

October 23, 1987 - 87/5

Statement by Mr. Jacques de Groot
SENEGAL: Request for Stand-By Arrangement and for Second
Annual Arrangement Under the Structural Adjustment Facility
(Preliminary)
EBM/87/148, October 26, 1987

Introduction

Please, find hereafter the text of the statement which I have circulated at the occasion of the discussion of Senegal's Policy Framework Paper in the World Bank Board on October 20.

The simultaneous discussion of Senegal's economic program in both Institutions highlights the importance of joint Fund-Bank action : The progress program which we are asked to approve today is a successful confirmation of the joint Bank-Fund structurally oriented policies which the Senegalese authorities have been implementing since mid-1983. These parallel efforts on both external adjustment and internal development issues have been increasingly acknowledged by the international donor community, as witnessed by the constructive dialogue and positive solutions arrived at during recent donor meetings. The fact that these meetings greatly relied on the investment and development programs embodied in today's Policy Framework Paper also illustrates that the enhanced policy dialogue elicited by the PFP-process can be a highly rewarding exercise.

The simultaneous discussion in both Boards of the present PFP is also highly relevant for the close interrelationship between Bank and Fund policies in Senegal's adjustment. Of particular importance in this context is the assessment, by both Institutions, of the policy adjustments to be taken by the Senegalese authorities in the light of the exchange rate limitations imposed by their membership in the Franc Zone. The need to reconcile the prescriptions of further liberalization and financial stabilization with the equally justified objective of re-allocating resources away from imports and toward exports is particularly demanding in the context of these limitations. The observations which I have submitted in my statement are intended to activate our dialogue with the authorities on this issue and to seek for further guidance from the staff of both Institutions.

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Mr. Chairman,

I would like to begin by commending the staff on their excellent work, then to comment on some specific points which we consider important to this program.

Senegal's recent economic history shows steady and substantial progress toward economic recovery and financial adjustment resulting from the program which the Senegalese authorities have been implementing since 1983. Because of the magnitude and duration of the decline in primary commodity prices, however, Senegal still has a long way to go toward completion of its adjustment process. As is clearly stated in the report, major structural and financial problems still exist: the economy is fragile and vulnerable to external shocks, inflation is relatively high, and the internal and external imbalances still unsustainably large. The overhang of domestic arrears is still a problem; the financial position of most public enterprises is worrisome; a number of commercial and development banks have a large amount of non-performing loans creating severe liquidity problems; and Senegal's debt service obligations are large.

The paper before us proposes a very comprehensive program to address these problems and overcome these difficulties. Its basic objectives, which include attainment of a real growth rate high enough to improve real per capita income, further reduction of the inflation rate, and continued improvement of Senegal's balance of payments position, are well chosen, as are the means. These include continuing to promote private sector initiatives, encouraging the efficient utilization of resources through appropriate pricing and other incentive programs, the pursuit of greater efficiency in public resource management through better allocation and implementation of public investments, the reform of public enterprises, and strengthening of public finances, all of which we believe deserve special attention.

The priorities set for the public investment program seem very appropriate; the systematic review of public investments should be attractive to donor support. We see a need, however, to carefully manage the decentralization of project preparation and implementation to avoid the possible difficulties which are likely to result from a lack of qualified personnel.

In the agriculture sector, the measures for promoting domestic cereal production, the privatization of internal marketing and cereal imports, and the decontrol of the importation and marketing of agricultural imports are very much in line with the general objectives and strategies of the program. Domestic production needs to be expanded and diversified to increase exports and reduce reliance on imports. We therefore applaud the government's commitment to decrease its intervention by privatization and the elimination of subsidies. The abandonment of rigid pricing and trading arrangements will permit producer prices of cereals to be based on economic

factors, promoting efficient allocation and utilization of resources.

The development of local energy sources, restraining energy consumption by appropriate pricing policies, and expanding the revenue base and increasing tax yields, lower public enterprise subsidies, and the reform, privatization or liquidation of public enterprises are all crucial steps toward adjustment.

In the industrial sector, the measures aimed at improving competitiveness, promoting exports, and making enterprises more fully responsible for their business decisions, while at the same time reducing the cost to the government of industrial incentives, are also very much in line with the spirit of the program. In addition, eliminating the presently existing bias toward capital intensive projects might also help alleviate the unemployment problem, and we see the revision of the investment code as a welcome step in this direction.

Trade liberalization has traditionally appealed to this chair as a key element of any adjustment package, on which the success of programs greatly depends. In Senegal's case, however, we see some possible risk connected with a trade liberalization program, consisting of the removal of quantitative restrictions and the rationalization of the tariff structure. Such measures must be applied cautiously because in the case of Senegal it is not feasible to accompany them with adjustments in the nominal exchange rate. No doubt the real exchange rate has now adjusted moderately in the needed direction, and we all recognize the advantages associated with membership in the Franc Zone - advantages such as free access to reserves, cooperative credit margins, a continuous policy dialogue on the appropriateness of development strategies and the general benefits of exchange rate stability for investment decisions and for the avoidance of speculative movement. The situation in the French franc area is therefore recognized as more favorable in general than in other countries in similar circumstances. This membership in a zone of fixed exchange rates has, however, implications in terms of the choice of appropriate policy instruments.

Some ways of compensating for the limitations on the use of the exchange rate instrument do exist. During the liberalization and industrialization process, additional import duties might temporarily have to be levied, though this tends to reverse the liberalization process itself. One could also consider temporary export subsidies, though this places some additional burden on public expenditure. Care must therefore be taken to apply these options only on a temporary basis so as not to undermine the overall adjustment process. The Senegalese authorities have for more than a year been using measures aimed at compensating for the inflexibility of the nominal exchange rate. A very recent example is the "drawback" scheme, which refunds duties paid on imports if it can be shown that they have been used as inputs to export production. Another example, in longer use, is the widespread application of export

subsidies in the industrial sector. The method of calculating these industrial export subsidies was recently changed from an F.O.B. value to a value-added basis, a change which is expected to enhance the overall impact of the subsidies. The Bank looks more favorably than the Fund on these kinds of measures. If we can make sure, on the occasion of our periodic consultation with Senegal, that these measures are only to be applied during a transition period, it is my view that they could be accepted as the unavoidable corollary of Senegal's exchange system.

In sum, Mr. Chairman, we consider that the program outlined here deserves donor support. We hope the courageous efforts of the Senegalese authorities to implement the program will receive timely and adequate support from the donors and other concerned authorities, and of course, that they will be aided by favorable exogenous factors, both economic and climatic. Finally, I would like to thank the staff for their precise and careful answers to the technical questions we raised prior to the Board meetings, and to ask the Executive Director for Senegal to convey to the Minister of Finance, our former colleague Mamoudou Toure, all my best wishes for success.

Thank you, Mr. Chairman.