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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 85/6

10:00 a.m., January 16, 1985

J. de Larosière, Chairman

Executive Directors	Alternate Executive Directors
A. Alfidja	
	M. K. Bush
J. de Groote	
B. de Maulde	X. Blandin
	T. Alhaimus
H. Fujino	M. Sugita
	B. Goos
J. E. Ismael	
	G. W. K. Pickering, Temporary
A. Kafka	
H. Lundstrom	A. Lindå
R. N. Malhotra	A. S. Jayawardena
E. I. M. Mtei	A. Abdallah
F. L. Nebbia	B. Jensen
Y. A. Nimatallah	
P. Pérez	
J. J. Polak	J. de Beaufort Wignholds
	A. V. Romuáldez
G. Salehkhou	O. Kabbaj
	T. A. Clark
S. Zecchini	N. Coumbis
Zhang Z.	Wang E.

L. Van Houtven, Secretary
L. Collier, Assistant

Also Present

D. R. Clarke, IBRD. African Department: R. J. Bhatia, Deputy Director; G. E. Gondwe, Deputy Director; N. Abu-zobaa, E. A. Calamitsis, R. O. Carstens, F. d'A. Collings, P. C. Ugolini. European Department: L. A. Whittome, Counsellor and Director. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director; G. Begashaw, E. H. Brau, E. B. Maciejewski. Fiscal Affairs Department: M. Z. Yucelik. Legal Department: G. P. Nicoletopoulos, Director; J. M. Ogoola. Middle Eastern Department: M. A. El-Erian. Research Department: W. C. Hood, Economic Counsellor and Director. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; A. Wright, Deputy Secretary; A. P. Bhagwat. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: A. A. Agah, H. A. Arias, L. K. Doe, D. Hammann, K. A. Hansen, S. M. Hassan, H.-S. Lee, J.-C. Obame, A. Steinberg, A. Vasudevan, M. A. Weitz. Assistants to Executive Directors: H. Alaoui-Abdallaoui, I. Angeloni, W.-R. Bengs, Chen J., J. de la Herrán, J. J. Dreizzen, C. Flamant, V. Govindarajan, G. D. Hodgson, A. K. Juusela, H. Kobayashi, S. Kolb, M. Lundsager, K. Murakami, A. Mustafa, E. Olsen, D. J. Robinson, A. A. Scholten, Shao Z., L. Tornetta, A. H. van Ee, Wang C. Y., A. Yasseri.

1. EXECUTIVE DIRECTOR

The Chairman welcomed Mr. de Beaufort Wijnholds, Alternate Executive Director, to the Executive Board.

2. INTERIM AND DEVELOPMENT COMMITTEES - FORTHCOMING MEETINGS

The Managing Director reported to Executive Directors on his recent meetings with the Chairman of the Interim Committee, Mr. H. O. Ruding, and the Chairman of the Development Committee, Mr. Ghulam Ishaq Khan.

His understanding of the schedule and procedures proposed by the Chairmen, the Managing Director noted, was that after the Interim Committee meeting on Wednesday, April 17, 1985, the Development Committee would meet on both April 18 and the morning of April 19. In response to the wish for less formality in the conduct of the meetings, the Chairmen had proposed certain new procedures. First, during the morning sessions of both the Interim and the Development Committees, members would deliver set speeches on the various subjects on the agenda. To allow all members to speak, and to permit the respective Chairmen and heads of the institutions to make introductory presentations, interventions would be limited to a maximum of ten minutes. Members would of course be able to submit full statements for inclusion in the record, as was customary. Both Committees would adopt the same procedures in order to avoid confusion.

To provide a setting in which a spontaneous and free exchange of views could take place, the two Chairmen had decided that the afternoon sessions of both Committees would be informal and that attendance at those sessions should be restricted, the Managing Director reported. Both Mr. Ruding and Mr. Khan had vivid recollections of overcrowded meeting halls, which had not been conducive to informal, free discussions. They had therefore reached the conclusion that attendance at the informal sessions should be restricted to the member, two associates--to be selected from the constituency--and one Executive Director. There would thus be 88 participants, and a limited number of senior staff from the Fund and the World Bank, present. Observers would attend only the plenary sessions in the morning, although Mr. Arthur Dunkel, Director-General of the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade, would be invited to make a statement and to participate in the discussion of trade issues at the informal session of the Development Committee in the afternoon of Thursday, April 18.

The members of the Interim Committee would have a luncheon at the end of their morning session, the Managing Director noted, but contrary to past practice, it would not be necessary to discuss the draft communiqué at that time. Following the all-day meeting of the Interim Committee, the members would be invited to join their fellow members of the Development Committee at a dinner, which would provide them with an opportunity to talk together.

Chairman Ruding intended to invite members of the Interim Committee to a working dinner on Thursday evening so that they could consider the draft text of a communiqué that would briefly but explicitly summarize the substance of the discussion, the Managing Director continued. It was also envisaged by the Chairmen that--with the exception of the members of the Interim Committee--all participants would be offered dinner on Thursday evening, probably on the premises of the World Bank. They felt that the restricted nature of the afternoon discussions made it all the more important to allow participants to come together to exchange views.

With the Interim Committee discussing its draft communiqué at dinner on Thursday evening, it would be necessary to convene a short plenary meeting of the Committee on Friday morning--immediately preceding an informal Development Committee discussion--to finalize the communiqué, the Managing Director said. The Development Committee would also take up its communiqué on Friday, in a plenary session at the end of the morning. The two Chairmen had therefore been led to suggest that it would be more convenient for them to hold a joint press conference.

The provisional agendas agreed by the two Chairmen would be circulated shortly, the Managing Director noted. 1/ The agendas would also mention the procedural arrangements, including those that he had outlined, and other guidance. For instance, Chairman Ruding had asked that the discussion at the afternoon session of the Interim Committee should have a medium-term focus, and he wished to offer guidance to members on the course that he hoped the discussion would follow.

The Managing Director then asked the Secretary, who had been present at the meetings with the two Chairmen, to indicate any further relevant points.

The Secretary noted first that the Chairman of the Development Committee considered that because of the restrictions on attendance at the informal afternoon sessions, and owing to the joint nature of the Development Committee, the Executive Directors from both the Fund and the World Bank might wish to attend the meetings. However, the Chairman felt strongly that one of the two Executive Directors would have to take the place of an associate so that the number of participants from each constituency would remain restricted to four--the member, two associates, and one Executive Director. Second, although a formal minute of the afternoon sessions of both the Interim and Development Committees would not be kept, there would be an informal record. Third, it was important to circulate the two draft agendas simultaneously because of the linkages between the subjects proposed for discussion. As the Managing Director had noted, the agendas would include a description of the format and procedures for the meetings, once those had been harmonized with the Executive Secretary of

1/ See EBD/85/34 (1/25/85); and EB/CW/DC/85/1 (1/25/85).

the Development Committee. The draft agendas should be available within one week, for consideration by the Executive Board early in February. In accordance with past practice, the Executive Directors of the World Bank would discuss the draft agenda for the Development Committee before the Executive Board of the Fund took up the matter.

The Managing Director, in response to questions by Mr. Kafka, explained that there had been considerable discussion of the role of observers. The Chairmen had agreed that the speakers at the plenary morning sessions would be confined to members; observers would be invited to circulate their statements in advance, with the assistance of the Secretary's Department, for insertion in the record. Participation of observers in the informal afternoon sessions had been ruled out, with the exception of an invitation to the Director-General of the GATT to attend the informal session of the Development Committee. If the procedural rules were made clear in advance, observers would be able to decide for themselves whether to attend the meetings.

A constituency would be able to rotate the two associates that it would be permitted to have in attendance at the afternoon sessions, the Managing Director added.

Mr. Kafka said that he was reassured to learn that associates could be rotated, although he noted that that would be at the cost of considerable movement in the meeting hall, and at the risk of not entirely solving the problems of multicountry constituencies. He was aware that the Chairmen recognized the existence of such problems. It might be helpful to large constituencies if the Chairman of the Development Committee could be persuaded to agree that the Executive Director for the Bank and the Executive Director for the Fund would not attend the informal session of the Development Committee simultaneously.

He asked whether the intention was to limit the discussion of trade matters to the informal afternoon session of the Development Committee, in which the Director-General of the GATT was to participate, Mr. Kafka continued. It would be unfortunate if trade matters could not be taken up by the Interim Committee. Finally, he suggested that the joint dinner would be a large affair that would not be conducive to the free exchange of views and information.

The Managing Director replied that the Interim Committee had been given a mandate, as noted in paragraph 5 of its September communiqué, to discuss certain issues relating to the adjustment efforts and balance of payments prospects of member countries, including trade policies. Chairman Ruding's intention was to respect that mandate but to suggest to members that trade policies should be discussed primarily in the Development Committee in order to avoid a repetitive discussion. Members of the Interim Committee would be free to refer to trade matters, if they wished, even though the subject lent itself better to discussion in the Development Committee.

It would be more appropriate for each constituency to determine whether the Executive Director for the World Bank or for the Fund should attend the informal sessions, the Managing Director considered. Some aspects of the discussion in the Development Committee might relate more particularly to matters of interest to the Fund. The procedures should remain flexible enough to permit either Executive Director to attend, at the discretion of the constituency.

Mr. Polak commented that the Chairmen had agreed on the distribution between the two Committees of work on various subjects: trade and direct investment, which were in principle on the agendas of both Committees, would be discussed predominantly in the Development Committee; and the world economic outlook would be discussed primarily in the Interim Committee.

It would be essential for members to limit themselves to speaking for less than ten minutes during the morning sessions, Mr. Polak added. The Chairmen, he understood, had mentioned that speeches should not exceed five to eight minutes. Presumably, the Chairmen themselves would forgo making lengthy introductory statements.

The Managing Director confirmed that limits of five to eight minutes had been discussed, but that it had finally been agreed to aim at not more than ten minutes as a target. He, too, would abide by the rules, and limit his introductory comments on the Executive Board discussions by speaking for only about five minutes.

Apart from the importance of consistency in the background papers to be prepared by the World Bank and the Fund and the need to avoid a duplication of effort, the Chairmen had also stressed the need for members of the Committees to receive those papers in good time, the Managing Director stated, not only to discuss them in the Executive Board but to enable national authorities to brief their delegations.

The Secretary explained that one of the consequences of limiting interventions to less than ten minutes would be that members would deliver abbreviated versions of their statements, which they might wish to circulate in full for the information of their colleagues. Occasionally, statements had been made available following delivery in the past, but not as a general practice. If members decided that they wished to have their statements circulated in full, it would be essential for them to make the texts available as soon as possible, preferably on the previous day; every effort would then be made to reproduce them in good time.

The timely availability of background documents had been a matter of considerable concern to the Chairmen, the Secretary commented. The two stages in which the Executive Board expected to discuss those documents had been explained to them. As Executive Directors would recall, the staff papers on the allocation of SDRs, surveillance, trade policy issues, and questions relating to problems of external indebtedness and export

credit policies were scheduled for discussion during the second half of March; the papers would thus have to be issued before the end of February, at the latest, if Executive Directors were to have the customary three weeks' notice. Those staff papers were not of course intended as documents for the Interim Committee, but the staff would no doubt make an effort in the concluding sections to draw attention to points of relevance to subjects on the agenda of the Interim Committee in order to provide members with preparatory material for the meetings. In the second stage of the preparatory discussions, the Executive Board would take up the various papers on the world economic outlook, which would be available by mid-March for discussion at the beginning of April. All the background material should thus be in the hands of the members of the Interim Committee by mid-March at the latest. Following the first stage of the discussions in the Executive Board, the Managing Director would prepare a report to the Interim Committee on the outcome of those discussions, which would be issued as an Interim Committee document. The Chairmen had been assured that every attempt would be made to issue the Managing Director's report by the end of March. However, as in the past, it would not be practical to make the Managing Director's usual note on the world economic outlook available before members of the Interim Committee left for Washington. Nevertheless, he understood that additional or separate short sections would be included in the material being prepared by the staff on the world economic outlook, focusing on the principal policy issues. Those sections could well serve as provisional background information pending circulation of the Managing Director's note.

Mr. Alfidja asked whether the new procedures outlined by the Managing Director would apply only to the forthcoming April meetings or to subsequent meetings of the Interim and Development Committees as well. With respect to the availability of documents, he sought assurance that everything would be done to make sure that translations of all background material were ready in time to enable non-English speaking countries--in his constituency and in the membership as a whole--to participate fully in the discussions. Timely translations had not always been available in the past, and he would like to be able to assure the members of his constituency that a greater effort would be undertaken to provide them well before the April meetings.

The Secretary responded that it would be an immense task to translate the mass of material in preparation. The reports of the Managing Director to the Interim Committee, which were of course the key documents, could certainly be translated immediately. He would seek the advice of the Director of the Bureau of Language Services with respect to the feasibility of translating the other documents in their entirety before the Interim Committee met.

Mr. Alfidja reiterated that he had in mind the requirements of the membership as a whole, and not only of the countries in his own constituency, to be fully prepared for the meetings. He urged that consideration be given to the need for supplementing the Fund's capacity to provide translations in order to meet that need.

The Managing Director remarked that careful consideration would be given to the matter raised by Mr. Alfidja, owing in particular to the importance of the forthcoming meetings.

The Executive Directors took note of the report by the Managing Director.

3. SENEGAL - 1984 ARTICLE IV CONSULTATION AND REQUEST FOR STAND-BY ARRANGEMENT

The Executive Directors considered the staff report for the 1984 Article IV consultation with Senegal, together with a request for an 18-month stand-by arrangement in an amount equivalent to SDR 76.6 million, and a proposed decision concluding the 1984 Article XIV consultation with Senegal (EBS/84/267, 12/21/84; and Sup. 1, 1/14/85). They also had before them a report on recent economic developments in Senegal (SM/85/13, 1/10/85).

Mr. Alfidja made the following statement:

> The evolution of the Senegalese economy and finances during the last few years has been generally uneven. The sharp recovery in total output in 1982 weakened in the following years. Likewise, inflationary pressures were not uniformly spread over the period. On the other hand, the external current account deficit, which was relatively large during 1980-81, narrowed subsequently. Similarly, a significant advancement toward the reduction of imbalances in the public sector occurred. Of importance in achieving these results, especially in 1983/84, was the implementation of a series of measures that constituted a major component of Senegal's adjustment programs.
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> In the production sector, total output has fluctuated widely over the period 1980-84. Indeed, following a cumulative decline of more than 4 percent during 1980-81, real GDP rose sharply by close to 14 percent in 1982. The rate of expansion of total output fell to about 3 percent in 1983 and became negative in the following year. Significant in bringing about these swings were the unstable weather conditions that have prevailed in the region. In particular, considerable shortfalls in agricultural output, especially of groundnuts and cereals, were recorded during years of severe drought while timely and abundant rainfalls were responsible for the surge in economic activity in 1982. The importance of climatic conditions on economic activity in Senegal--and for that matter, in most African countries during recent years--cannot be overstated because of the ripple effect of the weather on the output of agricultural product-processing industries, livestock, and many other economic operations.

Price movements--though not uniform--have been generally moderate during the period under review, with the increase in the GDP deflator ranging from 8 percent to 12 percent. Likewise, fluctuations in the consumer price index (CPI) were not pronounced, except in 1982. The significant rise in administered price of consumer goods, notably foodstuffs, in 1982 was largely responsible for the jump in the rate of increase of the CPI from 6 percent in 1981 to 17 percent in 1982.

The large deficit--on a commitment basis--that characterized the outturn of government operations in 1980/81 narrowed in the following years, especially in 1983/84. This deficit fell from the equivalent of 11.5 percent of GDP in 1980/81 to less than 5 percent of GDP in 1983/84. This fiscal adjustment resulted from an expansion of revenue as well as from restraint of expenditure growth. The compositional analysis indicates that while the rise of outlays on material, supplies, and to some extent the wage bill has been moderate over the period, interest payments on the external debt more than tripled to over CFAF 36 billion, or 18 percent of current outlays in 1983/84. Capital expenditure has generally fluctuated over the years, reflecting the speed of execution of development projects, the pace of foreign aid flows, and the availability of domestic counterparts. It is to be noted that over the period under consideration, a substantial liquidation of payments arrears of the Central Government and other public entities, as well as of crop credits, was effected.

Credit expansion has broadly paralleled the evolution of overall economic activity. Domestic credit grew by 27 percent in 1982 in order to accommodate the demand for financing of the large harvest of that year. The rate of growth of this credit fell thereafter to about 21 percent in 1983 and to 8 percent in 1984, partly due to the general slowdown in economic activity.

Regarding the external sector, the strains experienced during 1980-81 eased somewhat in the course of 1982-84, the current account deficit (before debt relief) having fallen on average from 16 percent of GDP to 12 percent during 1982-84. This amelioration reflected essentially the effects of higher exports (except in 1983), lower imports, as well as increased foreign grants. In contrast with the evolution of the current account, the capital account deteriorated in 1981-82, owing in part to higher amortization payments. The improvement noted in 1983 was shortlived as the capital account balance decreased again in 1984. On the whole, the balance of payments has remained under strain, especially in 1981 and 1982. The external debt service obligations (prior to rescheduling) as a ratio of exports have fluctuated moderately at about 21 percent during the period under examination.

Measures were taken in the context of adjustment programs supported by the Fund and the World Bank with a view to restraining the growth of aggregate demand and stimulating supply.

In the real sector, incentives were improved in the agricultural sector by increasing in 1981/82 the producer price of cash and food crops such as groundnuts (40 percent), cotton (13 percent), maize (27 percent), millet (25 percent), rice (24 percent), and cowpeas (30 percent). The producer prices of rice, millet, and cotton were raised further in 1983/84. In addition to these upward price adjustments, steps were taken to ameliorate the marketing arrangements for both inputs and outputs and to provide better extension services. Fishing and related industries have also received increased attention as fish sales abroad have surpassed phosphates as the second main source of export earnings. In this context, facilities were created to provide credit to artisanal and industrial fishing units.

The growth of total consumption was restrained essentially through price and fiscal measures. The retail prices of several consumer goods (rice, sugar, edible oil, and petroleum products) were raised considerably on several occasions. As reported by the staff, the retail price of rice (the main food item) was raised by 23 percent to CFAF 160/kg on January 11, 1985; thus, the consumer price of rice has doubled in less than three years. Between January 1981 and December 1984, the price of regular gasoline has been raised five times from CFAF 185/liter to CFAF 315/liter, or by about 70 percent. The demand-restriction impact of these price measures is all the more considerable as they have been implemented in a context of reduced income (due to drought) and austere fiscal and monetary policies. On the fiscal side, import duty rates were raised in August 1980 and May 1983, and the excise tax on alcoholic beverages was also increased. A major effort was also undertaken to collect tax arrears. The effort to contain the expansion of aggregate demand was no less vigorous on the expenditure side. Emphasis was placed on reining in the growth of the wage bill through the restriction of entry to training schools, the control of the number of competitive entrance exams, and the imposition of restrictions on filling vacancies in the civil service. Other benefits, such as free or subsidized housing, were trimmed in order to reduce their costs to the Treasury. This limitative fiscal policy was reinforced by a tight monetary policy, private sector credit having expanded only moderately during the period considered.

As stated by the staff, the last financial program, which was aimed at arresting the deterioration of the Government's financial operations, thereby containing the external current account deficit, was successfully implemented. All the performance criteria have been observed. The fiscal and external

current account deficits were narrowed beyond the target levels, and domestic credit expanded less rapidly than programmed. It is to be noted that these results were achieved in a less than hospitable environment, one characterized by an unanticipated decrease in real GDP and higher than programmed inflation. However, to continue the efforts to alleviate the malfunctioning of the economy, the Government is requesting Fund financial support in the form of an 18-month stand-by arrangement.

The current program is geared to consolidating the gains made in stabilizing the finances of the country and providing the foundation for the resumption of economic growth, weather conditions permitting. Emphasis has been placed on a further reduction of the external current account deficit (before debt relief) from about 12 percent of GDP in 1984 to 9 percent in 1985. The commitment-based fiscal deficit is also forecast to decrease from about 5 percent of GDP in 1983/84 to 3 percent in 1984/85 while domestic payments arrears are expected to be reduced further.

In the production sector, the reversal of the downward trend of total output is predicated not only on better weather conditions but also on the favorable impact of a new agricultural policy and the coming on stream of development projects, such as the phosphoric acid plant--a reflection of the Government's effort to diversify the productive and export base of the country. As described in the staff papers, the new agricultural policy rests on a gradual transfer of essential operations previously undertaken by public agencies to farmers or their organizations and the pursuit of pricing policies that stimulate the production and consumption of local crops. To this end, the rural parastatal sector is to be restructured in order to increase efficiency and lower costs to the Treasury. This reorganization could entail the merger, liquidation, or privatization of some of the public entities. The enterprises that will remain in business will do so under agreements (contrat plan) specifying clearly the steps to be taken to reduce costs and increase productivity, as illustrated by the recent case of the rice-producing public enterprise (SAED). Expectations are that in so doing, efficiency and productivity in the rural sector will be improved.

On the fiscal front, the actions aimed at stimulating revenue expansion include reclassification of some imports into higher tax categories, higher levies on vehicles, increased business fees, and a broadening of the service tax to cover telecommunication services. Expenditure growth will continue to be restrained. In particular, the existing stringent employment policies in the government sector will be maintained. Outlays on materials and supplies are programmed to decrease in real terms.

Senegal, like many other non-oil developing countries, is faced with large debt service obligations that claim a high proportion of government revenue and foreign reserves. Undoubtedly, the progress achieved thus far toward the restoration of viability in the Senegalese economy would have created an unbearable disruption of the socioeconomic fabric of the country had Senegal's creditors not responded favorably to its request for debt relief. The magnitude of Senegal's debt problem is such that the cooperation and understanding of creditors will be necessary during 1985 and beyond. In another vein, the Government of Senegal is hopeful that the indications of financial support given during the recent Consultative Group meeting in Paris will be promptly translated into concrete actions.

In sum, the major stabilization effort undertaken during the last few years have begun to bear fruit as illustrated by the significant reduction in the fiscal and external current account deficits. The Government of Senegal is committed to consolidating these gains and making the continuation of disciplined economic and financial policies the central thrust of its operations. However, since the difficulties confronting the economy are structural in nature, the Senegalese authorities are taking decisive steps to address them, notably by beginning to implement a new agricultural policy and expanding the industrial and export base of the country. The success of their endeavor depends not only on favorable weather conditions but on external financial support. They are hopeful that bilateral donors and multilateral institutions will continue to assist them commensurately.

Mr. Blandin said that since the Board's discussion for the review under Senegal's previous stand-by arrangement (EBM/84/45, 3/26/84), a number of events affecting the economic and financial situation of the country had taken place. Although the drought had continued to plague Senegal, the previous stand-by arrangement had been successfully completed, the Consultative Group for Senegal--the first consultative group for a francophone country of West Africa--had met at end-1984, and the Senegalese authorities had implemented a number of important policy actions, inter alia, the increase in the price of rice. Those events exemplified the commitment of the Senegalese authorities to the adjustment effort and their recognition of the fact that, as stated by the Minister of Economy and Finance, Senegal could no longer live beyond its means. The success of the previous stand-by arrangement, as well as the new orientation of policy defined by the Government and the steps already taken, augured well for the attainment of a sustainable balance of payments position in the medium term.

Despite that progress, much remained to be done, Mr. Blandin continued. Structural imbalances were deep-seated in the Senegalese economy and could be traced mainly to an overextension of the public sector,

resulting in a resource gap of about 12 percent of GDP in 1984. Bold action and policy continuity would be necessary in the coming years to ensure not only the success of the structural reforms but also external donors' continued support, which would remain indispensable.

Fiscal policy was to a large extent the source of present problems, Mr. Blandin commented. While the authorities' efforts to increase government revenue, notably the measures listed in the staff supplement, deserved commendation, significant improvements could be made in other areas, including customs administration. In that regard, customs duties on rice imports had not been paid in 1984. Unrecorded trade with The Gambia should be reduced, and policies regarding exemptions should be applied more rigorously. The recent change in management of the customs administration, however, seemed to have brought about some improvements. More generally, the tax base should be enlarged to increase the contribution of those sectors that seemed undertaxed, such as real estate.

Considerable progress had already been made in containing public expenditures, Mr. Blandin noted, but there remained a need for better control and monitoring of current expenditures. He wondered how wages and salaries had increased by 8 percent between July 1983 and June 1984 while the number of government employees had increased by only 2 percent and a freeze on salaries had been in effect. The authorities' decision under the proposed arrangement to limit salary increases to a monthly across-the-board lump sum, which would increase budgetary outlays by CFAF 1.3 billion on an annual basis, went in the right direction. However, he had difficulty in reconciling that figure with the CFAF 8.6 billion increase--from CFAF 100.4 billion in 1983/84 to CFAF 109 billion in 1984/85--shown in Table 5 of the staff report.

The accounting procedures for the special accounts of the Treasury should be streamlined so as to obtain a clearer picture of the operations carried out through those accounts, Mr. Blandin remarked. The same objective should be pursued for the Price Equalization and Stabilization Fund, and he hoped that the institution's transfer to the authority of the Minister of Economy and Finance would bring about speedy improvements in its management and operations.

There was also an obvious need for the timely reduction of the large domestic arrears, Mr. Blandin continued, including the arrears resulting from the liquidation of the Office National de Coopération et d'Assistance pour le Développement (ONCAD). Delays encountered in the payment of those arrears had had adverse consequences on the liquidity of the banking system, resulting in the highest ratio of refinancing to credits of any member of the West African Monetary Union. The planning and finance ministries seemed to have experienced some difficulties in ensuring appropriate physical and financial monitoring of public investments, and hence in adhering to a precise schedule for the disbursement of the corresponding credits. He hoped that procedures to improve investment planning and budgeting would soon be implemented.

Structural reforms were needed to improve Senegal's self-sufficiency in foodstuffs in the long run and to streamline the parapublic sector, Mr. Blandin commented. The 23 percent increase in the retail price of rice was a courageous measure that should enhance the ability of local producers of cereals--sorghum, millet, and maize--to compete with imported rice. The current price of rice was, however, comparable to that prevailing in neighboring countries; for such a measure to be completely effective, action would also have to be taken to reduce the large margin between producer prices at farm gate for those cereals and their retail prices. He invited the staff to comment.

Under normal weather conditions groundnut production was an important source of foreign exchange, Mr. Blandin said, and he welcomed the increase in the producer price from CFAF 70 to CFAF 80 per kilogram. Nevertheless, the retainer--CFAF 20 for seed and fertilizer distribution--deducted from that price made it a theoretical one. The price perceived by farmers remained much lower, in real terms, than a few years previously; as the international price for groundnuts expressed in CFA francs had increased concurrently with the domestic price, the portion ultimately paid to farmers had declined considerably.

Reform of the parapublic sector would be the cornerstone of successful medium-term adjustment, Mr. Blandin remarked. The policy orientations defined by the Government for the global strategy in that sector seemed appropriate, and the concrete actions went in the right direction, notably the Government's difficult decision to liquidate the Société Nationale d'Approvisionnement du Monde Rural (SONAR) in spite of the social consequences. In line with the Government's commitment set out in the letter of intent, an agreement substantially curbing the activities of the rice-producing public enterprise had been concluded on schedule. He invited the staff to comment on the measures that would be implemented under that agreement. In sum, the Senegalese authorities had rightly placed their current policies and measures in the context of a medium-term and long-term adjustment effort. The first steps that had been taken, particularly in the agricultural sector, augured well for the future. But as the staff had stressed, those policies should be coupled with others aiming at the development of growth-generating sectors, such as tourism or fishing. The collaboration of the World Bank in that process was of crucial importance.

The program that had been adopted, and to a large extent already implemented by the authorities, was well designed to lay the foundation for a long-term improvement in the economic and financial situation of Senegal, Mr. Blandin concluded. It would create some hardship for part of the population, mainly urban dwellers, and represented a strong adjustment effort by the Senegalese authorities. The proposed stand-by arrangement therefore merited the Board's support.

Mr. Nimatallah stated that he was in general agreement with the staff appraisal and could support Senegal's request for a further stand-by arrangement with the Fund. He commended the authorities for the successful implementation of the adjustment program under the recently expired

stand-by arrangement. The authorities' courage and determination were demonstrated by their prior actions and their willingness to take additional measures to offset the adverse effects of the severe drought. As a result, all the performance criteria had been met, and considerable progress had been made in reducing the deficits in both the fiscal and external accounts.

Despite those achievements, Mr. Nimatallah went on, the economy continued to face serious financial and structural problems, which could be solved only through sustained adjustment efforts aimed at strengthening the productive base, diversifying exports, and restructuring public finances. It was encouraging that the authorities viewed the proposed Fund program as part of a comprehensive medium-term strategy to revive the economy. He welcomed Fund-World Bank collaboration to support the authorities' efforts to restructure key sectors; Senegal, like other countries, could benefit considerably.

The continuing focus in the program on two areas of fundamental weakness--agriculture and public finance--was commendable, Mr. Nimatallah said. He supported the authorities' far-reaching plans to reorganize the agricultural sector and to improve the operations and management of the Price Equalization and Stabilization Fund. The measures already taken to reduce government intervention in agriculture and to restore appropriate incentives for producers seemed well designed to stimulate higher production and to strengthen the balance of payments. It was therefore important that the restructuring process be carried out smoothly and consistently over the program period.

The authorities' continued commitment to fiscal restraint was essential to reduce domestic arrears and to bring down the public sector deficit to a more manageable level, Mr. Nimatallah commented. In the short term, the recent revenue-raising measures together with firm controls on current expenditures were welcome. There was also scope for more fundamental reforms in the structure of public finances. The authorities should press ahead with measures to limit the growth in the number of civil service employees, strengthen public enterprises, and reform the tax system. Progress in those areas could lead to significant improvement in the fiscal position and the generation of new resources for productive investment.

It was both encouraging and appropriate that fiscal restraint should be reinforced by prudent monetary and credit policies, Mr. Nimatallah remarked. He welcomed the authorities' intention to examine ways of allocating credit more efficiently in the economy. It would also be necessary to strengthen the financial system and to resolve the recent liquidity difficulties experienced by certain banks.

The combination of improved supply conditions in agriculture and cautious demand management policies should contribute to a further strengthening of the balance of payments in 1985/86, Mr. Nimatallah said. It was clear, however, that the external position would remain

under pressure for some time; further debt relief might therefore be necessary over the program period, and he assumed that it would be forthcoming for the reasons given by the staff. He hoped that no additional adjustment measures would be required to make up the difference if the gap were not covered, and he was pleased that the question would be covered comprehensively during the first program review in March 1985.

Looking to the medium term, the present program should provide a sound basis for implementing the authorities' plans to diversify exports and to strengthen the economic infrastructure, Mr. Nimatallah observed. It was encouraging that the authorities' general strategy had been endorsed at the recent meeting of the Consultative Group for Senegal; but he agreed with the staff that further efforts were needed to improve development planning and to establish investment priorities consistent with available resources.

Mr. de Groote commented that it was auspicious that after the failure of its predecessor, the 1983/84 Senegalese program had been successful. That success demonstrated that the blame for failures could not be placed solely on exogenous factors, such as world prices for commodities and bad weather, but that insufficient policy implementation was also an issue. The Senegalese authorities should therefore be commended for their firm determination in implementing all the measures and observing all the performance criteria under the previous program. The country's creditors had reacted positively to the authorities' endeavors, and he was confident that Senegal's request to the Paris Club for the rescheduling of debts falling due over the present program period would receive the desired response.

The program under consideration seemed comprehensive, Mr. de Groote continued; it encompassed all the fields in which adjustment was needed, and it envisaged far-reaching measures. Because of the Senegalese authorities' determination to pursue adjustment, and the quality of the present program, he could support the proposed decisions.

He was nevertheless aware that the situation of the Senegalese economy remained difficult, Mr. de Groote said. The deep-rooted internal and external imbalances would not disappear without further courageous adjustment efforts, which should focus on the great potential for future growth and, equally important, on restoring the balance of payments position. He therefore welcomed the steps already taken to provide incentives by shifting relative consumer prices in favor of domestic cereal production and raising the producer price of groundnuts. A sensible pricing policy was crucially important and must be continued as a central part of the new strategy for agriculture developed by the Government.

It was also necessary to diversify agricultural output, especially of foodstuffs, Mr. de Groote went on. No doubt the slowness in implementing the decisions on agricultural price increases under previous programs could be regarded as the main reason why those programs had failed to achieve viability. He was puzzled by the staff's statement, on page 37

of its report, that in order to stimulate local production, the relative consumer prices for locally produced cereals would have to become competitive vis-à-vis the prices of comparable imports. That goal implied that production at the farmers' level would have to be subsidized--further burdening public finances--that imports would have to be taxed, or that local import-competitive production would have to be developed through appropriate investments. The taxation of imports, with an effect equivalent to that of a devaluation, seemed to be the preferred method--together with efforts to gradually improve supply, as mentioned in Mr. Alfidja's statement--to achieve price competitiveness. It would be useful if the staff could throw some light on that important issue.

He wondered whether additional improvement in the agricultural sector could not be obtained through collaboration with neighboring countries, Mr. de Groote said. Specifically, the underutilization of groundnut oil mills in Senegal at times of bad crops could be partly eliminated if arrangements could be made to allow neighboring countries without oil mills, for example, The Gambia, to send their groundnuts to Senegal, rather than elsewhere abroad, for processing.

The authorities intended to undertake, in addition to appropriate pricing policies, major institutional reforms in the agricultural sector by transferring production and marketing responsibilities from the public agencies to the farmers, Mr. de Groote noted, thus generating strong incentives for boosting agricultural productivity. He therefore welcomed the measures already taken to restructure the cooperative system through the creation of small units at the village level. The progressive retrenchment of the public sector's role in the functions of those cooperatives was a prerequisite for their further success. Also, the new law allowing groupings of economic interest outside the cooperative system was a positive development. In sum, those reforms would shift the internal terms of trade in favor of the agricultural sector and thereby benefit the Senegalese economy.

More attention should have been devoted in the staff papers to the question of energy costs and the implication for the balance of payments position, Mr. de Groote commented. The financing of energy imports absorbed more than three fourths of Senegal's export earnings. Also, Senegal was one of the African countries that had experienced deforestation: consumption of fuel wood had exceeded production. He wondered whether the authorities had paid sufficient attention to an appropriate medium-term energy policy, an important policy issue that would have to be monitored closely in the context of the present adjustment program. He invited the staff to elaborate on that question.

The fiscal measures already taken and those embodied in the program were adequately designed to achieve the authorities' objectives, Mr. de Groote continued. In addition to the containment of the number of civil servants and the public wage bill, a census of the actual population

of civil servants could be undertaken to eliminate possible cases of "ghost" employment. He recalled that such a census had been taken with surprising results in some countries.

The program under consideration seemed well conceived, Mr. de Groote concluded, but its success would require the continued strong efforts of the Senegalese authorities.

Mr. Clark said that the authorities' successful implementation of the program under the previous stand-by arrangement, in spite of the severe drought, was commendable. He welcomed in particular their determination in taking additional fiscal actions to keep the program on track. Serious imbalances in the economy remained, however, and it was clear from the staff's medium-term projections that the adjustment effort would have to be sustained at least through the rest of the decade. Further action to reduce the public sector deficit was especially important in view of the current low level of domestic savings and the high level of public sector arrears. He therefore welcomed the authorities' target of a reduction in the deficit to 2 percent of GDP on a commitment basis by the financial year 1985/86.

He was in general agreement with the staff report, Mr. Clark stated. Gross domestic savings over the past three years had averaged less than 2 percent of GDP, one of the lowest rates in sub-Saharan Africa, which undoubtedly reflected Senegal's low per capita income. But it was worth noting that public savings remained negative in the current financial year, which reinforced the need for tight control of public expenditures, specifically, as Mr. Blandin had mentioned, in the civil service. He was encouraged, although surprised, to read that savings were projected to increase sixfold from 1.3 percent to nearly 8 percent of GDP in 1985. He invited the staff to explain how that increase would come about.

The parastatals remained a major burden on the budget and on the economy, Mr. Clark stated. The improvement achieved by the authorities, especially in the agricultural sector, was laudable, but the staff report indicated that progress with regard to the four major public utilities had been much slower than envisaged. As the Fund had supported programs in Senegal almost continuously over the past six years, it was disappointing that reform of the parapublic sector was still at the stage of "a comprehensive review of government participations." He looked forward to the early completion of that review and urged prompt action on the basis of its recommendations.

He welcomed the authorities' initiatives in agricultural policy, which was central to the program, Mr. Clark said. He noted, in particular, the recent increase in the retail price of rice.

The better than expected trade balance in 1983/84--especially the performance of nontraditional exports--was encouraging, Mr. Clark continued. However, Senegal remained vulnerable to fluctuations in groundnut production and the weather, and it was therefore worrying that foreign

exchange reserves remained extremely low. Medium-term prospects, even on favorable assumptions, continued to look difficult. In that context, he invited the staff to explain what lay behind the projected improvement in the services account, excluding debt interest, from a deficit of SDR 50 million in 1984/85 to a surplus of over SDR 10 million in 1989/90. In view of the heavy debt service burden in future years and the time frame, it seemed appropriate that the Fund's role should be largely catalytic, and that donors and creditors should assume the main role of external assistance.

He would be interested in comments by the staff on the effects of the program, particularly price adjustments, on the economy of The Gambia, Mr. Clark said. In conclusion, he could support the proposed decisions.

Mr. Goos commented that after many years of disappointing results under successive Fund arrangements, Senegal had been able to meet all performance criteria under the previous arrangement. The turn for the better was particularly encouraging, given the unexpected adverse environment prevailing in 1983/84; the authorities had responded by taking additional corrective steps to keep the program on track. That response seemed to indicate a shift in attitude and a new commitment to the country's adjustment needs, which augured well for the country's future.

Under the previous program, the authorities had benefited from favorable developments that had gone a long way toward compensating for the drought, Mr. Goos remarked. It was difficult to strike a balance between the favorable and adverse exogenous factors to determine the underlying adjustment course. The paper on Kenya's request for a stand-by arrangement (EBS/84/261, 12/12/84) had been helpful because the staff had isolated the impact of exogenous factors on the economy in its analysis, and he encouraged the staff to continue that practice.

He appreciated the authorities' resolve to tackle domestic and external imbalances and, in particular, their emphasis on structural adjustment measures in the agricultural sector, Mr. Goos said. Higher producer prices, increased scope for private initiative, and a more efficient supply of agricultural inputs were essential for increasing production and reducing external deficits and hence for attaining a sustainable balance of payments position in the medium term.

With regard to the balance of payments, Mr. Goos continued, decisive action was needed. Although the trade and current account balances had shown some improvement--and the staff projected continued strong improvement until the end of the decade--he was concerned about the prospect of an increasing financing gap in the years ahead. The forecast dramatic deterioration of the debt service ratio, which in 1989/90 would be considerably higher than in 1983/84, was also worrying. In addition, the sensitivity analysis of the medium-term scenario, as well as recent economic developments in the country, clearly demonstrated Senegal's vulnerability to exogenous shocks.

In sum, a stronger adjustment effort would have been justified, Mr. Goos stated. While he was pleased that the authorities had set their current policies and measures in the context of a medium-term and long-term adjustment effort, such an approach must not lead to a too gradual adjustment course. The authorities should use any scope for further adjustment that might become available and provide for contingency measures in order to respond flexibly to unforeseen pressure on the balance of payments.

The staff had appropriately assigned a key role to fiscal adjustment, Mr. Goos commented. It was encouraging that the public sector deficit had been kept below the target under the previous program and that it was projected to continue to decline in terms of GDP. However, public revenue as a percentage of GDP was also assumed to decline. He therefore hoped that the ongoing review of the tax system would generate additional revenue. Meanwhile, it was imperative that the authorities continue to contain public expenditures, at least as assumed under the program. The measures envisaged in the public sector apparently offered additional scope for further improvement of the fiscal position, but it was regrettable that progress had been much slower than expected. Given the burden of subsidies and transfers on the budget and the remaining high level of domestic public arrears, acceleration of adjustment in that area would be appropriate.

The staff stated that the improvement in fiscal performance had been reinforced by a substantial tightening of credit policy, Mr. Goos observed. While he had no difficulties with that assessment, he noted that real interest rates had been negative in recent years. He wondered why that aspect had not been included in the staff assessment, as monetary policy would be much more effective in generating additional savings with positive real interest rates.

More comprehensive information on the World Bank's assessment of Senegal's development problems might have been helpful in evaluating the adjustment program, Mr. Goos noted, and he invited the staff to comment on that point.

His concerns about the adequacy of the policy stance were also prompted by the continued high level of Fund credit outstanding to the country, Mr. Goos concluded. Senegal belonged to the category of prolonged user of Fund resources, which by itself called for a strong adjustment effort. Furthermore, he would have preferred to see a slightly lower level of access to demonstrate that the Fund was not a source of long-term finance. With those reservations, he could support the proposed decisions.

Mr. Polak said that he agreed with the staff appraisal. Notwithstanding the serious drought of the past two years, the Senegalese authorities had managed to adhere to the economic adjustment program supported by the stand-by arrangement that had expired in September 1984. That success was particularly commendable as the strong adjustment

measures under the program had been further intensified because of the drought; nevertheless, GDP had fallen slightly in 1983/84 against the expectation of a 3 percent increase.

Despite their achievements, the authorities continued to face severe structural and financial problems, Mr. Polak observed. Both internal and external imbalances were unsustainable, and gross international reserves were low. In those circumstances, it was essential for Senegal to continue its adjustment effort in order to achieve a viable financial situation over the medium term. He hoped that implementation of the new program would continue the structural reform of key sectors of the economy.

He welcomed the close collaboration between the Fund and World Bank staff in setting up the new program, Mr. Polak commented, especially the medium-term agricultural policy, improvement in the fiscal performance, and the rehabilitation of four major public utilities. He was surprised that Bank staff was not present at the meeting, and he suggested that the paper could have usefully been more explicit in describing relations between the World Bank and Senegal. That relationship seemed good at present; he understood from Bank staff that negotiations for a new structural adjustment loan had been finalized and the loan would probably be disbursed during 1985.

Fiscal policy was a key element of the new program, and efforts had been made to restrain expenditure and increase revenue, Mr. Polak remarked. Nevertheless, in 1984/85 revenue in relation to GDP was projected to continue its decline of the past four years. Senegal's efforts to improve its revenue performance were welcome. Total capital expenditure--budgetary and extrabudgetary--at 3.1 percent of GDP in 1984/85 was low for a developing country. Extrabudgetary capital expenditure was likely to decline in 1984/85, the last year of the Sixth Development Plan, but should increase in 1985/86 under the new development plan.

Agricultural policy was also an important element of the program, Mr. Polak continued, including both institutional reforms and welcome producer and retail price increases. Although the changes affecting rural development agencies might take up to five years to complete, the timing had been endorsed by the World Bank and major creditors. Moreover, two major agreements--the rehabilitation of SAED and SONEES (Société Nationale d'Exploitation des Eaux du Sénégal)--had been signed.

Notwithstanding the projected improvement in the current account in 1984/85, the balance of payments was expected to remain under considerable strain, Mr. Polak remarked. The increase in repayments due on medium-term and long-term debt in the coming years and the financing gap foreseen for the next five years, partly reflecting large repurchases from the Fund, were important factors. The outlook for debt rescheduling with both the Paris Club and commercial banks, however, was good. He welcomed the staff's alternative medium-term balance of payments projections on various assumptions of underlying conditions. It was clear from those projections that Senegal would continue to need not only debt relief but also Fund

assistance for many years, which had some relevance to the question of access. Total Fund credit outstanding after the expiration of the stand-by arrangement would be about the same as in November 1984. Nevertheless, he supported the stand-by arrangement.

Mr. Mtei said that under the 1983/84 stabilization program, Senegal had met all performance criteria, and a major step had been taken toward attaining stable financial conditions in the medium term. The implementation of the 1983/84 program would have been even more successful had it not been for the severe drought that had devastated in many African countries.

The proposed program was a logical follow-up in view of the difficulties that continued to confront the Senegalese economy and should provide a basis for consolidating the gains made thus far, Mr. Mtei commented. The adjustment policies and measures included in the program constituted a significant effort that deserved the Fund's support. He therefore fully endorsed Senegal's request for the proposed stand-by arrangement.

The staff had argued that the proposed access of 60 percent of quota on an annual basis was justified mainly on the grounds that Senegal would require continued use of Fund resources for a number of years, Mr. Mtei observed. Although that statement implied that access could otherwise have been higher, the medium-term outlook lent support to the staff's proposition. Cumulative access through the period of the stand-by arrangement, however, would remain virtually flat at 250 percent of Senegal's quota, according to Table 1 of the staff report. He supported the staff's suggestion that, in the event debt rescheduling did not yield as much relief as assumed at present, further adjustment measures should be adopted at the time of the first review.

The set of policies in the agricultural sector appeared to be comprehensive and far-reaching, Mr. Mtei remarked. Apart from the increase in producer prices of key commodities, such as groundnuts, extensive institutional reforms were being initiated, including the restructuring of the cooperative system. The reorganization involved the setting up of more homogeneous cooperative units at the village level, with the individual farmer progressively making his own decisions on production, storage, and distribution. That reorganization gave a lot of room for individual initiative, provided the incentive structure remained attractive. Meanwhile, the authorities should be encouraged to continue reducing the role of the rural development agencies, which had become a burden on public finances. The emphasis on groundnut production was understandable as it appeared to exploit Senegal's comparative advantage; however, the need for continued diversification efforts so as to minimize the adverse impact of unfavorable weather conditions could not be overemphasized. The development of domestic cereal production, as well as the fishing industry, would provide great potential.

On the fiscal front, Mr. Mtei continued, much had been accomplished under the previous program, and he encouraged the authorities to consolidate their gains. Substantial imbalances remained, however, and the

growth of government expenditure, including transfers to parastatals, must be contained. He was therefore encouraged that revenue-raising measures had been implemented and that the tax administration would be strengthened.

The rehabilitation programs of the four major public utilities being implemented with the assistance of the World Bank were a step in the right direction, Mr. Mtei remarked. Budgetary capital outlays by the Government in 1984/85 would be limited to the 1983/84 level of CFAF 10 billion. Under normal circumstances, such a stance would have been worrisome, as it had serious implications for future growth. In the present case, the authorities were more concerned about the principle of matching expenditure with available resources. Perhaps the staff could comment on the compatibility of that concern with the medium-term growth target. The authorities' continued efforts to reduce domestic arrears of the Government and public agencies were commendable; those arrears should be eliminated at the earliest possible date.

The authorities' efforts, with technical assistance from the Fund, to improve the timeliness of official data for publication were praiseworthy, Mr. Mtei concluded; the Fund's continued assistance would be helpful in the implementation of the program by facilitating prompt and reasonable decisions. The summary of the adjustment program (Table 8) and the discussion on the medium-term outlook in the staff report had been informative.

Mr. Coumbis said that the 1983/84 adjustment program had been successful. All performance criteria had been satisfied; fiscal, monetary, and incomes policies had been conducted according to the program; and the basic policy objectives had been achieved. As a result, the large internal and external imbalances had been reduced, despite the drought's adverse effect on the economy. Although government receipts had fallen short of the estimated level because of the drought and the slower than expected rate of increase of GDP, the budget deficit had remained on target because of the authorities' prompt reduction of government spending.

Despite the turnaround achieved in the economy during 1983/84, Senegal continued to face major structural and financial problems, Mr. Coumbis continued. Conscious of those problems, the Senegalese authorities were determined to pursue their adjustment efforts vigorously in order to achieve a viable balance of payments position and satisfactory economic growth. The adjustment program under consideration was well designed and represented an important step toward reaching those objectives. It was therefore essential for the authorities to implement the policies prescribed under the program with the same determination that they had shown under the previous program.

The Government had introduced a new agricultural policy in its effort to attain self-sufficiency in foodstuffs in the medium term and to promote diversification of domestic production and increased production of export crops, Mr. Coumbis remarked. That policy included the pursuit of higher

consumer and producer prices in order to stimulate production and the reform in the distribution system of agricultural inputs, which would now be sold to farmers at cost. That reform should also have the positive effect of reducing government expenditure. The reorganization of the agricultural sector was a crucial factor for both the successful implementation of the adjustment program and the improvement of medium-term growth prospects.

The Consultative Group for Senegal had endorsed the Government's medium-term program, Mr. Coumbis noted; however, the Group had stressed that the authorities would have to translate their objectives into specific actions. He added that the authorities would also have to prove their commitment to economic adjustment through a consistent long-term effort and to create the necessary conditions for sustained growth. The medium-term outlook for the balance of payments indicated the need for debt rescheduling and donor assistance until the end of the decade.

He welcomed the sensitivity analysis included in the staff report, Mr. Coumbis stated. However, a better appraisal of the results of the analysis would have been possible if more information had been provided on the methods used to make the forecasts as well as on the specific assumptions that had been used to forecast exports and imports.

The unemployment rate in Senegal was high, Mr. Coumbis noted; according to the report on recent economic developments, unemployment had increased from 5 percent in 1980 to 9 percent in 1982. The only way to solve that problem was through rapid and sustained growth. Finally, as he was in agreement with the staff appraisal, he could support the proposed decisions.

Ms. Bush commented that Senegal seemed clearly committed to the new adjustment effort, as exemplified by the recently announced measures. Particularly appropriate to Senegal's long-run adjustment effort was the increase in the retail price of rice, which would allow the Price Equalization and Stabilization Fund to break even on its rice operations in the current fiscal year. Although raising the price of an important consumer good might pose difficulties for the authorities, Senegal did not have the resources available to subsidize consumption. Perhaps more important from a long-run perspective, the announced price increases should promote production of import substitutes and groundnuts and should encourage expansion of the export base.

The new program should complement and build upon the successes obtained under the previous program, Ms. Bush continued. Senegal had managed to meet its fiscal targets with room to spare even though GDP had contracted rather than expanded. To their credit, the Senegalese authorities had made additional adjustments in fiscal expenditures and net lending when it had become apparent that revenue would fall short. Fiscal arrears had also been reduced but remained substantial at present.

It was unfortunate that at the end of the previous program, the rate of inflation had been higher than expected, exceeding that of Senegal's trade partners, Ms. Bush commented; the result was a real effective appreciation of the CFA franc. Because of its limited ability to alter the foreign exchange value of its currency, Senegal had to rely on domestic demand management to contain the rate of price increase.

Under the new program, the authorities aimed to narrow the fiscal deficit, increase wages by less than recent rises in the cost of living, control recruitment, contain current expenditure, and reduce domestic arrears, Ms. Bush remarked. The fiscal package would be supported by continued tight credit policies, but she was concerned that credit to the noncrop private sector would be limited to a 3 percent increase in 1985 when inflation was expected to be close to 6 percent. However, as suggested in the staff report, the payment of arrears to firms in the private sector should help to finance their operations, with the caveat that they in turn had arrears to pay with those funds; the final results were therefore unclear.

The other important elements of the program related to agriculture and public enterprise policy, Ms. Bush went on. She welcomed the authorities' goal of limiting the Government's role in the agricultural sector--especially the liquidation of SONAR--and of implementing more flexible pricing policies. Those measures should contribute to the resource reallocation that was needed to foster long-run growth and sustainability in Senegal's external accounts. The World Bank had been monitoring reforms in the agricultural sector, and she understood that it would consider a structural adjustment loan if those reforms, including further decentralization and the elimination of fertilizer subsidies, were carried out. She invited the staff to comment on the World Bank's involvement in Senegal. The Senegalese authorities must carry forward the progress that had been made thus far into the medium term, especially through implementation of the policy changes in the agricultural sector.

The program included the rehabilitation of the four major public utilities and improvements in the operations of the Price Equalization and Stabilization Fund (CPSP), Ms. Bush noted. With World Bank assistance an action plan for the CPSP should be in place my March 1985, and she looked forward to receiving more information for the first program review. Those structural policy changes were important for two reasons. First, as Senegal's membership in a monetary union prevented the country from adjusting its exchange rate, it must contain import demand by price adjustments, such as those affecting the price of rice. Exports could be promoted only through adequate incentives to produce, such as producer price increases for groundnuts. Second, Senegal's return to a sustainable growth and development path required the restructuring of its economy, and the Fund program and the potential World Bank structural adjustment loan could both help to achieve that goal. The effort to restructure the economy was particularly important in light of the inauspicious medium-term outlook in Senegal. The large payments gap projected for the remainder of the decade argued for a rapid pace of adjustment. But while

Senegal had implemented a broadly based adjustment effort, that effort did not appear to be strong enough to return the country to a sustainable payments position in the near future.

Senegal's good previous performance and real gains under earlier programs, as well as the Senegalese authorities' commitment to further adjustment efforts, were laudable, Ms. Bush said. However, Senegal was a prolonged user of Fund credit, and therefore access significantly below 60 percent of quota on an annual basis might have been more appropriate for the present arrangement. She could go along with the proposed amount, but she emphasized the need for structural changes to sustain the progress achieved through the medium term and to contribute to a viable balance of payments position. The phasing of purchases under the stand-by arrangement seemed front-loaded, and she invited the staff to comment. She understood that the cash flow position of the Senegalese authorities was tight, but normally it was preferable to evaluate performance as drawings took place over the course of the program.

Mr. Alhaimus said that the 1983/84 adjustment program in Senegal had been kept on track, and all the performance criteria had been met. The full implementation of the program compared favorably with previous unsustained adjustment efforts and was particularly noteworthy in light of the difficult economic situation that Senegal had faced in recent years. However, the progress achieved thus far was a modest step in the right direction, given the magnitude and nature of the remaining economic imbalances. In view of that situation and the authorities' determination to maintain sustained adjustment efforts, as indicated by their adoption of a number of adjustment measures in the context of a new program, he could support the proposed decision on Senegal's request for a stand-by arrangement. The new program should, if successfully implemented, draw Senegal closer to restoring a balanced economic and financial basis for growth.

The most serious difficulties facing Senegal were structural in nature, Mr. Alhaimus continued. Therefore, the design of the new program within a medium-term outlook and the special emphasis placed on supply measures in addition to demand management policies were welcome. The institutional changes under the program, aimed at reducing the role of the public sector, could be desirable from the point of view of efficiency and could improve public finances as well. However, in light of the present involvement of the public sector in many aspects of economic activity, care should be taken to minimize the transitional economic and social costs that could result from the far-reaching changes in a wide range of public sector functions. With that in mind, the rationalization of government intervention and the rehabilitation of public and parapublic enterprises remained an essential requirement of adjustment, given the deficiencies in that area noted in the staff report.

The program's emphasis on the agricultural sector in order to diversify and expand production was appropriate in view of the sector's potential to contribute to economic recovery, Mr. Alhaimus remarked. The

pursuit of flexible producer and consumer pricing policies and recent price increases, along with the other elements of the new agricultural policy, should help to stimulate agricultural production and exports, as well as reduce reliance on imports. Efforts to expand the output of cereals, while welcome, should take into account any possible impact on the production of groundnuts and other export crops arising from an excessive tilting of relative prices in favor of cereals. In addition, the substitution of domestically produced cereals for imported rice could prove to be difficult because of the rigidity of consumption preferences in relation to staples.

In recent years, Mr. Alhaimus continued, domestic demand in Senegal had consistently exceeded GDP, giving rise to a sizable resource gap. Under those circumstances, tight demand management policies were regarded as key elements of an appropriate adjustment. It was therefore important that the targeted reduction in the budget deficit through expenditure-saving and revenue-raising measures be fully achieved. Given the weaknesses of public finances, that reduction would require continuous monitoring of expenditure cuts and revenue performance. While current expenditure outlays would continue to increase, no increase in capital outlays was budgeted. As to revenues, the measures already implemented could be helped significantly by improved and timely tax collection. The achievement of the targeted sharp decline in net domestic financing of the budget deficit was important, but the programmed limit on the increase in noncrop private sector credit might constrain growth of nonagricultural output, especially if the Government did not discharge, as planned, its domestic payments arrears to the private sector. It would be useful to know from the staff whether an adjustment in that limit was expected if the targeted reductions in arrears were not fully achieved. He also noted that no specific interest rate measures were envisaged in the program, and he wondered whether that implied, in the staff view, that current real rates of interest were adequate.

The significance of the main program objective to reduce the current account deficit lay in Senegal's unsustainably large external payments imbalances, Mr. Alhaimus commented. The high debt service ratio would continue to place mounting pressures on the balance of payments, which could be eased only through strong adjustment, availability of debt relief, and continued Fund and donors' support. Under the circumstances, the program's ceilings on new nonconcessional borrowing must be adhered to. Senegal's balance of payments was sensitive to assumptions regarding groundnut production and terms of trade, as well as other exogenous factors. For that reason, and also because of the limited room for maneuver, the authorities should stand ready to take additional measures to cope with any adverse consequences of unforeseen developments.

Mr. Pickering remarked that the staff report contained a favorable assessment of recent policy developments in Senegal. Performance under the previous arrangement was commendable, and the authorities had apparently maintained the thrust of the previous year's adjustment effort through the first half of the current fiscal year. Those adjustments had

been taken against the background of a severe drought, which made those measures all the more courageous. The authorities' program for 1984/85-1985/86 represented a further significant step toward the resolution of Senegal's internal and external imbalances. He could, therefore, support the proposed decision providing Fund assistance for that adjustment effort.

The comments on the medium-term outlook by the staff represented a welcome strengthening of that facet of program design, Mr. Pickering said. It was only through an examination of Senegal's medium-term external obligations and trade prospects that the need for a sustained adjustment effort could be clearly indicated. That medium-term framework made clear that the improvement in the fiscal area must be continued and consolidated. An important aspect of that fiscal effort was the regularization of domestic payments. The current program continued efforts started under the previous program and called for the reduction of the outstanding level of domestic arrears of the Government and public enterprises. He invited the staff to comment on whether domestic payments would be regularized during the period of the program or whether arrears would continue to exist after the program's expiration.

He also asked Mr. Alfidja or the staff to comment on the pace of the design of the Seventh Development Plan, Mr. Pickering continued. At its recent meeting, the Consultative Group for Senegal had attached importance to the authorities' adequately translating their investment objectives into specific actions. When would more information be available on that important medium-term aspect of the Senegalese adjustment effort, how would World Bank advice and support fit into that plan, and how did the plan relate to the rehabilitation of the four major public utilities?

There was a need for continued external support for the Senegalese adjustment effort from both bilateral sources and multilateral agencies, Mr. Pickering concluded. The Fund had an important, largely catalytic, role to play. However, in view of the degree of adjustment contained in the current program and the projections for sustained balance of payments adjustment in the foreseeable future, the present level of access appeared appropriate.

Mr. Zhang said that he supported Senegal's request for a new stand-by arrangement.

The staff representative from the African Department said that the Fund staff had maintained close contacts with the World Bank staff throughout the process of formulating Senegal's present program, which had started in June 1984. The process had been lengthy because the Fund staff had considered it important to reach firm understandings on a number of issues, some of which had been resolved only recently. Fund-Bank collaboration had encompassed a wide front, but had focused especially on the medium-term agricultural policy, the need to improve fiscal performance, and the rehabilitation programs of the four major public utilities. The new agricultural policy had been developed in close consultation with the Bank, as well as with Senegal's principal bilateral creditors and donors.

The Fund staff had also participated in the Bank's recent Consultative Group meeting, and, in discussing the medium-term economic outlook in the report, the staff had reflected not only the Bank's views but those of the Group, which had been broadly satisfied with the progress made by Senegal in 1983/84 and with the general direction of policy in 1984/85 and 1985/86. The Consultative Group had been keenly interested in the structural and institutional aspects of the program, which usually took longer to implement.

The World Bank staff had endorsed the program being considered by the Board and had been, like the Fund staff, encouraged by recent developments in Senegal, the staff representative from the African Department stated. However, since the failure of the structural adjustment loan in 1980, the Bank's nonproject assistance to Senegal had slowed. Although Mr. Polak had noted that the World Bank would soon be concluding negotiations for a new structural adjustment loan, the staff had avoided attributing to the Bank any action until it was sufficiently certain so as to avoid a situation where Directors could later state that the Bank had reneged on its commitments. During the Consultative Group meeting, the Bank had announced that it envisaged a lending program to Senegal of about $150 million over the five-year period 1985-89, almost all of which would be on IDA terms, and that it hoped that some $50 million could be committed in 1985, partly in support of a well-defined structural adjustment program.

The Chairman commented that, in light of the discussion at EBM/84/170 and EBM/84/171 (11/28/84) on Fund-Bank collaboration in countries to which both the World Bank and the Fund were providing financial assistance, it would have been appropriate to invite a Bank staff member to attend the present meeting.

Mr. Nimatallah suggested that the Secretary should coordinate invitations to Bank staff members as appropriate.

The staff representative from the African Department recalled that discussions with the Senegalese authorities had focused on the problem of the retail price of rice. An increase in the retail price had been needed for two reasons: structural, to reduce reliance on rice imports over the medium term in the absence of certain policy instruments available to other countries; and fiscal, to alleviate the burden of importing and selling rice at a loss. As the discussions evolved, the Senegalese authorities had recognized both factors and had adjusted the price substantially. The staff hoped that the authorities would pursue a more flexible rice pricing policy in the future, which would help to avoid larger price adjustments, and thus be more acceptable socially and politically. An agreement had been reached two weeks previously between the rice-producing public enterprise (SAED) and the Government whereby, consistent with the new agricultural policy, SAED would progressively reduce the scope of its operations, leaving a number of services to be carried out by private contractors and other agencies. SAED would concentrate increasingly on planning, rather than executing, irrigation projects. Furthermore, its services would be covered to a greater extent

by appropriate fees and charges, thereby reducing reliance on government and external subsidization. Producer prices of paddy had been raised in October 1984 so that farmers could absorb a larger part of the costs involved in land preparation and maintenance.

Since a retainer was deducted from the producer price of groundnuts, prices were correspondingly lower, the staff representative remarked; however, the retainer had not been changed, whereas the producer price had been increased by CFAF 10 per kilogram, which gave the producers additional incentives. In view of the still favorable export prices for groundnuts, there was scope for raising further the producer price; but any increase needed to be carefully considered to ensure that it could be sustained and that it would not run counter to the authorities' objective of fostering output of cereals.

The liquidation of SONAR, the rural developmental agency in charge of the distribution of seeds, would take place by the end of May 1985, the staff representative said. About 170 of the 600 permanent employees of the enterprise would be hired by the oil millers, who needed additional staff to take care of their new responsibilities. The remaining employees--with the exception of those with civil service status--would no longer serve in the Administration. The World Bank and other creditors were expected to assist the Senegalese authorities in dealing with some of the structural aspects of reducing state intervention in the rural sector.

The suggestion that groundnuts from The Gambia be processed by Senegal's oil millers, thereby promoting greater utilization of existing capacity, had been proposed to the authorities, the staff representative noted. The outcome would depend on the Gambians' long-term commitments in other markets and with other oilers, but it was a point worth pursuing, especially since economic integration with The Gambia was contemplated.

Fertilizers were no longer subsidized by the Treasury, the staff representative added.

On fiscal policy, the staff representative continued, improvements were needed in customs administration, and recent steps taken by the authorities had been in the right direction. Inadequate accounting had prevented the staff from ascertaining why duties on rice in 1983/84 had not been paid, and the need to improve accounting procedures was therefore important. With the help of a major creditor, a study and audit of the rice operations of the Price Equalization and Stabilization Fund (CPSP) had been conducted, but the results were not yet known. Once the results became available, it was expected that appropriate action would be taken. As the staff had maintained that a retail price increase for rice was essential for both structural and fiscal reasons, and as the consumers had been asked to bear that burden, it was obviously important for the CPSP to discharge its fiscal obligations. With regard to the real estate tax, a fiscal cadaster--a register of land titles for fiscal purposes--was being prepared and would be useful for mobilizing additional revenue through real estate taxes for local authorities and property income taxes for the Central Government.

It had been asked whether an increase of 8.6 percent in the wage bill in 1984/85 was justifiable, the staff representative noted. The number of civil servants, which had increased by 2 percent to about 67,720 over the previous year, was expected to rise by only 1 percent in 1984/85; nominal wage increases would account for an additional 1 percent; and the balance represented mainly the so-called wage drift, which was perhaps too high. While the staff had in the past focused on the growth in the number of employees and nominal increases in wages, it would now concentrate on the wage drift and related elements, such as hospitalization costs, family allowances, indemnities, retirement benefits, and, as pointed out by the Senegalese authorities, a qualitative improvement in personnel.

The Consultative Group for Senegal had noted the need for better investment planning and budgeting, the staff representative commented. Capital expenditure of the Government was relatively low as a ratio to GDP. However, total investment activity, including public enterprises, amounted to some 13 percent of GDP. Although a higher level was desirable to stimulate economic growth, there were two critical constraints--the ability to execute projects and the availability of financing on concessional terms. The Consultative Group had noted that it was important that the authorities' investment priorities be reflected in the Seventh Development Plan, which would start in July 1985. The World Bank would review the amount and allocation of investments; after the Plan was initiated, a second Consultative Group meeting would be convened.

The pace of reform of the parapublic sector, although slower than envisaged, was beginning to pick up, the staff representative noted. The reform of the four major public utilities was a World Bank project, and the Fund staff was simply reporting its progress and plans. A formal agreement between the water supply company and the Government had recently been signed, and a water supply project was expected to be financed by IDA. With regard to the medium-term energy policy, the authorities envisaged exploiting domestic sources of energy, such as peat and lignite, as well as hydroelectric power from the Manantali Dam. Furthermore, they intended to encourage energy conservation through a flexible pricing policy for petroleum products.

The projected sixfold increase in the savings ratio reflected the envisaged fiscal adjustment and the impact of the price measures on private consumption, the staff representative explained. The expected medium-term improvement in the services account would be mainly due to the continued expansion of the tourism sector, which was considered a promising part of the overall improvement in the balance of payments situation and in employment. As to the effects of Senegal's program, particularly the price adjustments, on The Gambia, the staff believed that they were likely to be significant.

The evolution of interest rate policy was being followed closely, the staff representative continued, with the focus not only on the present level of inflation but also on the underlying rate of inflation. The staff also had to consider Senegal's membership in the monetary union.

Although it had been commented that credit policy for the private sector might be too tight, the increase of 3 percent for private credit, excluding crop credit, had been agreed with the authorities without difficulty. The figure had been considered along with other objectives of the program, notably the reduction of domestic arrears to the private sector by the Government and public agencies. The program included concrete steps to reduce domestic arrears and the debt inherited from the liquidation of ONCAD; and, for the first time, the repayment of ONCAD debt was a performance criterion.

The phasing of the arrangement called for seven purchases of almost equal amounts over 18 months and was consistent with Fund procedures, the staff representative pointed out. The first purchase, which would follow Board approval of the stand-by arrangement, would amount to about 14 percent of the total, and the second and third purchases would be a little larger, because of balance of payments concerns regarding the period January-June 1985. There would be three reviews of the program: the first would be confined to assessing the adequacy of the external debt rescheduling arrangements; the second would involve reaching detailed understandings on economic and financial policies for 1985/86; and the third would examine progress in the implementation of the 1985/86 program. As to the amount of access, the previous stand-by arrangement of SDR 63 million had been equivalent to 100 percent of the existing quota, or 74 percent of the new quota. The present stand-by arrangement was for 60 percent of quota on an annual basis, representing a substantial reduction in access. It was important to note that in 1985/86 Senegal would make net repurchases to the Fund of SDR 8.3 million, following net use of Fund resources in 1984/85 of SDR 4.8 million. As the Fund reduced its assistance to Senegal, the authorities hoped that other resources would become available through concessional assistance and external debt relief. Senegal's request for external debt rescheduling from the Paris Club was scheduled to be discussed the following day in Paris.

Executive Directors' comments on the sensitivity analysis had been noted, and the staff would attempt to present tables with alternative assumptions in future papers, while maintaining the reports' brevity, the staff representative said. In the medium-term analysis and sensitivity assumptions, the staff had focused on one factor, such as exports or imports, and had traced the results without redoing the calculations. The staff had, however, attempted to provide a detailed base scenario.

Total domestic payments arrears would not be eliminated during the present program, the staff representative from the African Department said. Like many African countries, Senegal faced serious problems in that regard. For example, after liquidating a number of inefficient public entities, debts would remain that the authorities must try to settle in an orderly manner. The Minister of Economy and Finance hoped to accelerate the process of liquidation of arrears through both domestic efforts and external assistance, although donors were reluctant to consider assistance for that purpose.

The staff representative from the Exchange and Trade Relations Department, commenting on the question of uniformity of treatment with regard to access, noted that Directors had taken two sides on the issue: while a few had found 60 percent on the high side, others had judged that amount to be correct. Other countries in the group of prolonged users and with the same level of Fund credit outstanding had had programs presented to the Board recently for access of 50-60 percent of quota, and Senegal's access fell within that range. Until the present time, Senegal's Fund credit outstanding had been rising continuously; during the period of the present program it would be flat.

Mr. Zhang remarked that, while raising producer prices met with Board approval, he wondered what the effect would be on the consumption of those commodities, especially if producer prices of basic foodstuffs were raised, as in the case of Senegal. Also, the staff had commented that wages had been increased by 2 percent, which it claimed to be too high. However, GDP in 1984 had increased by 7.6 percent, indicating a shift of income away from wage earners. Did not the rise in domestic consumer prices and the shift in income away from the wage group indicate that wage earners had been adversely affected?

Mr. Nimatallah commented that it would be appreciated if Executive Directors could be informed in a timely manner of Paris Club meetings.

Mr. Clark said that the staff report indicated that Senegal had experienced negative gross domestic savings in 1980 and 1981, and savings equivalent to 2.5 percent of GDP in 1982, 1.5 percent in 1983, and 1.3 percent in 1984. The staff, nevertheless, forecast an increase of 7.8 percent in 1985. As gross domestic saving was a crucial aggregate in the economy, he asked for further explanation of the projected increase.

The Gambia also had a Fund program, Mr. Clark continued, and for that reason he invited the staff to comment on whether Senegal's program objectives might not affect that country.

Mr. Pickering commented that as domestic arrears of the Government was a performance criterion, the staff should specify not only the amount of reduction but also the total stock. Also, in view of the importance of medium-term adjustment in the program, it would be appropriate to link one of the proposed reviews of the program with the completion of the design of the Seventh Development Plan, especially as references to the Consultative Group meeting indicated some uncertainties about the Government's specific investment actions.

The Executive Directors agreed to resume their discussion in the afternoon.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/85/5 (1/11/85) and EBM/85/6 (1/16/85).

4. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/84/257, Supplement 1, Correction 1 (1/14/85) and EBAP/85/6 (1/11/85) is approved.

APPROVED: October 23, 1985

LEO VAN HOUTVEN
Secretary