAF 20.1 billion in 1989/90 and a surplus of CFAF 16.1 billion by 1991/92. The setback suffered in 1988/89 is reflected in higher financing requirements, even though the objective of a progressive reduction in the flow of budgetary assistance has been retained. The external budgetary financing requirements, excluding project-related financing but including the Fund, are projected to decline from CFAF 125.6 billion in 1989/90 to CFAF 80.7 billion in 1990/91, and to CFAF 36.0 billion in 1991/92. The steep decline in these requirements after 1989/90 suggests that Senegal should be able to service its external debt obligations without further recourse to debt relief starting in 1990/91, a year later than originally envisaged.

This policy framework is consistent with Senegal's long-range development objectives, which aim at achieving a sustained growth of per capita income and food security. The policies envisaged are designed to exploit Senegal's comparative advantage, based on its relatively skilled labor force, managerial capability, irrigation potential, fishing and mineral resources, physical infrastructure, and favorable geographical location. Accordingly, during the program period real economic growth is projected to reach an average annual rate of 3.1 percent in the industrial sector, and 3.8 percent in the service sector; agricultural sector growth in the latter two years of the program is expected to stabilize at 3.8 percent, following a sharp rebound in 1989/90 reflecting a recovery from the poor 1988/89 harvest.

As a member of the West African Monetary Union (WAMU), Senegal maintains an exchange system that is free of restrictions on payments and transfers for current international transactions. The exchange system is common to all members of the Union and, within this context, Senegal's currency is pegged to the French franc at an exchange rate of CFAF 50 = F 1. In view of Senegal's exchange arrangements, the policies being pursued aim at achieving a relatively low rate of inflation, which, together with the restrained wage policy envisaged and improvements in productivity, should contribute to the enhancement of Senegal's international competitiveness.

IV. Structural and Macroeconomic Adjustment Policies for 1989/90-1991/92

Within the broad framework described above, the Government of Senegal will implement a comprehensive set of structural and macroeconomic policies aimed at consolidating the gains achieved thus far and making further progress toward the attainment of a sustainable rate of economic growth and a viable balance of payments position. Key economic and financial indicators are given in Table 1. A summary and the time frame of the Government's policies for the entire three-year period are given in Table 2. The financing requirements are detailed in Table 3. The specific policies being put in place in 1989/90 are detailed in Senegal's memorandum on economic and financial policies for 1989/90.

1. Public investment programming

The Government has strengthened considerably public investment programming in terms of consistency with the macroeconomic framework, sectoral coverage, financing profile, and project evaluation. The third three-year rolling public investment program (PTIP), for 1989/90-1991/92, has an investment target of CFAF 485 billion, compared with CFAF 469 billion under the previous one. It continues to focus on high-yielding investment in the transportation sector (20.1 percent of total investment outlays), in agriculture (16.8 percent), and in water supply (14.6 percent). In the transportation sector, the basic objective is the rehabilitation and maintenance of the existing infrastructure, particularly the road network. In agriculture, the investments emphasize the infrastructural development of irrigated areas and, to a lesser extent, of rain-fed areas. The envisaged water supply investments aim primarily at improving the efficiency of the existing distribution network in urban areas and at developing small-scale irrigation projects in rural areas. For the first year of the program, investment outlays have been set at CFAF 158.3 billion, consistent with Senegal's macroeconomic objectives and financial constraints.

To further strengthen the programming process and provide a long-term framework for the rolling PTIPs, the authorities have completed a study on Senegal's long-term development prospects to 2015. The study, currently under review within the Government, will provide a basis for setting out Senegal's development strategy and objectives. In addition, the actions aimed at enhancing the capacity of the Ministry of Planning and Cooperation to appraise and monitor projects will be pursued, with particular attention being accorded to the assessment of the recurrent costs and debt service obligations associated with investment projects. Furthermore, the ongoing program to strengthen the capacity of the technical ministries to identify and prepare projects, consistent with the sectoral priorities, will be given greater emphasis. In this regard, the guidelines for project preparation and feasibility evaluation will be standardized and monitoring procedures instituted so that the technical ministries can assume responsibility for project identification, appraisal, and monitoring, thereby permitting the Ministry of Planning and Cooperation to focus on overall project coordination and screening. Finally, in order to improve the economic analysis and monitoring of public investment, preliminary measures were implemented to integrate the annual investment program in the normal budgetary and expenditure control procedures. The disbursement of all foreign loans has been centralized with the Ministry of Economy and Finance. Nevertheless, additional work is required to improve the monitoring of public investments financed through grants. The Government is convinced that the improvements being effected and a systematic monitoring of public investments should help to facilitate and increase external donor support. In this regard, the Consultative Group for Senegal, together with sectoral donors' meetings held within its framework, will continue to serve as the major vehicle for the mobilization and coordination of development assistance to Senegal.

2. Agricultural policy

The Government will continue to accord high priority to agricultural policy reforms. The key objectives of these reforms are to expand and diversify crop production; increase food security; augment rural sector incomes and employment opportunities; improve natural resource management; and expand the contribution of the sector to exports. A key element of the agricultural reform strategy is the enhancement of private sector participation in production and processing through the reduction in price controls and subsidies, and the withdrawal of the Government from activities in the sector. The Government has been assessing the progress made so far, and reviewing its strategy to ensure that its objectives are realized. The overall approach is being detailed in the Letter on Agricultural Development Policy currently under preparation in consultation with the World Bank, the French Caisse Centrale de Coopération Economique (CCCE), and the European Economic Community (EEC).

With regard to cereal production, the Government will, in the long-term interest of food security, continue to promote the substitution of imported rice by domestic coarse grains, through the promotion of local cereal marketing and processing; maintain an appropriate margin of protection on cereal imports; rationalize the domestic pricing of rice; and increase the efficiency of the production and marketing of rice. Measures to increase the efficiency of local rice production will also be implemented. With regard to groundnut production, the emphasis will continue to be given to reducing price distortions and enhancing efficiency, through a series of further cost-reduction measures currently being elaborated in the third phase of a study on the sector. The measures envisaged will include the adoption of a system for adjusting the producer price of groundnuts in line with world market conditions; reducing the fixed costs of the groundnut oil processing company (SONACOS); and privatizing the confectionery groundnut marketing company (SEPFA) in 1991/92. In the area of confectionery groundnuts, a study aimed at formulating a plan of action to increase the production and improve the quality of processing as well as expanding exports will be undertaken. In addition, a study of the technical and financial operations of SONACOS and associated enterprises is being undertaken, to provide the basis for revising the protocol defining the financial relations between SONACOS and the Government, with a view to increasing the transparency of SONACOS' operations and adding incentives for efficiency. The groundnut price guarantee fund (FGPA) will be strengthened to provide more effective monitoring of the sector's financial performance. With regard to cotton, the Government is preparing, in consultation with the World Bank and the CCCE, a recovery program that includes measures to improve technical performance, reduce costs, progressively reduce input subsidies, and establish a flexible producer price system linked to financial results.

The Government will formulate a plan of action to improve the land tenure system and reduce the administrative obstacles to the productive use of land. This will include the elaboration of a pastoral code relating to the land use rights of cultivators and livestock holders, and the establishment of a community-based land management system for grazing areas. The Government is defining, with the World Bank, measures to improve the productivity and quality of the cattle herd. In addition, it is actively pursuing agricultural diversification in both the Fleuve region and the groundnut basin, in particular through the improvement of marketing and export facilities for fruits and vegetables. With regard to fishing, which has become the largest export sector, there is increasing concern that the fishery resources have been deteriorating in recent years. In fact, the volume of fish exports has been in decline since 1986/87 and the share of fish in total exports fell from 26 percent in 1987/88 to 21 percent in 1988/89. In order to determine appropriate remedial actions and revitalize the sector, a comprehensive study of the bottlenecks and the potential for expanding output and exports will be undertaken in collaboration with foreign donors. To strengthen the performance of the agricultural credit system, the Government is developing a plan of action that will include opening the capital of the National Agricultural Credit Bank (CNCAS) to private participation; measures for the recovery of overdue loans and advances; and the improvement of the CNCAS' accounting and management systems.

The Government is paying increasing attention to the need to prevent the degradation of the environment, especially with regard to arable land, rangeland, and forests. In addition to many ongoing projects, the objectives of which are to improve natural resource management, the Government intends to: (a) review all existing relevant legislation and administrative regulations; (b) review and amend, as necessary, the regulations relating to taxation and cost recovery to enhance natural resource management; (c) adopt a new forestry code; (d) reorient agricultural extension service; and (e) implement an appropriate population policy.

3. Industrial policy

The Government intends to pursue its comprehensive industrial policy reform designed to improve the competitiveness of the industrial sector and promote investment and exports. A number of important aspects of this reform have already been implemented, notably the removal of quantitative import restrictions, the sharp reduction of the scope of price controls, the rationalization of the system of effective protection, the revision of the investment code to eliminate the bias toward capital-intensive projects, the establishment of a one-stop window (guichet unique) to facilitate new investments, the introduction of a certain degree of flexibility in the labor market, and the simplification of the regulatory framework for domestic and external trade. Notwithstanding the progress made, a number of structural obstacles remain, including considerable labor market rigidities and relatively high energy costs. To address these remaining obstacles, and provide appropriate incentives to private sector development, a reform of the labor market will be undertaken with a view to according greater flexibility in employment procedures and the establishment of salaries. The Government plans to modify the Investment Code to permit the employment of workers on fixed-term contracts renewable over a period of five years. The Government also intends to discontinue the obligation of small- and medium-scale enterprises (as defined by the Investment Code) to obtain prior approval to dismiss employees for economic reasons. These reforms will also apply to new firms established in the Dakar free trade zone. In addition, the Government will set forth by decree the conditions under which enterprises may have recourse to fixed-term employment contracts to respond to economic upturns. The existing labor regulations will be examined by a commission comprising representatives of the Government, employers, and the unions, which will aim at improving the functioning of the labor market. Furthermore, a review of the existing labor legislation will be undertaken, with a view to strengthening the link between pay and productivity and facilitating the participation of workers in the ownership of enterprises. The level and composition of corporate taxation will also be studied, in order to identify ways to reduce the corporate tax burden to levels comparable to those in competitor countries. To permit the textile, match, and battery industries sufficient time to complete their restructuring, the Government is according tariff protection to these sectors for a temporary two-year period ending June 1991. In order to eliminate the exceptions to the common tax regime, the authorities are also reconsidering the existing special agreements that accord tax and other advantages to certain enterprises. Moreover, measures will be implemented to improve the operations of the free trade zone and of the trade promotion organizations. In the context of its energy policy reforms outlined below, the Government is preparing a plan of action for the rationalization of energy costs for industries. Finally, steps will be taken to reduce administrative bottlenecks and increase institutional efficiency in selected areas crucial to industrial expansion, namely, the customs department, the one-stop window, and the Economic Control Agency.

4. Energy policy

The Government's energy policy continues to emphasize three basic objectives, namely, to develop local sources of supply, especially hydroelectric power; to restrain energy consumption, through appropriate pricing and conservation policies; and to promote efficient use of energy, particularly in the industrial sector. Consistent with the medium-term objectives of the Government's energy policy, and the need to mobilize additional resources in support of the government budget, the structure of domestic prices of petroleum products was kept virtually unchanged after the sharp reduction in world oil prices in 1986. The objective of developing local sources of energy supplies is being pursued through investments aimed at exploiting the hydroelectric power potential of the Manantali Dam (a regional project involving Mali, Mauritania, and Senegal under the aegis of the Senegal River Development Organization). Efforts are also under way to explore the possibility of developing hydrocarbon resources in Senegal. In this regard, the national oil company (PETROSEN) has launched a petroleum exploration program in association with foreign and local investors. The policy of energy conservation has proved successful, as evidenced by the declining volume of petroleum imports over the last few years. However, the maintenance of a relatively high price structure for energy inputs for industry has adversely affected the competitiveness of the industrial sector. Two key measures were taken to deal with this issue. First, in July 1986 a reduction was made in the prices of diesel and fuel oils used by the electricity company to support its rehabilitation efforts. Second, to improve the competitiveness of certain export-oriented enterprises, particularly the chemical company (ICS) and the phosphate mines (CSPT and SSPT), the Government decided to provide these enterprises, as of July 1987, with cash transfers equivalent to a reduction in the prices of energy products to externally competitive levels. Nonetheless, the rest of the industrial sector has continued to suffer from the relatively high price of energy; with the recent liberalization of the external sector, the pressure on the industrial sector has intensified.

The Government has been reassessing its energy pricing policy, particularly with a view to rationalizing the pricing of energy inputs to the industrial sector. To this end, the Government has reviewed a study prepared by a joint Fund-Bank mission, which analyzes the present price structure and the system of taxation of the petroleum refining company (SAR), and based on this study, will initiate appropriate reforms, consistent with the need to promote energy conservation and reduce, over time, the relative reliance of the budget on exceptional profits from the petroleum sector. These reforms will be implemented in two phases. In the first phase, a new taxation system for petroleum products will be introduced. Under the new system, SAR will receive a negotiated flat fee for the processing and handling of crude petroleum. Petroleum products will then be subjected to an import tax, a value-added tax (VAT), and a petroleum levy, thus transforming the nature of budgetary revenue generated by the petroleum sector from a transfer of profits to a tax receipt. The new system will be monitored during a three-month trial period to ascertain that it is resulting in higher receipts. In the second phase, starting July 1, 1990, the requisite adjustments in the price of petroleum products to industrial users will be determined, in consultation with the Fund and the World Bank, taking into account the evolution of petroleum import prices and the budget. These measures will enter into effect on July 1, 1990. This process will continue to be reviewed, in light of experience, to ensure that it remains consistent with Senegal's energy policy objectives.

5. Public enterprise reform

The Government remains committed to the comprehensive reform program of the public enterprise sector initiated in 1986. The reform involves a reduction in the scope of government participation and the strengthening of the sector's financial position. The program provides for the improvement and rationalization of the financial relations between the state and public enterprises; the rehabilitation of enterprises to be retained in the public domain; and the privatization or liquidation of others. With regard to the financial relations between the state and public enterprises, the Government will implement measures to ensure that the direct subsidies to public enterprises, including noncommercial public agencies, are reduced significantly from their 1988/89 levels. The level of overdrafts to the public agencies will be limited to their June 30, 1989 levels and converted into long-term loans; the central accounting agency will be closed by end-June 1990. The Government will update its accounting of the end-1988 stock of outstanding cross-payments arrears and continue to settle these arrears in conformity with the established timetable. The Government will neither guarantee, nor subsidize the interest, on foreign loans contracted by public enterprises. The rehabilitation of certain public enterprises is being effected in the context of performance contracts. To date, nine enterprises have signed performance contracts with the Government. In 1988/89, there were delays in concluding additional performance contracts, partly because of the complexity of defining the rehabilitation programs. The Government intends to step up the pace of preparation in finalizing eight additional performance contracts during 1989/90. The Government will conduct annual reviews to ensure that public enterprises comply with their contractual obligations. Progress in achieving divestiture has been slower than anticipated. Since 1986, the Government has liquidated nine public enterprises. Ten public enterprises were put up for sale in October 1987, and 11 additional enterprises have been identified for privatization. Thus far, however, only two have been partially privatized. To give impetus to this process, the Government, in collaboration with the World Bank, is reassessing its privatization policy, with the aim of achieving a complete withdrawal from all nonstrategic enterprises by the use of the full range of available privatization instruments. To promote private sector participation, the feasibility of creating a secondary market for shares in Senegal will be examined. In addition, the Government will contract internationally reputable firms to assist in the privatization process. During 1989/90-1990/91, a minimum of 10 additional enterprises will be liquidated and a further 35 privatized; the enterprises that cannot be privatized during this period will be liquidated. The fourth structural adjustment credit, under negotiation with the World Bank, will focus particularly on the acceleration of reforms in the public enterprise sector.

6. Fiscal policy

The Government is intensifying its revenue improvement efforts while containing the growth in expenditure in order to offset the setback suffered in 1988/89 and achieve its medium-term fiscal objective. The measures are designed to achieve a turnaround in the budget deficit, on a commitment basis and excluding grants, from 4.0 percent of GDP in 1988/89 to a surplus of 0.8 percent of GDP in 1991/92. The envisaged improvement will enable the Government to liquidate during 1989/90 all verified domestic payments arrears and outstanding crop credit, which were carried over from 1988/89 as a result of the slippages that occurred. The reliance of the budget on foreign financing, excluding project-related financing, but including the Fund, will fall sharply; such financing will decline from an estimated CFAF 125.6 billion in 1989/90 to CFAF 80.7 billion in 1990/91, and further to CFAF 36.0 billion in 1991/92. The sharp improvement in 1990/91 should enable the Government to service its external debt obligations without recourse to debt relief, one year later than originally envisaged.

The Government will step up its efforts to improve the country's tax performance. First, the Government will continue to implement a set of measures designed to modernize and strengthen tax assessment and collection procedures, mainly by completing the computerization of indirect taxes and of the customs clearance procedures, updating taxpayer files and identifying unrecorded taxpayers, opening new tax collection offices, and monitoring the repayment of tax arrears. Second, to reverse the recent decline in revenue that was attributable primarily to lower customs receipts, the Government has increased the customs duty from 10 percent to 15 percent and established a system of minimum assessed values for goods known to be subject to underinvoicing in order to combat the erosion of the tax base. Third, in the area of domestic taxation, the coverage of the highest rate of the value-added taxation has been significantly widened and its rate reduced from 50 percent to 30 percent. Finally, following a recently completed Fund-Bank tax study, prepared at the request of the Senegalese authorities, the Government intends to introduce by December 1989 a plan of action to further improve customs administration and initiate wide-ranging tax reforms. These will include the launching of a package of measures designed to tighten considerably the taxation of the informal sector, the activity of which has expanded rapidly with the liberalization of the economy. To this end, a simplified licensing system will be introduced, involving a registration fee and the partial prepayment of a presumptive business income tax. The information gathered through the computerization of the VAT and customs will also permit the detection of institutional importers who operate in the informal sector. In addition, the existing VAT will be extended in 1990 to the commerce and service sectors, part of which are already subject to the tax on an approval basis. Furthermore, a global individual income tax, to replace the existing schedular taxes on income, and a separate tax on corporate profits will also be introduced in 1990. The new individual income tax will be supplemented by the establishment of withholding taxes on incomes from real estate, shares and bonds, and professional activities, which will be credited against global income tax liabilities. These measures will contribute to improving the elasticity of the tax system. They will be reinforced in due course through an expansion of the tax base, with the completion of the ongoing work to complete the fiscal cadastre for the Dakar region and the reform of the land property regime. In addition, the vulnerability of the revenue base, given the current dependence on profits from the oil sector, will gradually be reduced through the aforementioned reform in the taxation of the petroleum sector, and the relative expansion of other sources of revenue. The above measures and their impact will be reassessed by end-1989/90, with a view to determining the package of revenue measures to be incorporated in the 1990/91 budget.

Measures will be put in place to restrain expenditure growth and improve the structure of expenditure. In this context, the wage bill will be limited to CFAF 130 billion in 1989/90. The Government has decided to reduce the wage bill to CFAF 125 billion in 1990/91 and to maintain it at that level during the subsequent three-year program period. To attain this objective, the Government completed three studies by end-September 1989, which will serve as a basis for the formulation, in consultation with the World Bank and the Fund, of a detailed program to reduce the size of the civil service through voluntary departures, early retirement, and the restructuring of the civil service. This program will be implemented with external financial support beginning in 1989/90. The conclusions of these studies will be assessed at the time of the midterm review, and the wage bill for 1989/90 will be revised downward to reflect the impact of the measures to be implemented in the second half of the fiscal year. Larger appropriations will be made for essential materials, supplies, and maintenance to ensure an effective functioning of the administration, notably those involved in social welfare administration, the Treasury, and the tax departments. Nonpriority current outlays, other than those targeted to the poorest social groups, will be curbed in real terms, and subsidies to public enterprises will be phased out. Moreover, several measures will be put in place, based on the recommendations of a study prepared with Fund technical assistance, to improve the operations of the special and correspondent accounts. These measures will include improved fiscal discipline in the management of accounts; the integration of some special accounts in the budgetary process; the elimination of inoperative accounts; and the streamlining of the accounting system. Further measures to strengthen the allocation of available resources among economic sectors will be implemented on the basis of a study on the sectoral and functional distribution of current expenditure to be undertaken in consultation with the World Bank. To improve its monitoring, the investment budget for 1989/90 is in the process of being fully integrated into the normal budgetary and expenditure control procedures, notably through increased coordination between the Ministry of Economy and Finance and the Ministry of Plan and Cooperation, with a view to improving the monitoring of grant-financed public investment.

7. Monetary policy and banking reform

The Government will continue to pursue a prudent monetary policy, consistent with the growth, inflation, and balance of payments objectives. The growth in domestic liquidity will be kept below that of nominal GDP, in order to curb aggregate demand. The envisaged improvement in the fiscal position will enable the Government to reduce its net indebtedness to the banking system. This will permit the monetary authorities to provide for adequate expansion of credit for private sector activities, without generating excessive growth in domestic credit. The conduct of monetary policy in the period ahead will be facilitated by two factors, mainly the restructuring of the banking system and the reforms in the use of monetary policy instruments being introduced by the BCEAO.

The Government launched in 1988 a reform of the banking system, in collaboration with the donor community and in consultation with the Fund and the World Bank. This reform program, which is already well under way, involves a two-pronged approach entailing specific bank-by-bank reforms and general sectoral measures. The bank-by-bank reforms are expected to be fully implemented by the end of 1989. Two commercial banks in which the Senegalese public sector is a minority shareholder and one bank that is wholly owned by private interests are being brought back to solvency by their shareholders, including the Government, through recapitalization and loans at concessional terms, while their size is being scaled down in order to reduce their operating costs. Four public sector banks and a private sector financial institution will be restructured. The performing loans of these banks will be taken over by two institutions in which the Government will only have a minority share, while the nonperforming loans of these banks will be handled by a loan recovery institution. One of the two envisaged commercial banks, the CL-S (Crédit Lyonnais du Sénégal), started operating on July 3, 1989; the other bank and the loan recovery institution are expected to become operational before the end of 1989. To assist in the financial rehabilitation of the restructured banks, the Government has obtained a loan on concessional terms from France. In addition, the BCEAO has agreed to reschedule already-rescheduled excess debit balances, and part of its outstanding credit to the restructured banks. The BCEAO has also agreed to reschedule the refinanceable portion of outstanding ONCAD debt. The rescheduling will be made on concessional terms, namely, at an interest rate of 3 percent over a period of 15 years, with a grace period of 3 years. Furthermore, the restoration of the banks' liquidity position will require the repayment of the Government's outstanding liabilities to the banking system. The Government is seeking additional long-term concessional assistance for this purpose from bilateral donors and creditors, and is in the process of negotiating a financial sector operation with the World Bank, the African Development Bank, the United States, and other multilateral and bilateral donors and creditors.

On the sectoral side, the full implementation of the reform program, together with the planned reduction in the share of the Government in the capital of other banks, will lower the Senegalese public sector's overall participation in the capital of the banking sector from 60 percent to less than 10 percent; the share of the Government in each bank will, in due course, be limited to 25 percent. The reformed banking sector will have a size and structure that is more in harmony with the needs of the economy. The concomitant reduction in operating costs, together with their financial rehabilitation, will improve the restructured banks' profitability. Interbank competition will be fostered, thereby contributing to the promotion of financial savings, and the development of financial intermediation. The Government will refrain from guaranteeing any bank transactions, other than those directly related to its own activities. It will promote a sound banking environment by ensuring the autonomy of banking activities. Steps will be taken to reinforce bank supervision and to facilitate loan recovery.

As a member of the West African Monetary Union (WAMU), Senegal is participating in the reassessment of the Union's monetary policy instruments. Since late 1988, the WAMU has been pursuing a more active interest rate policy, taking into account economic conditions in the Union and developments in international markets, with the objective of fostering the growth of domestic savings and encouraging financial intermediation. The flexibility in the conduct of monetary policy is expected to be increased through a more indirect system of monetary control presently under study. Thus, the administrative control of credit will be progressively replaced by a system of indirect instruments more oriented toward the market. It is expected that the two current discount rates--the normal and the preferential--will be unified; the banks will be granted greater scope in the establishment of their interest rates on deposits and loans; the money market will be expanded and its operations improved; the system of sectoral credit allocation will be replaced by a system of financial incentives; the functioning of the system of prior authorization of credit will be exclusively restricted to the monitoring of loan quality; the system of crop credit will be revamped; and the control over credit to the Government will be strengthened. In addition, the WAMU is studying various proposals for the reinforcement of bank supervision, both at the level of the member countries and at the level of the Union.

8. External debt management

In view of the heavy external debt burden, the authorities will continue to pursue a cautious debt management policy, with a view to reducing the debt service burden to a manageable proportion. To this end, the authorities are limiting new nonconcessional borrowings to a minimum and substituting, whenever possible, grant financing for loans. In addition, the monitoring of external debt developments is being improved through the expanded coverage of the computerized debt management system to include all external loans and grants and improved coordination among the concerned government agencies.

9. Population and human resource policy

In view of Senegal's high annual population growth rate of about 3 percent, and its social, economic, and environmental implications, the Government has adopted a Priority Action and Investment Program to be presented at a donors' meeting in December 1989. The program will include actions in the areas of family planning, maternal and child care, promotion of women and youth, migration and urbanization, employment, research, and information and education on population priorities, as well as legislative measures affecting demographic behavior. The Government is also preparing measures aimed at promoting a more efficient use of existing educational resources and increasing the share of these resources allocated to primary education. Furthermore, the Government will formulate a national health policy to improve the allocation of scarce resources, limit the cost of health services, and encourage the growth of private sector initiatives in this sector.

10. The environment

The Government recognizes that the degradation of the environment represents a serious constraint on Senegal's development, especially in view of continued rapid population growth. Its impact is already being felt in the reduction of yields caused by the fall in soil fertility, in the loss of forest cover arising from the intensive use of fuelwood, and in the deterioration of the urban environment. Three measures are required immediately, namely, the launching of a research program on economic incentives and land use policies aimed at defining agricultural and livestock techniques that will reverse the trend of soil degradation and salination; the adoption of a new forestry code that devolves forestry management to local communities and introduces measures to control the demand for wood through price incentives and other measures; and the improvement of urban sanitation.

11. Regional impact

The economic liberalization measures undertaken, particularly in the agricultural and industrial sectors, should contribute to encouraging the growth of regional trade in line with Senegal's comparative advantage. In particular, the Government intends to collaborate with neighboring states in order to improve customs control and reduce illicit trade. In the context of the West African Economic Community (WAEC) and the Economic Community of West African States (ECOWAS), as well as other regional economic groupings, the Government will undertake joint action to reduce nontariff barriers and revise existing preferential trade agreements.

12. Social impact

The adjustment program outlined above is expected to lead to real per capita income growth over the medium term. This growth, however, will not be spread uniformly across socioeconomic groups, particularly in the short term. Rural incomes are expected to benefit in particular, as agriculture is expected to be a major source of economic growth. By contrast, the restructuring of the civil service, the incomes policy, public enterprise restructuring, banking sector reforms, and the liberalization of the economy are expected to reduce urban employment opportunities and real incomes in the short term. To minimize these short-term effects, the Government has established an Employment Fund designed to facilitate the re-entry into gainful private employment of the following groups: (a) workers in the agricultural and industrial sectors who have lost their jobs as a result of restructuring, privatization, or liquidation of enterprises; (b) civil servants who have voluntarily left the service; (c) emigrants who have resettled in Senegal; and (d) unemployed new graduates from colleges and universities. The Government envisages an expansion in the Employment Fund program, facilitating access of the more vulnerable social groups to training, and creating new jobs through a Public Works and Employment project. This project comprises the rehabilitation and maintenance of primarily urban infrastructure, which may be undertaken by small-scale enterprises using labor-intensive techniques. In addition to providing employment, the project aims at improving the skills of its participants. Over the medium and long term, the improved economic environment is expected to foster an expansion in economic activity, leading to increased employment opportunities.

While the adjustment program focuses primarily on the directly productive sectors, the Government has reinforced its efforts to improve basic services to the population with the assistance of multilateral organizations and nongovernmental institutions. Education and health care, in particular, will continue to receive priority. As part of the Multicountry Social Dimensions of Adjustment Project, financed by the United Nations Development Programme and executed by the World Bank, the Government has started work to compile data on income distribution and welfare indicators, to study the socioeconomic impact of adjustment programs, and to identify compensatory programs of action where needed. In addition, socioeconomic studies will be prepared with a view to identifying projects and programs to minimize the cost of adjustment for the most vulnerable groups.

V. External Financing Requirements

It is expected that the implementation of the above-mentioned macroeconomic and structural policies should contribute to strengthening Senegal's external payments position. The continued expansion of agricultural and industrial output should lead to an improvement of export performance. Meanwhile, the structural and macroeconomic measures should help promote import substitution, thereby limiting the growth of consumer goods imports, while allowing for an increase in capital and intermediate goods imports. Hence, taking into account the current prospects for world commodity prices, the trade deficit is expected to be further reduced. As the services account is expected to continue to improve, the external current account deficit, excluding official grants, is projected to be narrowed from an estimated CFAF 140.4 billion (SDR 356.1 million) in 1988/89 to about CFAF 106.7 billion (SDR 256.0 million) by 1991/92. Taking into account a scheduled external public debt amortization of CFAF 212.9 billion (SDR 511.4 million), repurchases to the Fund of CFAF 47.1 billion (SDR 113.4 million), and a programmed improvement in Senegal's position in the operations account, the total financing requirements are projected to amount to CFAF 660.6 billion (SDR 1.6 billion) during the three-year period 1989/90-1991/92. Committed financing over the three-year period, including resources requested from the Fund, is estimated at CFAF 551.7 billion (SDR 1.3 billion).

Total disbursements of official grants and loans are projected to amount to CFAF 561.8 billion (SDR 1.3 billion) during 1989/90-1991/92. Within this total, substantial amounts are expected to be made available by bilateral creditors and donors such as Canada, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Switzerland, and the United States. Considerable support is also expected from bilateral and multilateral institutions, including the Abu Dhabi Fund, the African Development Bank, the Commission of European Communities, the European Investment Bank, the Islamic Development Bank, the Saudi Fund for Economic Development, the United Nations Development Programme, and the World Bank. Private capital inflows are projected to reach CFAF 7.4 billion (SDR 17.8 million) during the program period.

Senegal has requested the use of Fund resources under the ESAF, and has already received a disbursement of CFAF 23.5 billion (SDR 59.6 million) under the first annual arrangement under the ESAF. The remaining amount of resources available under the ESAF arrangement during 1989/90-1990/91 will be equivalent to CFAF 35.5 billion (SDR 85.2 million), of which CFAF 17.7 billion (SDR 42.6 million) will be available during 1989/90. The residual financing requirements for 1989/90 are expected to be met by further external financial assistance, including debt rescheduling under the auspices of the Paris Club and other official creditors. Part of the requisite debt relief for 1989/90 has already been obtained.

Table 1. Senegal: Selected Economic and Financial Indicators, 1985/86-1992/93

	1985/86	1986/87	1987/88	1988/89		1989/90	1990/91	1991/92	1992/93
				Prog. 1/	Prel. act.	Prog.	Projections		
				(Annual changes in percent, unless otherwise specified)					
National income and prices									
GDP at constant prices	4.2	4.2	4.4	4.2	0.6	4.6	3.7	3.8	3.8
GDP deflator	8.3	5.0	2.5	2.4	1.9	2.0	2.4	2.4	2.4
Consumer prices 2/	9.4	0.4	-2.6	...	-1.9	2.0	2.4	2.4	2.4
External sector									
Exports, f.o.b. (in SDRs)	-2.1	-0.4	10.4	11.8	11.4	-0.4	9.4	9.6	9.6
Imports, f.o.b. (in SDRs)	3.4	-8.5	3.1	6.4	5.1	-3.5	3.6	5.9	6.4
Non-oil imports, f.o.b. (in SDRs)	14.0	-0.6	0.4	9.9	8.0	-3.5	3.6	5.9	6.4
Export volume	0.1	-0.8	12.7	12.8	4.0	-2.2	5.7	5.4	5.1
Import volume	11.2	1.7	-5.0	1.3	-1.0	-0.3	2.6	0.5	0.5
Terms of trade (deterioration -)	5.1	11.7	-9.8	1.7	0.8	5.3	2.5	-1.2	-1.5
Nominal effective exchange rate (end of period; depreciation -)	6.3	4.6	2.2	...	3.5	...	...	...	...
Real effective exchange rate (end of period; depreciation -)	7.3	-2.0	-8.8	...	-0.2	...	...	...	...
Government financial operations									
Revenue	7.3	14.8	0.2	8.5	-2.3	12.3	10.0	10.0	10.0
Total expenditure and net lending	4.6	7.4	0.8	4.4	5.9	4.8	2.7	-2.8	1.6
Of which: total current and capital expenditure	(0.9)	(6.6)	(5.8)	(1.1)	(-0.9)	(3.4)	(-0.1)	(2.3)	(1.9)
Money and credit									
Domestic credit 3/	14.3	10.7	9.2	-3.0	0.1	-4.8	1.6	0.5	1.8
Credit to the Government (net) 3/	5.5	0.6	1.8	1.2	-2.9	-0.3	-0.2	-3.3	-2.5
Credit to the economy 3/									
Including crop credit 3/	8.8	10.1	7.4	-4.2	3.0	-4.5	1.8	3.9	4.3
Excluding crop credit 3/	4.1	0.9	1.9	3.3	15.0	-3.4	1.6	3.6	4.3
Money and quasi-money (M2)	2.6	17.4	1.2	5.2	7.1	5.0	4.5	4.5	4.5
Velocity (GDP relative to M2) 4/	4.2	3.9	4.1	4.2	4.0	4.0	4.1	4.2	4.2
Interest rates (end of period)									
Minimum rate on time deposits 5/	9.0	8.0	8.0	9.0	9.5	...	...	...	...
Money market rate for overnight deposits	7.8	8.0	7.5	9.0	9.0 6/	9.0 6/	...	...	...
				(In percent of GDP, unless otherwise specified)					
Overall fiscal surplus or deficit (-) 7/									
Commitment basis, excluding grants	-3.9	-2.6	-2.6	-1.8	-4.0	-2.8	-1.5	0.8	2.3
Cash basis, excluding grants	-4.9	-4.6	-5.2	-3.9	-4.3	-4.3	-1.5	0.8	2.3
Payment arrears of the government and public agencies (annual change in billions of CFAF)	-9.6	-14.0	-14.0	-8.5	—	-8.5	—	—	—
Gross domestic investment	14.2	15.0	14.9	14.5	15.0	15.2	16.2	17.5	17.5
Gross domestic savings	4.2	7.0	8.2	8.6	8.9	10.2	12.2	14.1	14.7
External current account deficit (-)									
Excluding official grants	-15.6	-11.3	-10.2	-9.1	-9.6	-8.3	-6.9	-6.1	-5.2
Including official grants	-10.0	-6.1	-5.1	-4.0	-4.5	-3.0	-1.8	-1.2	-0.6
External debt 8/	78.5	74.0	76.7	74.0	80.0	78.2	76.1	72.7	68.4
Debt service ratio (in percent of exports of goods and services, and private transfers) 7/	29.1	29.7	31.2	30.6	31.1	31.3	28.6	26.8	24.7
GDP at current market prices (in billions of CFA francs)	1,223.1	1,338.2	1,432.9	1,527.8	1,467.7	1,564.9	1,660.3	1,764.6	1,876.8
Overall balance of payments surplus or deficit (-) (in millions of SDRs) 9/	-28.0	86.3	-27.4	71.6	46.8	79.7	26.9	38.6	27.1
Gross official foreign reserves (in weeks of imports)	0.2	0.4	0.4	...	0.4	...	...	...	...

Sources: Data provided by the Senegalese authorities; and Fund and World Bank staff estimates and projections.

1/ Refers to the revised program (EBS/89/18).
2/ Index of consumer prices in Dakar for the average Senegalese family
3/ Annual percentage change over beginning-of-period money stock.
4/ GDP relative to end-June broad money stock.
5/ Minimum rate on time deposits in excess of one year and in amounts of more than CFAF 2 million; the actual rates generally follow the money market quotations closely.
6/ Since May 22, 1989.
7/ Before debt rescheduling.
8/ Public and publicly guaranteed debt, including Fund credit and central bank liabilities.
9/ After debt rescheduling.

Table 2. Senegal: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1989/90-1991/92

	Objectives	Strategies and Measures	Timing 1/
1. Investment programming	Optimize allocation of available resources within a macroeconomic and sectoral framework. Place greater emphasis on directly productive and priority rehabilitation activities.	Adopt an appropriate public investment program for each year in the context of a three-year rolling public investment program.	June 1989, June 1990, and June 1991.
	Evaluate financing requirements, recurrent cost, and debt service implications of projects.	Rationalize budget preparation and ensure close coordination of ministries involved.	1989/90, 1990/91, and 1991/92.
	Strengthen capabilities of technical ministries to undertake project identification, feasibility studies, and monitoring.	Transfer responsibilities for project identification and preparation to certain technical ministries.	1989/90, 1990/91, and 1991/92.
		Adopt and periodically review sector investment strategies.	1989/90, 1990/91, and 1991/92.
		Adopt uniform approach to project preparation and appraisal.	1989/90.
	Improve overall control and monitoring of public investment expenditure.	Consolidate the investment outlays financed by foreign grants and loans with the regular budget monitoring and expenditure control processes.	1989/90.
		Improve the monitoring of projects.	1989/90, 1990/91, and 1991/92.
2. Agricultural policy reform	Expand and diversify production; increase net contribution to public finances; narrow price distortions.	Pursue and develop the reform process envisaged in the New Agricultural Policy, including gradual elimination of price distortions and subsidies and disengagement of Government from productive and commercial activities.	1989/90, 1990/91, and 1991/92.
		Finalize an Agricultural Development Policy statement (LPDA).	1989.
a. Cereals sector	Promote substitution of domestic coarse grains for imported rice.	Test suitable technologies at different scales of production.	1989/90, 1990/91, and 1991/92.
		Set criteria for adjusting price of rice to provide an adequate degree of protection for local cereals.	1989.

Table 2 (continued). Senegal: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1989/90-1991/92

	Objectives	Strategies and Measures	Timing 1/
		Rationalize domestic pricing of rice.	1989/90, 1990/91, and 1991/92.
		Develop capacity in the Ministry of Rural Development (MDR) to use and improve agricultural pricing model.	1989/90.
	Move toward less costly and more sustainable policy for irrigation.	Implement third Lettre de Mission of SAED 2/ relating to phased disengagement from productive and commercial activities, full-cost pricing of water for farmers benefiting from double cropping, and autonomy and privatization of rice milling activities.	1989/90, 1990/91, and 1991/92.
b. Groundnut sector	Reduce financial deficit of groundnut sector.	Rationalize SONACOS' groundnut processing capacity. 2/	1989/90.
		Adopt a flexible system for the determination of producer prices in line with world market conditions.	1989/90, 1990/91, and 1991/92.
		Carry out technical and financial study of SONACOS and institute regular independent audits.	1989/90.
		Revise protocol between SONACOS and the Government.	December 1989.
		Strengthen the guarantee fund for groundnuts to monitor the financial performance of SONACOS and associated enterprises.	1989.
		Privatize the commercialization of confectionery groundnut.	1991.
c. Cotton sector	Reduce cost to public finances.	Prepare recovery program for SODEFITEX 2/ to include technical performance, internal economy measures, and progressive reduction of subsidy on inputs.	1989.
d. Sugar sector	Reduce cost of producing sugar.	Prepare plan of action to further increase productivity of CSS. 2/	1989/90.
		Renegotiate the agreement on the determination of domestic sugar prices.	1989/90 and 1990/91.
	Reduce cost to the CSS.	Link reference price for local industrial users to world market prices.	1989.

Table 2 (continued). Senegal: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1989/90-1991/92

	Objectives	Strategies and Measures	Timing 1/
e. Rural credit	Increase sustainability of rural credit system.	Draw up plan for the reform of the agricultural credit system.	1989.
		Open the capital of the CNCAS to private participation and increase its commercial autonomy. 2/	1989.
		Prepare program for recovery of overdue loans and advances; set up analytical accounting system, and institute annual external audit for the CNCAS.	1989/90.
f. Diversification and export promotion	Develop cash crops for domestic consumption and export. Stimulate domestic and foreign investment for the development of high-yield crops.	Prepare plan of action to promote diversification, including steps to facilitate marketing and export of fruits and vegetables.	1989/90.
g. Land tenure	Improve the land tenure system and reduce administrative obstacles to the productive use of land.	Define and introduce an initial series of studies, consultations, and specific measures designed to improve the land tenure system.	1989/90.
		Review regulations and administrative system governing the allocation of irrigated land in the Fleuve to foster more intensive land use.	1989/90.
		Prepare and introduce a rural code.	1989/90.
h. Natural resource conservation and management	Develop national and region-specific approaches to the productive management and conservation of natural resources.	Set up an administrative framework for implementing and evaluating pilot natural resource conservation and management activities.	1989/90.
i. Fisheries policies	Preserve contributions of fisheries to national income and to public finance.	Finalize a study of fishery prospects in Senegal and develop an action plan for the sector.	1989/90.
j. Strengthening of the Ministry of Rural Development	Strengthen policymaking capacity.	Establish small strategy unit within the MDR to program and implement agricultural policies. 2/	1989/90.
3. Industrial policy reform	Develop the industrial sector by alleviating the existing rigidities in the labor market, production costs, and administrative regulations.	Assess the impact of the measures taken during the first phase of implementation of the New Industrial Policy and adopt appropriate actions.	1989/90.
a. Protection system	Rationalize the system of protection to enhance competitiveness and improve export and revenue performance.	Continue review of the system of reference prices.	1989/90 and 1990/91.

Table 2 (continued). Senegal: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1989/90-1991/92

	Objectives	Strategies and Measures	Timing 1/
		Implement recommendations of studies on special agreements for SAR, CSS, and SOCOCIM. 2/	1989/90.
b. Provision of investment incentives	Foster private sector development.	Review the level and composition of corporate taxation, and identify possible reductions in corporate tax burden, and ways to simplify its administration.	1989/90.
c. Simplification of labor laws and other regulations	Foster employment and labor mobility.	Introduce a two-tier labor market under which labor and wage legislation will be substantially relaxed for new and small- and medium-scale enterprises, as well as companies in the free zone or in the process of being restructured.	1989/90.
		Start the process of comprehensive review of labor legislation and freeze minimum wages for a period of three years. Introduce greater flexibility in nominal wage.	1989/90.
	Eliminate administrative constraints on the trade of industrial products.	Review the regulatory environment and implement a program of rationalization of various institutions involved in quality control, economic control, investment, and export promotion (including the free trade zone).	1989/90.
4. Energy policy	Develop local sources of supply, maximize efficiency (both of energy consumption and of its production/distribution), and raise revenues for the public sector.	Implement new energy pricing and taxation system to improve efficiency and transparency in the operations of the petroleum refinery.	1989/90.
		Begin deregulating distribution and retailing of petroleum products.	1990/91.
		Reduce, in a phased manner, energy prices for industrial users.	1990/91, and 1991/92.
5. Parapublic sector reform	Promote the efficiency of the parapublic sector, through rationalizing financial relations between the Government and the enterprises.	Reduce substantially direct subsidies from the 1988/89 levels.	1989/90, 1990/91, and 1991/92.
		Eliminate government guarantee and interest subsidies of parapublic borrowing.	1989/90.

Table 2 (continued). Senegal: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1989/90-1991/92

	Objectives	Strategies and Measures	Timing 1/
		Limit overdrafts to the level of end-June 1989 and eliminate the Central Accounting Office by restructuring the public enterprises into autonomous public establishments or state corporations.	1989/90.
		Update the accounting of the end-1988 stock of verified cross-arrears and continue their settlement.	1989/90, 1990/91, and 1991/92.
		Ensure harmonization of financial commitments in performance contracts with budgetary allocation; monitor and enforce compliance with contractual obligations.	1989/90 and 1990/91.
		Conclude performance contracts with eight public enterprises and initiate negotiations for other enterprises.	1989/90.
	Reduce the scope of the parapublic sector through liquidation and privatization of nonstrategic enterprises.	Engage firms qualified to assist in the privatization process.	1989/90.
		Privatize 35 enterprises and liquidate at least 10.	1989/90, and 1990/91.
		Prepare and implement rehabilitation programs for public enterprises.	1989/90, 1990/91, and 1991/92.
		Prepare and implement a plan of action to accelerate the privatization process.	1989/90, 1990/91, and 1991/92.
		Examine feasibility of creating a secondary market in shares and implement action plan.	1989/90.
	Streamline and reform the Government's institutional setting for overseeing parapublic enterprises.	Develop an information system to improve monitoring of economic and financial performance of the parapublic sector.	1989/90.
		Improve the system of administrative supervision over public enterprises.	1989/90.
6. Fiscal policy	Continue to improve the Government's fiscal operations.	Improve revenue performance and pursue a prudent spending policy.	1989/90, 1990/91, and 1991/92.
a. Revenue	Improve revenue performance and reduce reliance on exceptional resources by shifting to a more stable revenue base.	Improve customs administration.	1989/90, 1990/91, and 1991/92.

Table 2 (continued). Senegal: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1989/90-1991/92

Objectives	Strategies and Measures	Timing 1/
	Reduce the higher rate value-added tax from 50 percent to 30 percent and expand its coverage.	September 1989.
	Raise the customs duty rate from 10 percent to 15 percent.	September 1989.
	Reduce the underinvoicing of imports by introducing a minimum duty on underinvoiced items.	September 1989.
Increase tax yields.	Reinforce the mechanism for recovery of tax arrears.	1989/90, 1990/91, and 1991/92.
	Introduce a global income tax to replace the current schedular system.	January 1990.
	Introduce a separate corporate profit tax.	1989/90.
	Introduce withholding taxes on nonwage incomes, to be credited against the global income tax liabilities.	1989/90.
	Complete the modernization of the customs services, especially the valuation section, and the computerization of customs clearance procedures to reduce fraud.	September 1989.
	Maximize the surplus of the CPSP by implementing a system of wheat purchases through international competitive bidding.	November 1989.
	Introduce a more transparent pricing and taxation system for petroleum products, and mobilize the prospective surpluses of the oil sector in support of the budget.	1989/90.
Widen the tax base.	Develop gradually the taxation of the informal sector and other selective measures, such as the reform of the advance cash payments on account of "patente," the presumptive tax on commercial and industrial benefits, and the selective and gradual application of the value-added tax (VAT).	1989/90, 1990/91, and 1991/92.
	Re-examine the special tax agreements with enterprises with a view to reducing exemptions.	1989/90, 1990/91, and 1991/92.

Table 2 (continued). Senegal: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1989/90-1991/92

	Objectives	Strategies and Measures	Timing 1/
		Extend the application of the value-added tax to the commerce and service sectors and eliminate the present tax on services.	January 1990.
		Introduce a revised tax on urban property on the basis of a fiscal cadastre.	1990/91 and 1991/92.
		Implement the reform of the taxation of foreign-financed projects.	1989/90, 1990/91, and 1991/92.
b. Expenditure	Maintain tight limits on current government outlays.	Control the wage bill by compressing the indemnities, while keeping the wage drift to a minimum.	1989/90.
		Reduce the wage bill to CFAF 125 billion on the basis of the recommendations of the studies to be completed in September 1989.	1990/91 and 1991/92.
		Make adequate provisions for materials, supplies, maintenance, and the provision of essential social services, as well as for the redeployment fund.	1989/90, 1990/91, and 1991/92.
		Progressively reduce budgetary subsidies.	1989/90, 1990/91, and 1991/92.
	Rationalize administrative structures.	Define a training and redeployment program for civil servants.	1989/90.
c. Fiscal discipline	Strengthen the allocation of available resources.	Improve the monitoring of the Treasury's special and correspondent accounts on the basis of the recommendations made by a Fund technical assistance mission.	1989/90, 1990/91, and 1991/92.
		Take steps to integrate the recording and monitoring of all external grant and loan assistance within the budgetary process.	1989/90, 1990/91, and 1991/92.
d. Domestic arrears	Eliminate all currently verified domestic arrears of the Government and public agencies.	Allocate adequate resources to liquidate such arrears.	1989/90.
7. Credit policy	Conduct a prudent credit policy consistent with the growth, inflation, and balance of payments targets.	Keep the growth of domestic liquidity below that of nominal GDP to curb aggregate demand.	1989/90, 1990/91, and 1991/92.
	Improve the financial position of the banking system.	Implement the reform of the banking system involving, inter alia, a reduction in government shareholdings to below 25 percent. Undertake removal or provisioning of bad debts, and consolidation by the BCEAO.	1989/90.

Table 2 (concluded). Senegal: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1989/90-1991/92

	Objectives	Strategies and Measures	Timing 1/
		Restructure, rehabilitate, and/or liquidate the banks facing difficulties.	1989/90.
		Strengthen supervision of deposit money banks by the Central Bank (BCEAO), the Ministry of Economy and Finance, and the Banking Control Commission.	1989/90, 1990/91, and 1991/92.
	Mobilize domestic savings and improve resource allocation.	Follow a flexible interest rate policy.	1989/90, 1990/91, and 1991/92.
8. External debt management	Limit external debt service burden to manageable proportions.	Keep new external borrowing on nonconcessional terms to a strict minimum, while intensifying efforts to mobilize resources in the form of grants.	1989/90, 1990/91, and 1991/92.
		Make adequate provisions for the settlement of debt service obligations so as to avoid any external payments arrears.	1989/90, 1990/91, and 1991/92.
	Strengthen debt management.	Extend computerization system to monitor medium- and long-term debt as well as grants.	1989/90, 1990/91, and 1991/92.
9. Social impact	Minimize short-term adverse income distribution and social cost impact of various adjustment measures.	Review experience with employment fund with a view to expanding it.	1989/90.
		Prepare a standard-of-living survey.	1989/90 and 1990/91.
		Initiate socioeconomic studies aimed at identifying projects and programs for the most vulnerable groups.	1989/90, 1990/91, and 1991/92.
		Explore alternative means to enable the poor to have access to training and credit.	1989/90, 1990/91, and 1991/92.
		Sponsor public works program for employment creation.	1989/90.
10. Environment	Arrest degradation of environment.	Research appropriate farming techniques to reverse soil degradation and encourage their implementation.	1989/90, 1990/91, and 1991/92.
		Adopt new forestry code and take measures to arrest loss of forest cover.	1989/90, 1990/91, and 1991/92.
		Improve urban waste disposal.	1989/90, 1990/91, and 1991/92.

1/ Where a single date is indicated, it means that the measure(s) will be in effect no later than that date; where one year or several years are noted, it means that action will be taken in each year.

2/ SAED, Senegal's river valley development agency; SONACOS, groundnut oil processing company; SEPFA, confectionery groundnut company; SODEFITEX, textile development agency; CNCAS, agricultural credit company; MDR, Ministry of Rural Development; SAR, Senegal's petroleum refinery; CSS, Senegal's sugar company; SOCOCIM, cement company; CPSP, price equalization and stabilization fund.

Table 3. Senegal: External Financing and Resources, 1987/88-1992/93

(In millions of SDRs)

	1987/88	1988/89 Rev. prog.	1988/89 Est.	1989/90 Prog.	1990/91	1991/92	1992/93
					Projections		
Requirements (by use)	638.3	641.0	632.5	605.3	512.2	469.1	444.0
Current account deficit, excluding offical grants	374.3	348.0	356.1	309.6	272.9	256.0	232.5
Public debt amortization	147.4	157.6	162.3	167.2	169.8	174.4	184.5
Private capital outflows 1/	93.9	—	3.2	6.2	—	—	—
IMF repurchases	41.0	45.0	45.0	42.1	36.8	34.5	26.2
Operations account	-18.3	90.4	65.9	80.2	32.7	4.2	0.8
Resources (by source)	638.3	641.0	632.5	605.3	512.2	469.1	444.0
Official grants	181.3	194.1	187.7	195.5	203.0	204.9	207.0
Long-term public sector loan disbursements	340.3	257.7	252.6	239.2	254.6	252.2	213.0
Private capital inflows 1/	—	15.0	—	—	12.0	12.0	24.0
Use of IMF resources	50.0	63.9	63.9	42.6	42.6	—	—
Debt relief	66.7	110.3	128.3	128.0	—	—	—
Financing	638.3	641.0	632.5	605.3	512.2	469.1	444.0
Committed 2/	638.3	641.0	632.5	538.3	401.7	385.0	403.9
Uncommitted	—	—	—	67.0	110.5	84.1	40.1

Sources: Data provided by the Senegalese authorities; and Fund and World Bank staff estimates and projections.

1/ Including errors and omissions.
2/ Including committed and indicated budgetary assistance, projected private capital inflows, project financing, debt relief already secured, and requested use of Fund resources.