EBS/91/168

CONFIDENTIAL

September 30, 1991

To: Members of the Executive Board

From: The Acting Secretary

Subject: Senegal - Midterm Review Under the Third Annual Arrangement Under the Enhanced Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the midterm review under the third annual arrangement for Senegal under the enhanced structural adjustment facility, which will be brought to the agenda for discussion on a date to be announced. A draft decision appears on page 21.

Mr. Nsouli (ext. 6937), Mr. Barth (ext. 6945), or Mr. de Zamaróczy (ext. 6934) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

SENEGAL

Midterm Review Under the Third Annual Arrangement Under the Enhanced Structural Adjustment Facility

Prepared by the African Department

(In consultation with the Exchange and Trade Relations, Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by Evangelos A. Calamitsis and Anupam Basu

September 30, 1991

Contents | Page

Contents | Page

Contents | Page

Appendix VIII. Charts

Text Chart

I. Introduction

In the attached letter to the Managing Director, dated September 6, 1991 (Appendix II), concerning the midterm review under the third annual arrangement under the enhanced structural adjustment facility (ESAF) for Senegal, the Minister of Economy, Finance, and Planning reviews the progress made in the implementation of the 1991 program, and sets out the policies and measures to be implemented in the period ahead. 1/ The proposed definitive quarterly benchmarks through end-December 1991 are given in Appendix II, Table I. To continue to monitor developments in the immediate post-ESAF period, understandings were reached on quarterly financial targets through end-1992, as indicated in Appendix II, Table II.

The third annual ESAF arrangement was approved on June 3, 1991, and the disbursement of the first loan thereunder, in an amount of SDR 17.02 million (20.0 percent of quota), was effected on June 15, 1991. The second disbursement, in an amount of SDR 25.53 million (30.0 percent of quota), is subject to the observance of the end-June 1991 performance criteria and the completion of the midterm review. As of end-August 1991, Senegal's outstanding use of Fund resources amounted to SDR 218.9 million, equivalent to 257.3 percent of quota. Assuming that the remaining disbursement under the ESAF arrangement and all repurchases are effected as scheduled, total use of Fund resources at end-June 1992 will amount to 248.5 percent of quota (Appendix I, Table I). The World Bank has also been supporting Senegal's development strategy with various structural and sectoral loans, including the current fourth structural adjustment loan (SAL IV), as well as transportation, health, and financial sector loans (Appendix V).

1/ The discussions on the midterm review were initiated in Dakar during July 9-25, 1991, and concluded at headquarters during August 14-21, 1991. The Senegalese representatives included Mr. Habib Thiam, Prime Minister; Mr. Abdoulaye Wade, Minister of State (without portfolio); Mr. Famara Ibrahima Sagna, Minister of Economy, Finance, and Planning; Mr. Papa Ousmane Sakho, National Director of the Central Bank of West African States (BCEAO); and other senior officials concerned with economic policy issues. The mission was also received by His Excellency Mr. Abdou Diouf, President of Senegal. The staff representatives were Mr. Nsouli (head), Mr. Barth, Mr. de Zamaróczy (all AFR), Mr. Maret (FAD), and Ms. Linares (assistant-AFR). Mr. Franco, the Fund's resident representative in Dakar, assisted the mission. Mr. Rouis, of the World Bank, participated in some of the discussions at headquarters. Mr. Santos, Senegal's Executive Director in the Fund, also attended the meetings at headquarters.

II. Background

Senegal has made significant progress in its adjustment efforts since 1983 within the framework of successive Fund-supported programs (Chart 1, and Table 1), even though the economy suffered setbacks in 1988/89 (July/June) and 1989/90 owing to adverse exogenous factors and slippages in policy implementation (EBS/91/77). Accordingly, the third annual ESAF arrangement was approved only after the authorities had implemented a six-month financial program through end-December 1990, which allowed them to regain the momentum of adjustment and re-establish an appropriate record of policy implementation. The policies envisaged for 1990/91 were carried out in a broadly satisfactory manner, and the performance criteria and benchmarks under the arrangement through end-June 1991 have been met (Appendix II, Table I).

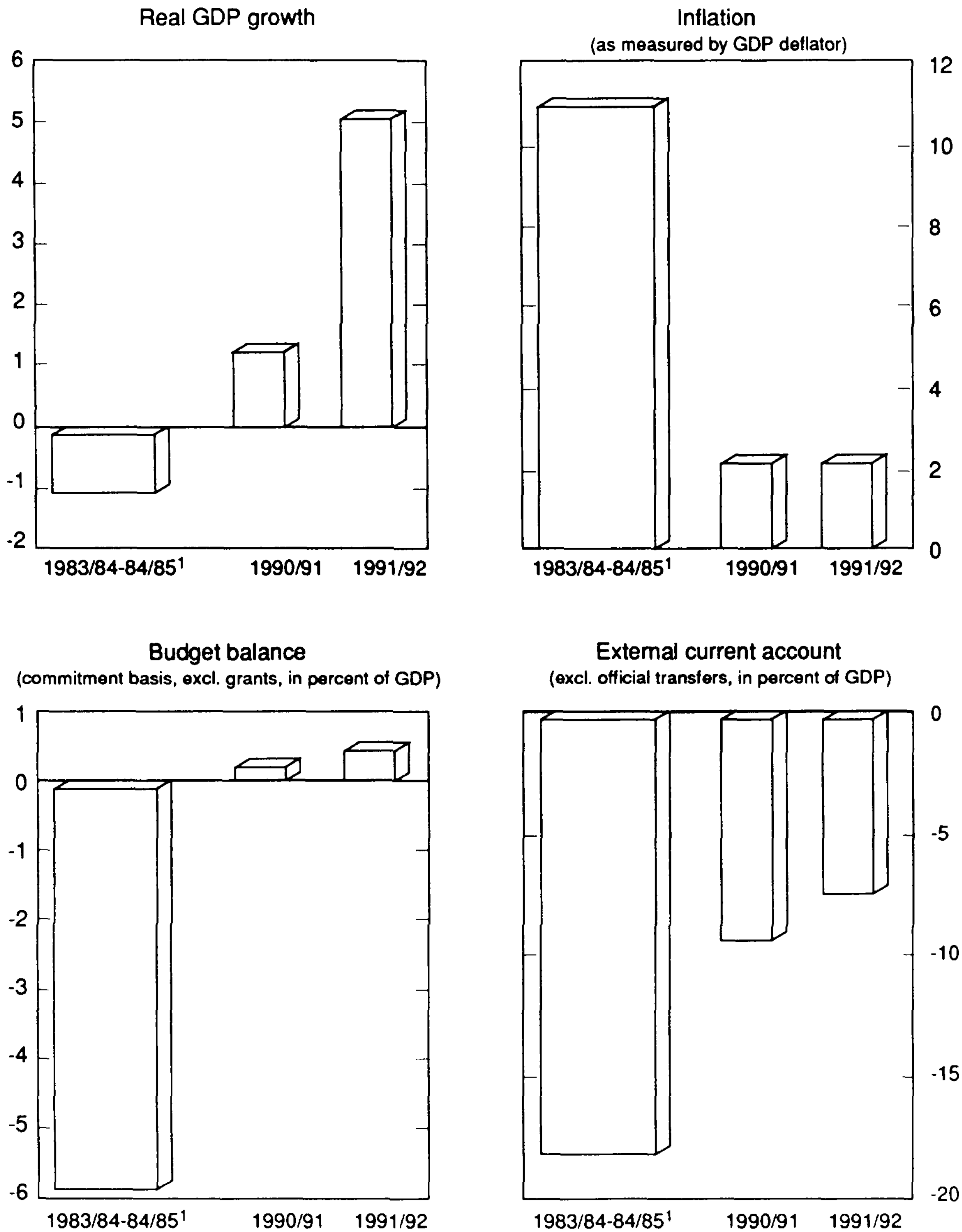
Overall, since the early 1980s, the combination of major structural reforms and prudent macroeconomic policies has succeeded in liberalizing and revitalizing the economy and reducing financial imbalances. Following the drought of 1983/84-1984/85, real GDP growth averaged some 3 percent annually during 1985/86-1990/91, in spite of poor weather in both 1988/89 and 1990/91. The rate of inflation, as measured by the GDP deflator, was reduced from 11 percent in 1983/84 to 2 percent in 1990/91. The budget, on a commitment basis and excluding grants, turned around from a deficit of nearly 6 percent of GDP in 1983/84 to a small surplus in 1990/91. At the same time, the external current account deficit, excluding official transfers, narrowed from 18 percent of GDP in 1983/84 to 9 percent in 1990/91. Furthermore, the debt service ratio, before debt relief, was reduced from some 30 percent in 1983/84 to about 24 percent in 1990/91.

III. Performance Under the 1990/91 Program 1/

Although the 1990/91 program objectives for growth and inflation were achieved, the target for the external current account was not realized (Table 2). Real GDP grew by an estimated 1.2 percent, virtually as programmed. Agricultural output, particularly in the groundnut sector, declined by more than envisaged owing to poor weather. However, this was offset by somewhat higher economic activity than projected in the secondary and tertiary sectors. The rate of inflation, as measured by the GDP deflator, was contained at 2.1 percent, remaining below the program target, primarily as a result of the restrained demand management policies pursued by the authorities.

1/ The program for the calendar year 1991 supported by the third annual ESAF arrangement straddles the two fiscal years, 1990/91 and 1991/92.

CHART 1
SENEGAL
ADJUSTMENT PERFORMANCE, 1983/84–1991/92



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

[1] Annual average over the two-year period.

Table 1. Senegal: Selected Economic and Financial Indicators, 1986/87-1991/92 1/

	1986/87	1987/88	1988/89	1989/90	1990/91		1991/92	
					Prog.	Est.	Prog.	Rev. Prog.
	(Annual changes in percent, unless otherwise indicated)							
National income and prices								
GDP at constant prices	4.2	4.4	-0.5	3.6	1.3	1.2	5.1	5.1
GDP deflator	5.0	2.5	2.3	1.8	2.4	2.1	2.3	2.1
Consumer prices 2/	0.2	-3.2	-1.3	1.7	...	-0.7	...	...
External sector								
Exports, f.o.b. (in SDRs)	-0.4	10.4	11.3	1.0	13.7	7.9	8.2	-0.9
Imports, f.o.b. (in SDRs)	-8.5	3.1	5.1	2.8	7.4	13.0	4.8	-8.1
Non-oil imports, f.o.b. (in SDRs)	-0.6	—	9.4	2.0	5.9	10.3	6.3	-6.4
Export volume	2.9	13.1	3.9	-7.3	7.9	2.0	7.6	-5.2
Import volume	0.2	-5.1	-2.0	2.2	7.0	10.4	0.8	-6.4
Terms of trade (deterioration -)	8.8	-10.9	0.1	8.5	6.5	3.3	-1.7	6.6
Nominal effective exchange rate (end of period; depreciation -)	4.6	2.2	3.6	11.2	...	0.2	...	...
Real effective exchange rate (end of period; depreciation -)	-2.0	-9.1	-2.7	0.2	...	-9.2	...	...
Government financial operations								
Revenue	14.8	0.2	-2.3	5.8	17.0	15.8	4.3	2.0
Total expenditure and net lending	7.4	0.8	5.9	6.8	-8.6	-8.9	-2.6	1.0
Of which: total current and capital expenditure	(6.6)	(5.8)	(0.9)	(1.7)	(-9.5)	(-6.0)	(4.7)	(4.4)
Money and credit								
Domestic credit 3/	10.7	9.2	0.1	-14.4	-6.8	-12.6	-10.5	-2.1
Credit to the Government (net)	0.6	1.8	-2.9	-4.6	-2.1	-5.2	-13.1	1.4
Credit to the economy								
Including crop credit	10.1	7.4	3.0	-9.8	-4.6	-7.4	2.6	-3.4
Excluding crop credit	0.9	1.9	15.0	-8.2	-1.3	-3.1	2.0	-3.4
Money and quasi-money (M2)	17.4	1.2	7.1	0.5	3.7	-1.6	4.3	5.0
Velocity (GDP relative to M2) 4/	3.9	4.1	3.9	4.1	4.1	4.3	4.3	4.4
Interest rates (end of period)								
Minimum rate on time deposits 5/	8.0	8.0	9.5	9.0	...	9.0	...	...
Money market rate for overnight deposits	8.0	7.5	9.0	10.8	...	10.8	...	...
	(In percent of GDP, unless otherwise indicated)							
Overall fiscal surplus or deficit (-)								
Commitment basis, excluding grants	-2.6	-2.6	-4.1	-4.3	0.1	0.2	1.3	0.4
Cash basis, excluding grants	-4.6	-5.2	-4.4	-3.2	-1.8	-1.7	-0.1	-1.0
Payments arrears of the Government and public agencies (annual change in billions of CFA francs)	-14.0	-14.0	—	21.5	-20.0	-20.0	-10.0	-10.0
Gross domestic investment	13.7	12.9	11.9	12.1	12.9	13.1	12.3	13.0
Gross domestic savings	6.9	7.1	6.6	7.4	9.2	9.4	10.1	10.1
External current account deficit (-)								
Excluding official transfers	-11.3	-10.2	-9.6	-8.8	-7.2	-9.2	-6.2	-7.3
Including official transfers	-6.1	-5.3	-4.6	-3.7	-1.9	-3.6	-1.3	-2.3
External debt 6/	74.0	76.7	80.5	53.3	76.5	53.1	69.7	50.6
Debt service ratio (in percent of exports of goods and services, and private receipts) 7/	29.7	31.2	31.1	28.7	24.7	23.7	22.4	24.5
GDP at current market prices (in billions of CFA francs)	1,338.3	1,433.1	1,460.6	1,539.4	1,596.1	1,591.2	1,716.4	1,706.9
Overall balance of payments surplus or deficit (-) (in millions of SDRs) 8/	86.4	-27.4	46.9	83.0	56.7	-46.3	157.1	65.8
Gross official foreign reserves (in weeks of imports)	0.4	0.4	0.4	0.4	...	0.4	...	...

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

1/ Fiscal year ending June 30.
2/ Index of consumer prices in Dakar for the average Senegalese family.
3/ Annual percentage change over beginning-of-period money stock.
4/ GDP relative to end-June broad money stock.
5/ Minimum rate on time deposits in excess of one year and in amounts of more than CFAF 2 million; the actual rates generally follow the money market quotations closely.
6/ Public and publicly guaranteed debt, including Fund credit and central bank liabilities; stock of outstanding debt reduced starting in 1989/90 to reflect the impact of debt cancellation, except for 1990/91 and 1991/92 programs.
7/ Before debt rescheduling, but after debt cancellation.
8/ After debt rescheduling (secured and requested), and debt cancellation.

Table 2. Senegal: Implementation of the Adjustment Program, 1990/91

Key Objectives	Status
1. Real GDP growth: 1.3 percent	1.2 percent
2. Inflation (as measured by the GDP deflator): 2.4 percent	2.1 percent
3. External current account deficit (excl. official transfers): 7.2 percent of GDP	9.2 percent
Key Policy Measures	
A. Industrial sector policy	
1. Prepare revised Labor Code (June 1991)	Implemented
2. Reduce taxation of energy sector (1990/91)	Implemented
3. Adopt mechanism for adjustment of domestic petroleum prices in line with world price developments (May 1991)	Implemented
4. Streamline operations of one-stop window for the establishment of new enterprises (1990/91)	Implemented
B. Public enterprise reform	
1. Privatize 30 public enterprises (September 1991)	16 by end-June 1991
2. Liquidate 10 public enterprises (September 1991)	6 by end-June 1991
3. Sign 15 performance contracts and/or restructuring/rehabilitation plans (December 1991)	12 by end-June 1991
4. Settle public sector cross-debts based on three-year timetable (1990/91)	Ongoing
5. Reduce operating subsidies to CFAF 8.1 billion (1990/91)	Implemented
C. Agricultural sector reform	
1. Implement recommendations of the audit of SONACOS (1990/91)	Implemented
2. Liberalize prices of high quality rice (1990/91)	Implemented
3. Formulate plan of action to develop the fishing sector (June 1991)	Implemented
D. Public investment	
1. Implement the first year of the three-year public investment program (1990/91)	Implemented
2. Adopt 1991/92-94 public investment program (June 1991)	Implemented
3. Strengthen project identification, appraisal, and monitoring (1990/91)	Ongoing
E. Public finance	
Achieve budget surplus, on a commitment basis and excluding grants, of CFAF 2.2 billion (0.1 percent of GDP)	CFAF 3.9 billion (0.2 percent)
1. Revenue Target: CFAF 300.2 billion	CFAF 300.9 billion
a. Tax revenue Target: CFAF 250.6 billion (Table 3)	CFAF 241.4 billion
b. Nontax revenue Target: CFAF 49.6 billion (Table 3)	CFAF 59.5 billion
2. Total expenditure and net lending Target: CFAF 298.0 billion	CFAF 297.0 billion
a. Limit wage bill to CFAF 125.0 billion (1990/91)	CFAF 129.5 billion
b. Contain nonwage, noninterest current expenditure at CFAF 63.0 billion (1990/91)	CFAF 64.5 billion
c. Contain capital expenditure at CFAF 38.0 billion (1990/91)	CFAF 44.5 billion
d. Increase contribution rates of employees to the IPRES and FNR (April 1991)	Implemented
e. Spend CFAF 15.0 billion on voluntary departures program (1990/91)	CFAF 8.8 billion
f. Spend CFAF 8.1 billion on banking sector reform (1990/91)	CFAF 0.7 billion
3. Arrears monitoring and expenditure control	
a. Reduce outstanding stock of payments arrears by CFAF 20.0 billion (1990/91)	CFAF 20.0 billion
b. Reduce outstanding stock of crop credit by CFAF 10.6 billion (1990/91)	CFAF 11.6 billion
c. Integrate the relevant special accounts of the Treasury and the accounts of the CPSP into the regular budgetary and expenditure control processes (June 1991)	Implemented
d. Integrate the Central Government's investment program into the regular budgetary and expenditure control processes starting in 1991/92 (June 1991)	Implemented
F. Money and credit	
1. Limit the growth of money and quasi-money to 3.7 percent (1990/91)	Declined by 1.6 percent
2. Reduce net bank claims on the Government by 2.1 percent of beginning money stock (1990/91)	5.2 percent
3. Reduce credit to the economy by 4.6 percent of beginning money stock (1990/91)	7.4 percent
4. Maintain high real interest rates (1990/91)	Implemented
5. Continue reform of the banking system (1990/91)	Ongoing
6. Pursue reform of monetary policy instruments (1990/91)	Ongoing
G. External debt	
1. No contracting or guaranteeing of any new external loans on nonconcessional terms, except up to a limit of SDR 24.0 million for loans with 1 to 12 years of maturity (1990/91)	Implemented
2. Eliminate all external payments arrears (end-March 1991)	Implemented
3. Incur no new external payments arrears (1990/91)	Implemented

Sources: Information provided by the Senegalese authorities; and Appendix II.

The external current account deficit, excluding gross official transfers, widened to 9.2 percent of GDP, compared with a program target of 7.2 percent, reflecting a marked rise in the trade deficit. Imports were significantly higher than envisaged, owing mainly to a larger-than-anticipated volume of food imports; imports related to the construction of a complex for the forthcoming meeting of the Islamic Conference; and higher-than-projected unit prices for petroleum imports. In addition, exports suffered from a sharper-than-projected drop in the volume of groundnut exports, resulting from the poor harvest; a slower-than-programmed rise in fish exports, because of increased competition from Southeast Asia; and the continuing marketing difficulties for phosphate exports, owing to the presence of cadmium in Senegal's phosphate products. The capital account registered a smaller-than-projected surplus, on account of a shortfall in external financial assistance and a reduction in the external liabilities of the banking system to the countries financing the construction of the Islamic Conference Center. Thus, the overall balance of payments, after debt relief, recorded a deficit instead of the targeted surplus. Senegal benefited from debt rescheduling on concessional terms under the auspices of the Paris Club, broadly in line with program projections (Appendix VII), as well as from debt relief on its commercial debt service obligations in the context of a rescheduling agreement with the London Club.

The budgetary position, on a commitment basis and excluding grants, turned around, as envisaged, from a deficit of 4.3 percent of GDP in 1989/90 to a surplus of 0.2 percent of GDP in 1990/91, reflecting an increase in revenue of 15.8 percent and a reduction in total expenditure and net lending of 8.9 percent. All external payments arrears were eliminated; domestic arrears were sharply reduced; and reclassified crop credit was repaid by more than envisaged. However, net external financing, inclusive of the coverage of the financing gap, was lower than projected, because of a shortfall in disbursements for the reform program of the banking system. This shortfall was compensated by a smaller-than-programmed reduction in net domestic financing, reflecting domestic nonbank borrowing from three public enterprises, which contracted short-term external loans not guaranteed by the Government.

Although total revenue slightly exceeded the program target, its structure was different from that envisaged; a shortfall of 0.5 percent of GDP in tax revenue was counterbalanced by higher nontax revenue. Nonetheless, tax revenue increased substantially, rising by 10.2 percent compared with a growth of nominal GDP of 3.4 percent, mainly as a result of specific tax measures and some improvements in tax administration (Table 3). The shortfall in tax revenue stemmed from taxes on international trade. The improvement in customs administration, including valuation procedures, did not yield the expected results, partly because of the lack of sufficient resources and the delays in taking the requisite actions. Nontax revenue, by contrast, substantially exceeded the target, reflecting mainly higher-than-projected payments to the amortization fund from public enterprises on

Table 3. Senegal: Estimates of Factors Affecting Revenue Changes, 1990/91 1/

	(In billions of CFA francs)	
	Prog.	Est.
Change in total revenue	43.6	44.3
I. Change in tax revenue	33.8	24.6
1. Attributable to measures taken in the first half of 1990/91	39.2	31.8
(1) Introduction of an ad valorem customs fee of 3 percent (August 1, 1990)	10.0	8.0
(2) Reduction in customs and tax exemptions (August 1, 1990)	0.5	—
(3) Collection of deferred customs payments (1990/91)	5.0	6.5
(4) Improvement in customs valuation and procedures (July 1, 1990)	8.0)	2.0
(5) Extension of scope of minimum assessed value for imports (July 1, 1990)	1.0)	
(6) Increase in excise taxes on tobacco products, coffee, tea, alcoholic beverages, and soft drinks (August 1, 1990)	1.5	1.4
(7) Extension of value-added tax to trade and services (July 1, 1990)	2.0	1.0
(8) Recovery of tax arrears, reduction in deferred payments, and improvements in administration related to taxation of goods and services	5.7	8.3
(9) Increase in personal income tax rates of 5 percentage points (October 1, 1990) 2/	0.6	0.6
(10) Recovery of tax arrears and improvements in administration related to income taxation (1990/91)	4.6	4.0
(11) Increase in rates and coverage of stamp taxes and fees (August 1, 1990)	1.5	0.6
(12) Introduction of airport departure tax (August 1, 1990)	1.0	0.6
(13) Reduction of VAT rates (July 1, 1990)	-2.2	-1.2
2. Attributable to measures taken in the second half of 1990/91	6.9	3.2
(1) Introduction of a levy on sugar (March 1, 1991)	2.5	2.8 3/
(2) Institution of a transaction fee of 2 percent on the sale of new motor vehicles and 5 percent on used motor vehicles (March 1, 1991)	0.5	0.2
(3) Decision to transfer levy on vegetable oil to the budget (March 1, 1991)	1.3	— 4/
(4) Strengthen verification of customs and tax payments of businesses in the informal sector (1990/91)	2.0	—
(5) Introduction of a minimum presumptive tax based on business license fees (March 1, 1991)	0.4	—
(6) Increase in passport fees (March 1, 1991)	0.2	0.2
3. Other	-12.3	-10.4
(1) Adjustment to base 5/	-12.3	-12.3
(2) Other	—	1.9
II. Change in nontax revenue	9.8	19.7
1. Collection of fishing license fees	10.6	10.6
2. Change in system of taxation of petroleum products	-4.0	-4.0
3. Other 6/	3.2	13.1

Sources: Data provided by the Senegalese authorities; and staff estimates.

1/ The estimates of the impact of the various measures, particularly the administrative measures, are subject to a considerable margin of error.

2/ Measure introduced on October 1, 1990 and suspended on December 1, 1990, owing to strong political resistance.

3/ The envisaged levy was replaced by income tax revenue on the distribution of dividends by the sugar company (CSS).

4/ Reclassified in nontax revenue.

5/ Includes the effects of the change in the system of taxation of petroleum products, and adjustments for nonrecurrent tax receipts.

6/ The overshooting of CFAF 9.9 billion results from higher revenue of the amortization fund (CFAF 1.5 billion), larger receipts from the petroleum sector (CFAF 2.2 billion), higher privatization and dividends receipts (CFAF 2.3 billion), the transfer of the levy on vegetable oil to the budget (CFAF 1.0 billion), and miscellaneous revenue (CFAF 2.9 billion).

government guaranteed debt service, larger revenue from the petroleum sector, and higher receipts from the privatization and dividends of public enterprises.

While total expenditure and net lending was on target, the structure of expenditure was also different from that envisaged. Slippages in a number of expenditure categories were offset by lower expenditure on the voluntary departures program and the reform of the banking system. In 1990/91 there was an overrun in the wage bill as a result of a slower-than-programmed implementation of the voluntary departures program, coupled with more recruitment, including the regularization of many pending civil service cases. As recruitment fully offset the 2,043 departures, the size of the civil service remained unchanged, compared with a programmed net reduction of 1,274 civil servants (about 2 percent of the total). Although nonwage noninterest current outlays declined by more than 25 percent relative to 1989/90, reflecting cuts in lower priority expenditure, they overshot the target on account of the participation of Senegalese troops in the recent Middle East war and the reorganization of the Government. The surplus of the Treasury's correspondent accounts was lower than programmed, because of the deficit of the Social Security Fund (IPRES). The contribution rates for both the IPRES and the National Retirement Fund (FNR) were raised in April 1991. Capital expenditure also overshot its target, mainly because of an increase in requirements for the domestic counterpart of externally financed projects.

In 1990/91 the authorities continued to pursue a restrained monetary policy, while maintaining high real interest rates. Domestic credit contracted by more than programmed, as a result of larger reductions in both net bank credit to the Government and credit to the economy. The greater improvement in the Government's net position vis-à-vis the banking system reflected not only a reduction in liabilities, stemming from a debt cancellation from France, but also the higher domestic nonbank borrowing of the Government. Credit to the economy declined by more than had been foreseen because of the smaller-than-envisaged financing needs of the private sector, owing mainly to the poor crop season and the sizable repayment by the Government of domestic arrears. Other items (net) contracted significantly, because of the provisioning of nonperforming loans and the valuation adjustment of Senegal's position in the Fund's accounts. As both net domestic and net foreign assets were below the program targets, domestic liquidity declined by 1.6 percent, in contrast to the programmed increase of 3.7 percent. The ongoing reform of the banking system proceeded well, notwithstanding the delays in the receipt of associated external financial assistance. The new recovery institution (SNR), which took over the nonperforming loans of the liquidated banks, became fully operational in June 1991.

The Government made substantial progress during the year in the implementation of policies to promote the private sector. With regard to energy policy, the Government adopted a mechanism providing for the quarterly adjustment of domestic petroleum prices in line with the movements in prices of petroleum products in world markets. To further liberalize the regulatory environment and promote private sector investment, the operations of the one-stop window were streamlined to speed up the approval of private investment applications; a law was enacted authorizing "free points," by which the tax advantages conferred on enterprises located in the Dakar Free Industrial Zone can be extended to export-oriented enterprises located outside the Zone; and the Center for the Support of the Environment for Enterprises was established with a mandate to encourage the private sector. With respect to the labor market, a revised draft of the Labor Code was completed by end-June 1991 providing for increased flexibility to employers in recruitment and termination procedures and for decentralizing the wage bargaining process. In addition, the minimum guaranteed industrial wage (SMIG) was kept unchanged.

The authorities accelerated the implementation of the reform program for the public enterprise sector by speeding up the divestiture process for targeted enterprises and by identifying additional enterprises to be privatized or liquidated. By end-June 1991, of the total 40 targeted enterprises, 16 had been privatized and 6 liquidated, and the privatization process was well advanced for several other enterprises. Moreover, eight additional firms had been identified to be privatized or liquidated. With respect to the financial relations between the Government and those enterprises remaining in the public domain, 12 performance contracts had been signed by end-June. Progress was also made in settling cross-debts between the Government and a number of public enterprises, and in reducing the level of operating subsidies to public enterprises.

In the agricultural sector, a number of measures were taken to enhance efficiency and promote the sector's long-term development. In the cereals sector, price controls and import restrictions on higher quality rice were removed and transport subsidies for rice were eliminated. The restructuring of the Senegal River Valley Development Agency (SAED) was pursued in the context of a performance contract. In the groundnut sector, the groundnut oil processing company (SONACOS) began implementing the recommendations of a technical and financial audit aimed at increasing its operational efficiency. Regarding the fishing sector, a comprehensive plan of action was formulated in June 1991, with the objective of enhancing the sector's competitiveness and increasing value added, while avoiding the overexploitation of Senegal's marine resources. As to the agricultural credit system, the Government transferred its shares in the rural credit bank (CNCAS) to the regional development bank (BOAD), to be held in trust pending their sale to the private sector.

IV. The 1991/92 Program 1/

In light of developments in 1990/91, the authorities recognized the need to reinforce their adjustment policies in 1991/92 in order to achieve the medium-term objectives set out in the policy framework paper for 1990/91-1992/93. The medium-term strategy continues to focus on reducing government absorption and promoting the private sector. Thus, particular emphasis is being placed on (1) strengthening the underlying structure of the budget, through measures designed to bring about a durable improvement in tax revenue and to reduce the share of the wage bill, and (2) concurrently improving production incentives, notably through a further liberalization of the labor market and a reduction of energy costs (Table 4).

1. Objectives

The policies being pursued by the authorities are expected to contribute to the achievement of real GDP growth of 5.1 percent in 1991/92, as the return of normal weather is expected to result in a 20.5 percent increase in agricultural output; this will have spillover effects on the secondary and tertiary sectors, which are projected to grow by 4.5 percent and 6.0 percent, respectively. The rate of inflation, as measured by the GDP deflator, is to be held to 2.1 percent, reflecting the improved harvest and the continued restrained demand management policies. The external sector position is projected to improve, with the external current account deficit, excluding gross official transfers, declining from 9.2 percent of GDP in 1990/91 to 7.3 percent in 1991/92, but remaining higher than the original target of 6.2 percent. The improvement reflects essentially a decline in imports (in CFA francs) to the level previously projected, as food and intermediate goods imports will fall considerably, given the improved weather and the completion of the construction of the complex for the Islamic Conference. Export receipts (in CFA francs) are projected to grow in 1991/92, in view notably of a rise in fish and phosphate export prices; however, the overall level of export receipts has been revised downward relative to earlier projections, partly as a result of a forecast drop of 12 percent in the export price for groundnut oil and a lower-than-envisaged export volume for groundnut products stemming from the impact of the poor 1990/91 harvest. As the capital account surplus is now projected to be smaller than initially

---

1/ In the context of the ongoing harmonization of the accounting framework in the West African Monetary Union (WAMU), the budget for 1991/92 covers 18 months through end-December 1992, in order to shift the fiscal year to a calendar-year basis. However, in order to maintain comparability with the program, as presented in EBS/91/77, the budgetary, monetary, balance of payments, and national accounts data are presented on the basis of the 12-month period through end-June 1992.

Table 4. Senegal: Key Program Policies, 1991/92

I. <u>Public resource management</u>

1. Revenue measures

   a. Restructuring of the tax and customs administrations (1991/92).
   b. Strengthening of import valuation assessment procedures (1991/92).
   c. Reimposition of levy on the sugar sector (September 1991).
   d. Introduction of an "equalization" tax for small businesses (September 1991).

2. Expenditure measures

   a. Reduction of the government wage bill through the voluntary departures program, limiting hiring, downsizing staff of Senegalese embassies, and not granting cost of living adjustments (1991/92).
   b. Increase in budgetary allocations for maintenance, social services, and capital outlays, while maintaining an austerity policy for lower priority expenditure and reducing subsidies and transfers (1991/92).

3. Completion of the reform program of the public enterprise sector (September 1991).

II. <u>Private sector promotion</u>

1. Reduction of prices of petroleum products in line with the evolution of import prices (July 1991).

2. Reduction of electricity tariffs, reflecting savings from adjustment in fuel prices (July 1991).

3. Submission of revised Labor Code to National Assembly (September 1991).

4. Convening of a meeting of creditors and donors to mobilize resources in support of the plan of action for the fishing sector (December 1991).

5. Completion of banking sector reform (December 1991).

6. Pursuit of agricultural sector reforms, particularly with respect to the groundnut and cereals sectors (1991/92).

Sources: Information provided by the Senegalese authorities; and Appendix II.

programmed, the overall balance of payments, after debt rescheduling, is projected to register a lower surplus than originally forecast

2. Macroeconomic policies

The authorities are taking a number of revenue-generating and expenditure-containing measures to bring about an improvement in the underlying structure of the budget in 1991/92, with a view to making progress toward the medium-term fiscal targets. Senegal's 18-month budget, covering the period July 1, 1991-December 31, 1992, includes measures aimed at achieving a surplus, on a commitment basis and excluding grants, of 0.2 percent of GDP during the 18-month period. However, for the 12-month period ending June 30, 1992, the overall budget surplus, on a commitment basis and excluding grants, is programmed to increase from 0.2 percent of GDP in 1990/91 to 0.4 percent in 1991/92; it would remain 0.9 percent of GDP lower than originally envisaged, owing to a downward revision in revenue of 0.2 percent of GDP and an upward adjustment in expenditure of 0.7 percent of GDP. All remaining verified payments arrears are to be eliminated and reclassified crop credit is to be reduced further. The total external financing of the budget, excluding project-related financing and including use of Fund resources, is now projected at CFAF 68.1 billion instead of the original CFAF 80.6 billion, reflecting primarily the exclusion in the revised projections for 1991/92 of the third tranche disbursement under the SAL IV. Mainly because of this change, as well as the repayment of the aforementioned borrowing in 1990/91 from public enterprises, net bank credit to the Government is now anticipated to rise moderately in 1991/92, compared with an originally programmed reduction.

Total revenue is projected to increase by 2.0 percent in 1991/92, as the expansion in tax revenue is expected to offset a sharp drop in nontax revenue. Although the revenue target for 1991/92 has been revised downward by 2.0 percent, the program provides for a higher increase in tax revenue in 1991/92 (8.6 percent) than originally envisaged (6.8 percent), in order to reverse part of the slippage in 1990/91. As wide-ranging measures were taken at various points in 1990/91, tax revenue in 1991/92 is expected to benefit from the full-year effect of these measures (Table 5). In addition, as the problems encountered in 1990/91 were related mainly to administration, the Government is taking concrete steps to strengthen the customs and tax administrations. With regard to customs, it is appointing a reputable surveillance company to reinforce import valuation assessment, so as to curtail underinvoicing; initiating administrative reforms supported by technical assistance from France and from the Fund; allocating increased resources to improve surveillance of the borders; and intensifying verification of customs payments to reduce evasion. The steps taken in 1990/91 to audit bonded customs warehouses are also expected to help reduce evasion in 1991/92. With regard to domestic taxation, a detailed plan of action to restructure the tax administration is to be

Table 5. Senegal: Factors Affecting Revenue Changes, 1991/92

	(In billions of CFA francs)
Change in total revenue	6.1
I. Change in tax revenue	20.7
1. Full-year impact of 1990/91 measures	6.6
(1) Minimum presumptive tax based on business license fees	0.2
(2) Transaction fee on motor vehicles	0.4
(3) Extension of value-added tax to trade and services	3.0
(4) Ad valorem customs fee of 3 percent	2.0
(5) Extended scope of minimum assessed value for imports	0.5
(6) Airport departure tax	0.5
2. Other revenue factors	29.0
(1) Levy on the sugar sector	3.0
(2) Inheritance tax 1/	7.0
(3) Equalization tax for small traders	1.0
(4) Collection of arrears on income taxes	3.0
(5) Collection of arrears and deferred payments on taxes on goods and services	3.6
(6) Collection of deferred international trade taxes	3.0
(7) Regional cooperation tax (CEAO)	2.0
(8) Restructuring of customs, with bilateral and multilateral technical assistance, including improvement in valuation procedures, streamlining of administrative procedures, stepping up of verification of customs payments, and reinforcement of border surveillance	6.4
3. Adjustments to the 1990/91 base	-22.1
(1) Levy on the sugar sector	-2.8
(2) Collection of arrears on income taxes	-2.1
(3) Collection of arrears and deferred payments on taxes on goods and services	-7.9
(4) Collection of deferred international trade taxes	-6.5
(5) Regional cooperation tax (CEAO)	-1.8
(6) Other	-1.0
4. Elasticity (0.4)	7.2
II. Change in nontax revenue	-14.6
1. Revenue sources	7.3
(1) Proceeds from the privatization of enterprises	4.0
(2) Stabilization revenue on imports of sugar	1.5
(3) Transfer of levy on vegetable oil to the budget	1.3
(4) Other	0.5
2. Adjustments to the 1990/91 base	-21.9
(1) Proceeds from the privatization of enterprises	-4.3
(2) Transfer of levy on vegetable oil to the budget	-1.5
(3) Stabilization revenue on imports of sugar	-1.0
(4) Fishing license fees	-10.6
(5) Receipts of the amortization fund (CAA)	-2.7
(6) United Nations contribution (UNIFIL)	-1.8

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

1/ Based on the settlement of two large bequests.

implemented with French technical assistance. Steps will also be taken to widen the tax net. These include notably the introduction of an equalization tax, collected at the level of the producers and importers, to replace the value-added tax on the turnover of small traders. Furthermore, a levy will be reimposed on the sugar sector. Tax revenue is also expected to benefit from the collection of tax arrears and of deferred customs and tax payments, as well as from substantial inheritance taxes. The decline in nontax revenue reflects the fact that the fees for the licensing of fishing rights to the European Community (EC) are paid only on a biannual basis. Revenue is being monitored on the basis of monthly targets, so that corrective measures can be promptly implemented in case of emerging shortfalls.

The increase in total expenditure and net lending will be held to only 1.0 percent in 1991/92. The level of total spending is nonetheless higher than originally envisaged, primarily because of upward revisions in capital expenditure and outlays on the banking sector reform. Current expenditure, excluding interest payments, will be reduced through cuts in the wage bill and lower-priority expenditure, which will allow for increases in budgetary allocations for maintenance and social programs, including education and health. The wage bill will be reduced by 3.5 percent, mainly through a net retrenchment of 1,000 civil servants; a significant downsizing of the personnel of Senegalese embassies; and strict limits on overtime and other variable components of the wage bill. In addition, no cost of living adjustments will be granted. The combined balance of the special and correspondent accounts will shift from a deficit to a surplus, because of the integration of 12 special accounts into the other accounts of the budget, as well as the full-year effect of the increase in the contribution rates to the IPRES and the FNR. Capital expenditure will rise sharply, reflecting the consolidation of the expenditure of 6 of the 12 special accounts under this heading and the provision of higher allocations for domestically financed investment outlays. Expenditure on the reform of the banking system, which exceeds the initial projections, reflects the expected receipt of the delayed external financing, while expenditure on the voluntary departures program relates to the payment of the remaining indemnities to those who left the civil service on July 1, 1991.

The restrained fiscal policy is to be reinforced with a conservative monetary policy stance, partly through the continuation of a high real interest rate policy. Domestic credit is projected to decline by 2.1 percent of beginning money stock in 1991/92. Net bank credit to the Government is expected to rise moderately, while credit to the economy is anticipated to decline. The decline is mainly due to the repayment by the Government of reclassified crop credit and the stricter provisions of the BCEAO for the extension of crop financing; other ordinary credit is projected to increase modestly. The envisaged credit policy takes into account the fact that private sector liquidity has improved considerably, as a result of the restoration of liquidity to bank deposits and the repayment of sizable government domestic payments arrears. In view of the balance of payments objective, the increase in money and quasi-money is expected to be held to 5.0 percent, somewhat below the projected growth of nominal GDP.

To strengthen the conduct of monetary policy, the monetary authorities are introducing major changes in the qualitative and quantitative instruments of credit control, in the context of the reform of monetary policy instruments in the WAMU. Accordingly, they plan to implement a creditworthiness rating system for improving the basis for loan decisions to enterprises, and to put in place reserve requirements. Bank supervision is also being reinforced through the work of the supranational Banking Supervision Commission, which has recently completed auditing all commercial banks in Senegal. The BCEAO closed all branches of the Bank of Credit and Commerce International (BCCI) in the WAMU on July 8, 1991, in the wake of similar decisions in a number of countries, and appointed a temporary administrator. The reform of the banking system will be pursued, with priority being accorded to the recovery of nonperforming loans by the SNR, which has been granted exceptional legal powers, and is expected to benefit from technical assistance. Furthermore, the Government will continue its efforts to reduce its equity participation in banks to no more than 25 percent.

3. Structural policies

The authorities are continuing to implement structural policies designed to promote the growth of the private sector. Industrial policy is placing particular emphasis on increasing competitiveness, and agricultural policy, on expanding and diversifying agricultural production.

The key elements of industrial policy involve the liberalization of the labor market; the reduction in relative energy prices to industrial users; and the narrowing of the scope of the public enterprise sector. With respect to labor market reform, the revised draft of the Labor Code gives employers greater flexibility in hiring based on fixed-term contracts; eliminates the requirement for prior authorization from the Government to lay off workers; breaks the link between the minimum industrial wage (SMIG) and occupation-specific salary scales; and authorizes employers and employees to conduct wage negotiations at the enterprise level. The revised code has been discussed extensively with the labor unions and the employers' association; it is scheduled to be submitted to the National Assembly by end-September 1991. The Government plans to hold the SMIG unchanged for the next two years. In the area of energy pricing, the Government has started adjusting the prices for petroleum products in line with the evolution of international prices, while safeguarding the reduced revenue target from the sector of CFAF 57.0 billion (equivalent to 19 percent of the estimated total government revenue in 1991/92), based on the mechanism adopted in the first part of 1991. Thus, in mid-July, the prices of various domestic petroleum products were lowered by 4.5-25.0 percent, with the larger reductions applying to petroleum products for industrial users and the smaller reductions applying to gasoline. The resulting savings to the electricity company were reflected in reduced tariffs. The Government is also reviewing the fixed handling fee of the petroleum refinery, taking into account efficiency and profitability considerations, and plans to adjust the distribution and retail margins for petroleum products.

With regard to public enterprises, of the remaining 18 enterprises under the program supported by the SAL IV, the privatization process is well under way for 6, discussions are being held with prospective purchasers for 5 others, and steps are being taken to liquidate 7 with the aim of completing the process by end-September 1991. Financial restructuring or rehabilitation plans are also expected to be signed with the remaining three enterprises by end-December 1991. The subsidies to the public enterprise sector will be reduced further, and public sector cross-debts will continue to be settled on the basis of the timetable under the SAL IV.

The Government has significantly liberalized the agricultural sector in recent years, and plans to pursue key reforms in the context of an agricultural sector adjustment loan. To finalize these reforms, it is currently reviewing specific proposals made by the World Bank and its cofinanciers. In the cereals sector, the authorities are reassessing the protection system for cereals. In particular, the pricing for imported rice, the mechanism for managing the importation of lower quality rice, and the role of the SAED in the production, marketing, and transport of domestic rice are being reviewed. In the groundnut sector, the Government has decided to link the remuneration to producers to the evolution of international prices; it plans to pay a premium over the floor price to producers only if the actual export price permits it. Furthermore, it intends to privatize the groundnut oil processing company (SONACOS); however, given the importance of the company, it is examining the modalities for achieving the privatization without disrupting the activities of the company. As to the cotton sector, the Government plans to restructure the cotton development agency (SODEFITEX) to improve its productivity. Other prospective reforms include the extension of the rural credit system, a revision of the Forestry Code, the establishment of a community-based land management system, and the protection of the environment through steps to control the depletion of soil fertility and forest cover. The agricultural sector is also expected to benefit from the support being provided by the public investment program. Regarding the fishing sector, the elaborated plan of action is expected to lay the ground for a meeting of creditors and donors to mobilize resources in support of the plan's objective to enhance the conditions for industrial fishing activities. The plan foresees the improvement of financial facilities for the sector, a substantial upgrading of the sanitary conditions for fish exports, intensified marketing efforts, and better management of fish resources.

The authorities expressed the view that the Senegalese economy continues to benefit from the existing exchange system. The peg of the nominal exchange rate to the French franc, the currency of a country with a low rate of inflation, has contributed to domestic price stability. This, coupled with the convertibility of the CFA franc and the freedom from restrictions on payments and transfers, is viewed as essential to fostering the growth of the private sector and attracting foreign investment. Since about 75 percent of Senegal's trade is with members of the European Monetary System and other WAMU countries, Senegal's nominal effective exchange rate index remained virtually unchanged between June 1990 and June 1991 (Appendix VIII, Chart 4). However, the efficiency gains resulting from the structural policies implemented, combined with the restrained financial policies pursued, have enabled Senegal to maintain a rate of inflation well below those of its trading partners and competitors. Accordingly, the real effective exchange rate index declined by 9.2 percent over the same period. The authorities intend to continue to support the exchange system with appropriate structural and financial policies, including a restrained incomes policy, in order to achieve further gains in productivity and to keep inflation under control.

4. Medium-term balance of payments outlook and capacity to repay the Fund

The updated baseline scenario for the balance of payments for 1991/92-1994/95 (described in detail in Appendix III) shows that the external current account deficit, excluding gross official transfers, is projected to narrow from 9.2 percent of GDP in 1990/91 to 7.3 percent in 1991/92, and further to 4.7 percent in 1994/95, about 1 percentage point above the previous baseline scenario (EBS/91/77). Nonetheless, while the surplus in the balance of payments is projected to be lower, the external sector position is still projected to reach viability by 1992/93.

The revision in the external current account deficit reflects mainly the downward revision of export receipts (in CFA francs) in light of the lower base for 1990/91, the unfavorable prospects for groundnut oil export prices, and the marketing difficulties relating to the presence of cadmium in Senegal's phosphate products. Notwithstanding these adverse developments, export receipts are still anticipated to grow appreciably over the medium term, albeit from a lower base, as a result of the favorable prospects for fish and phosphate prices, the recovery in groundnut production, the continued expansion of the fishing sector, and the envisaged steps to reduce the cadmium content of phosphate products. Import payments (in CFA francs) are expected to drop in 1991/92 to the previously forecast level, mainly as a result of the completion of the construction of the complex for the Islamic Conference and the decline in food imports. Import payments for subsequent years have been revised upward, primarily to take into account the projected higher import prices for petroleum products. The services account is now anticipated to narrow somewhat more slowly, reflecting essentially the expected rise in interest payments owing to the strengthening of the exchange rate of key currencies vis-à-vis the

CFA franc. The overall balance of payments, before debt rescheduling, is projected to post a deficit of CFAF 3.3 billion (0.2 percent of GDP) in 1991/92; including already secured debt rescheduling, the overall balance would record a surplus of CFAF 25.9 billion. Starting in 1992/93, the balance of payments is now expected to register lower surpluses, without further debt rescheduling.

Two alternative balance of payments scenarios are provided in Appendix III to analyze the impact of changes in the underlying assumptions with regard to exogenous factors. Scenario I provides alternative medium-term projections under the assumption of a drought in 1992/93, resulting in a sharp drop in groundnut and cotton exports, and a jump in cereals imports. Under this scenario, the expected improvement in the external sector position would be slower. By contrast, Scenario II assumes more favorable prospects for groundnut oil prices, which would remain constant in U.S. dollar terms at their average level of the last three years. In such a case, the external sector position would improve more rapidly.

The baseline scenario and Scenario I have been extended to 2001/2002 to assess Senegal's long-term capacity to repay the Fund (Appendix I, Table III). According to the baseline scenario, Senegal's external position is expected to further improve and the debt service ratio to be reduced. The external current account deficit, excluding gross official transfers, is projected to decline from 7.3 percent of GDP in 1991/92 to 2.4 percent in 2001/2002, while the external debt service ratio would drop from 24.5 percent of exports of goods and services and receipts of private transfers to 12.8 percent. The external debt service ratio vis-à-vis the Fund would decrease from 3.6 percent in 1991/92 to 0.2 percent in 2001/2002. Under Scenario I, the external debt service ratio and the debt service ratio vis-à-vis the Fund would deteriorate marginally during 1992/93-1994/95, but would subsequently be the same as under the baseline scenario. In view of these projections, as well as of the country's record of discharging its obligations to the Fund in a timely manner, Senegal can be expected to maintain its payments record.

V. Benefits and Risks

The resolute pursuit of Senegal's structural and financial adjustment efforts in 1991/92 is critical to the achievement of further progress toward its medium-term objectives. In particular, the reforms aimed at reducing distortions and increasing competitiveness should lead to the achievement of real per capita income gains. The emphasis being placed on developing the agricultural sector will have a positive impact on the farming community, where the poorest segments of the population are concentrated. The industrial sector reforms, geared toward promoting private investment, should also lead to an expansion in employment opportunities over the medium term. The steady improvement of Senegal's financial situation should enable it to reduce its dependence on foreign financing, and to service its external debt service obligations without further recourse to debt relief. The strengthened financial situation is reflected in the envisaged improvement in the budget; the increase in the domestic savings ratio; the emerging surplus in the balance of payments; and the sharp decline in the debt service ratio, with the debt service to the Fund being virtually eliminated by 2001/02.

Nonetheless, considerable risks remain, which could lead to a rapid reversal in the progress achieved thus far. First, the improvement in the country's financial position and the favorable growth prospects have reduced the crisis atmosphere that prevailed in the early 1980s, with the result that the pressure from various interest groups to relax the adjustment efforts could intensify. The program for 1991/92 attempts to attenuate the costs involved in the adjustment strategy by providing higher budgetary allocations for key social services, notably health and education; repaying the outstanding government arrears to the private sector; providing for a premium to be paid to groundnut producers if the evolution of the international price permits it; reducing energy costs; providing support to dislocated workers through the Redeployment Fund and the National Employment Fund; and actively promoting the program of assistance to women in the rural areas. The social consensus resulting from the recent formation of a coalition Government should also reinforce the ability of the authorities to persevere with the requisite adjustment policies. Second, as a Sahelian economy with a high dependence on agricultural production and a narrow export structure, Senegal's prospects could rapidly change with a recurrence of drought conditions or a drop in the world prices of its key export commodities. Even if Senegal were to reinforce its adjustment policies under such circumstances, the achievement of a viable financial position would be delayed. Finally, if the expected external financing disbursements were to be delayed or if Senegal were unable to mobilize the requisite external financial assistance in support of its structural reforms, the adjustment process could be derailed. A tightening of domestic government expenditure in order to offset such delays could disrupt the orderly adjustment process and substantially increase the social costs, with adverse effects on Senegal's growth prospects and financial stability. In this regard, Senegal will have to monitor carefully the progress being made in the implementation of the reforms supported by external financial resources in order to ensure the timely observance of the conditions for their disbursement.

VI. Staff Appraisal

Senegal is at a crossroads. The pursuit of generally appropriate macroeconomic and structural policies for almost a decade, in spite of periods of slippages, has enabled Senegal to achieve exceptionally low inflation rates; lay the foundation for sustained economic growth; shift the budgetary position, on a commitment basis and excluding grants, from a deficit to a surplus; narrow significantly the external current account deficit; and reduce the reliance on exceptional external financial assistance. The achievement of viable budgetary and balance of payments positions is now within reach, provided the adjustment policies for 1991/92 are vigorously implemented and judicious policies are continued over the medium term. Otherwise, the economic and financial situation could deteriorate rapidly.

Senegal's adjustment efforts are rightly focused on further improving the fiscal position and fostering the growth of the private sector. In this context, the Senegalese authorities face three major challenges.

First, there is a need to strengthen the underlying structure of the budget. In view of the major tax and tariff reforms already implemented and of the causes behind the shortfall in tax revenue in 1990/91, the emphasis has to be placed on reinforcing the tax and customs administrations in order to achieve a durable improvement in revenue mobilization and enhance the income elasticity of revenue over the medium term. At the customs level, the recruitment of a surveillance firm with a view to reducing underinvoicing, the launching of a detailed reform program with technical assistance from France and the Fund, the increase in resources to enable the customs administration to operate effectively, and the intensified verification operations of customs payments are essential for the mobilization of additional revenue. The tax administration is also undergoing restructuring, with French technical assistance. At the same time, the structure and monitoring of expenditure needs to be improved. In this regard, the reduction in the size of the civil service, the curtailment of personnel in Senegalese embassies, and the strict control of the variable elements of the wage bill are needed to achieve the envisaged cut in the wage bill. In addition, the launching of a new round of voluntary departures will be critical for further reductions over the medium term. This will enable the Government to provide more adequately for capital outlays and expenditure on maintenance and social services, notably health and education. The public expenditure review, which is near completion with World Bank assistance, will be helpful in establishing future spending priorities.

Second, the improvement of incentives in the industrial sector is key to promoting investment and expanding employment opportunities. In this respect, considerable strides have been made in recent years, with the virtual elimination of all price controls and trade restrictions; the streamlining of administrative procedures for setting up new enterprises; the adoption of legislation providing export-oriented industries, under a system of "free points," with certain tax breaks; and the reduction of some of the rigidities in the labor market. The Government is now moving decisively to address the remaining labor market rigidities. The revised draft of the Labor Code, to be considered shortly by the National Assembly, aims at deregulating employment procedures and introducing greater flexibility in wage determination. This should allow firms to adapt the size of their labor force to changing economic conditions, thereby increasing productivity, while reducing labor costs. Furthermore, the continued freeze of the minimum industrial wage should dampen wage-push pressures. The industrial sector's profitability should also improve as a result of the downward adjustment in the prices of key petroleum products for industrial users and in electricity tariffs. The completion of the restructuring of the public enterprise sector, particularly the privatization process, should contribute to reducing the financial imbalances and expanding the scope for private sector activity. In specific export sectors, the ongoing streamlining of the operations of the groundnut oil processing company is essential to improving its profitability; the implementation of the plan of action to promote industrial fishing and processing will be key to expanding its output and exports; and the processing of phosphate products to reduce the cadmium content will be important for the growth of the sector.

Third, the Government should accord high priority to putting in place a comprehensive agricultural policy package. In this regard, the continuing discussions with the World Bank and cofinanciers on an agricultural sector adjustment loan need to be completed rapidly. The progress made in recent years in reducing the involvement of the Government in the sector and liberalizing production and marketing should be continued. In particular, there is a need to review the current strategy for promoting cereals production; to link the producer price for groundnuts closely to the export price; to restructure the cotton development agency; to extend the rural credit system; and to accord increased emphasis to protecting the environment, through steps to control the depletion of soil fertility and forest cover. Moreover, the public investment program should contribute to improving irrigation facilities so as to attenuate over the long term the severe impact of fluctuations in climatic conditions on agricultural output. In this context, the staff welcomes the Government's policy to avoid direct or indirect subsidies to the agricultural sector.

In sum, the program for 1991/92, if effectively implemented, constitutes an important step toward the achievement of Senegal's medium-term objectives. However, the economic and financial situation remains fragile. It will therefore be critical to closely monitor the progress being made and to adapt policies promptly in light of changing conditions, in order to prevent slippages. Although the program supported by the third annual ESAF arrangement expires at end-December 1991, the proposed quarterly financial targets for 1992 provide a basis for monitoring performance in the immediate post-ESAF period. The sustained implementation of sound policies in the coming years will help to consolidate the progress achieved thus far and enable the authorities to shift their attention increasingly to long-term developmental issues.

VII. Proposed Decision

The following decision is proposed for adoption by the Executive Board:

Review Under Third Annual Arrangement Under the ESAF

1. The Fund has reviewed Senegal's economic and financial program for 1991, in accordance with paragraph 2(d) of the third annual arrangement under the enhanced structural adjustment facility (ESAF) for Senegal (EBS/91/77, Appendix II, 5/15/91).

2. The letter of the Minister of Economy, Finance, and Planning of Senegal dated September 6, 1991 shall be attached to the third annual arrangement under the ESAF for Senegal (EBS/91/77, Appendix II, 5/15/91) and the letter of the Minister of Economy and Finance of Senegal dated April 26, 1991, together with the memorandum on economic and financial policies attached thereto, shall be read as supplemented and modified by the letter dated September 6, 1991.

3. The Fund determines that the review referred in paragraph 1 of this decision is completed, and that Senegal may request the disbursement of the second loan under the arrangement.

Table I. Senegal: Fund Position, July 1991-December 1992 1/

	Outstanding on August 31, 1991	1991 Sept.	1991 Oct.-Dec.	1992 Jan.-March	1992 April-June	1992 July-Sept.	1992 Oct.-Dec.
				(In millions of SDRs)			
Net use of Fund credit		-4.30	14.26	-6.29	-11.18	-4.25	-9.81
Transactions under tranche policies (net)		-4.30	-11.27	-6.29	-9.48	-4.25	-8.11
Purchases		—	—	—	—	—	—
Ordinary resources		(—)	(—)	(—)	(—)	(—)	(—)
Borrowed resources		(—)	(—)	(—)	(—)	(—)	(—)
Repurchases		-4.30	-11.27	-6.29	-9.48	-4.25	-8.11
Ordinary resources		(-3.02)	(-4.31)	(-3.60)	(-3.28)	(-2.97)	(-2.66)
Borrowed resources		(-1.28)	(-6.95)	(-2.69)	(-6.20)	(-1.28)	(-5.45)
Transactions under special facilities (net)		—	—	—	—	—	—
Loans under:							
Structural adjustment facility		—	—	—	-1.70	—	-1.70
Enhanced structural adjustment facility 2/		—	25.53	—	—	—	—
Total Fund credit outstanding (end of period) 2/	218.94	214.64	228.90	222.61	211.43	207.18	197.37
Tranche policies	57.25	52.95	41.68	35.39	25.91	21.66	13.55
Special facilities	—	—	—	—	—	—	—
Structural adjustment facility	42.55	42.55	42.55	42.55	40.85	40.85	39.15
Enhanced structural adjustment facility 2/	119.14	119.14	144.67	144.67	144.67	144.67	144.67
				(In percent of quota)			
Total Fund credit outstanding (end of period) 2/	257.27	252.22	268.98	261.59	248.45	243.45	231.92
Tranche policies	67.27	62.22	48.98	41.59	30.45	25.45	15.92
Special facilities	—	—	—	—	—	—	—
Structural adjustment facility	50.00	50.00	50.00	50.00	48.00	48.00	46.00
Enhanced structural adjustment facility 2/	140.00	140.00	170.00	170.00	170.00	170.00	170.00

Source: IMF, Treasurer's Department.

1/ Data may not add up because of rounding. As of March 31, 1991, all repayments under the Trust Fund were effected.
2/ Includes ESAF Trust loans.

Table II. Senegal: Schedule of Disbursements
Under ESAF Arrangement, 1988-91

Amount	Availability date	Conditions necessary for disbursement 1/
SDR 29.785 million	After November 21, 1988	Disbursed
SDR 29.785 million	After March 14, 1989	Disbursed
SDR 21.275 million	After December 6, 1989	Disbursed
SDR 21.275 million	After March 30, 1990	Disbursed
SDR 17.020 million	After June 15, 1991	Disbursed
SDR 25.530 million	After November 15, 1991	Compliance with the performance criteria for June 30, 1991, and completion of the midterm review under the arrangement.

Source: IMF.

1/ Other than generally applicable conditions under the ESAF arrangement, including the performance clause on the exchange and trade system.

Table III. Senegal: Indicators of Fund Credit, 1990/91-2001/02

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
	Est.	Rev. prog.	Revised projections				Projections					
Outstanding Fund credit 1/												
In millions of SDRs	220.4	211.4	185.2	168.7	145.5	116.6	83.0	51.5	25.6	10.7	2.2	—
In percent of quota	258.9	248.4	217.6	198.2	171.0	137.0	97.5	60.5	30.1	12.5	2.5	—
In percent of GDP	5.1	4.9	4.1	3.5	2.9	2.2	1.3	0.8	0.4	0.1	—	—
Debt service due to the Fund												
In millions of SDRs	48.3	42.2	31.2	19.8	25.9	31.4	36.3	34.0	28.2	17.1	10.7	4.4
In percent of exports of goods, services, and private receipts												
Baseline scenario	4.1	3.6	2.5	1.5	1.8	2.0	2.0	1.8	1.4	0.8	0.5	0.2
Scenario I	4.1	3.6	2.6	1.5	1.8	2.0	2.0	1.8	1.4	0.8	0.5	0.2
In percent of total debt service due	17.1	14.7	11.3	7.4	9.4	11.7	12.3	11.5	9.6	5.9	3.7	1.5
Memorandum items:												
Current account deficit (as a percent of GDP) 2/												
Baseline scenario	9.2	7.3	6.3	5.1	4.7	4.4	4.0	3.6	3.2	2.9	2.6	2.4
Scenario I	9.2	7.3	7.3	5.8	4.9	4.4	4.0	3.6	3.2	2.9	2.6	2.4
Overall balance of payments (in millions of SDRs) 3/												
Baseline scenario	-128.9	-8.3	11.7	16.4	33.1	61.3	80.9	97.0	120.1	143.1	159.5	176.8
Scenario I	-128.9	-8.3	-31.0	-17.7	22.1	60.8	80.5	96.5	118.8	142.6	159.0	176.3
Total debt service ratio 4/												
Baseline scenario	23.7	24.5	22.1	19.6	19.0	17.3	16.5	15.9	15.2	14.1	13.5	12.8
Scenario I	23.7	24.5	22.6	20.1	19.1	17.3	16.5	15.9	15.2	14.1	13.5	12.8
Total debt to GDP ratio	53.5	51.6	49.7	47.1	44.6	42.5	39.7	37.7	36.0	34.5	33.1	31.9

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

1/ End of period.
2/ Excluding gross official transfers.
3/ Before debt rescheduling, but after debt cancellation.
4/ In percent of exports of goods and services, and private receipts; before debt rescheduling, but after debt cancellation.

Table IV. Senegal: Central Government Financial Operations, 1987/88-1991/92 1/

	1987/88	1988/89	1989/90	1990/91		1991/92		July 1991-Dec. 1992
				Prog.	Est.	Prog.	Rev. prog.	Prog.
				(In billions of CFA francs)				
Total revenue and grants	271.4	274.2	279.5	323.0	327.2	333.7	327.5	495.4
Revenue	251.4	245.7	259.9	300.2	300.9	313.2	307.0	461.4
Tax revenue	205.5	196.2	219.0	250.6	241.4	267.6	262.1	390.5
Nontax revenue	45.9	49.5	40.9	49.6	59.5	45.6	44.9	70.9
Grants	20.0	28.5	19.6	22.8	26.3	20.5	20.5	34.0
Total expenditure and net lending	288.2	305.1	325.9	298.0	297.0	290.4	299.9	455.1
Current expenditure	244.7	248.1	254.3	228.1	232.1	238.3	234.6	360.1
Wages and salaries	122.3	125.2	126.8	125.0	129.5	123.0	125.0	187.0
Interest due 2/	46.1	47.7	41.2	40.1	38.1	39.0	41.8	62.1
Of which: external	(43.6)	(42.6)	(36.6)	(34.5)	(31.1)	(33.2)	(34.7)	(50.8)
Materials and supplies	47.3	50.3	61.1	45.0	64.5	58.3	67.8	111.0
Transfers and subsidies	29.0	24.9	25.2	18.0		18.0		
Capital expenditure	41.7	41.0	39.8	38.0	44.5	40.4	54.3	84.0
Budgetary	11.7	11.0	7.8	6.0	12.0	6.4	20.3	33.0
Extrabudgetary	30.0	30.0	32.0	32.0	32.5	34.0	34.0	51.0
Banking sector reform 3/	—	—	8.7	8.1	0.7	3.2	9.9	11.4
Voluntary departures 4/	—	—	3.0	15.0	8.8	4.0	4.1	4.1
Treasury special accounts (net) 5/	-9.5	-11.0	-16.0	-12.5	-11.4	-8.5	-2.0	-3.0
Treasury correspondents (net) 5/	7.7	-5.0	-4.1	3.7	0.5	4.0	5.0	7.5
Overall fiscal surplus or deficit (-) (commitment basis)	-16.8	-30.9	-46.4	25.0	30.2	43.3	27.6	40.3
Adjustment to cash basis	-37.1	-4.4	17.4	-30.6	-31.6	-24.3	-24.3	-31.2
Payments arrears of the Government and public agencies (reduction -)	-14.0	—	21.5	-20.0	-20.0	-10.0	-10.0	-10.0
Crop credit (repayment -) 6/	-23.1	-4.4	-4.1	-10.6	-11.6	-14.3	-14.3	-21.2
Overall fiscal surplus or deficit (-) (cash basis)	-53.9	-35.3	-29.0	-5.6	-1.4	19.0	3.3	9.1
Financing	53.9	35.3	29.0	5.6	1.4	-19.0	-3.3	-9.1
External	51.9	47.7	56.8	-4.2	7.2	8.2	10.4	2.6
Drawings	79.9	53.0	62.4	34.0	31.2	55.1	45.2	72.0
Treasury	60.7	28.0	22.6	4.3	6.5	18.5	14.3	28.6
Project loans	19.2	18.0	19.0	19.0	19.0	21.0	21.0	32.0
Banking sector reform	—	7.0	13.6	6.4	1.5	5.1	9.9	11.4
Voluntary departures	—	—	7.2	4.3	4.2	10.5	—	—
Amortization due 2/	-45.9	-55.9	-56.9	-52.1	-52.5	-48.1	-61.1	-95.7
Debt relief 7/	17.9	50.6	51.3	13.9	28.5	1.2	26.3	26.3
Domestic	2.0	-12.4	-27.8	-10.7	-5.8	-55.7	-13.7	-11.7
Banking system 8/	6.0	-9.9	-17.2	-7.9	-19.4	-50.5	5.0	9.4
Reimbursement of consolidated and restructured bank debt (incl. ONCAD)	-8.6	-3.6	-4.2	-8.4	-6.1	-6.8	-6.8	-10.2
Nonbank financing	1.0	—	—	1.6	0.6	1.6	1.6	2.6
Other 9/	3.6	1.1	-6.4	4.0 10/	19.1 10/11/	—	-13.5	-13.5
Financing gap 12/	—	—	—	20.5	—	28.5	—	—
Memorandum items:								
Domestic payments arrears of Government/public agencies (end of period)	8.5	8.5	30.0	10.0	10.0	—	—	—
Nominal GDP	1,433.1	1,460.6	1,539.4	1,596.1	1,591.2	1,716.4	1,706.9	2,609.8
				(In percent of GDP)				
Total revenue and grants	18.9	18.8	18.2	20.2	20.6	19.4	19.2	19.0
Of which: revenue	(17.5)	(16.8)	(16.9)	(18.8)	(18.9)	(18.2)	(18.0)	(17.7)
tax revenue	(14.3)	(13.4)	(14.2)	(15.7)	(15.2)	(15.6)	(15.4)	(15.0)
Total expenditure and net lending	20.1	20.9	21.2	18.7	18.7	16.9	17.6	(17.4)
Of which: current expenditure	(17.1)	(17.0)	(16.5)	(14.3)	(14.6)	(13.9)	(13.7)	(13.8)
capital expenditure	(2.9)	(2.8)	(2.6)	(2.4)	(2.8)	(2.4)	(3.2)	(3.2)
Overall fiscal surplus or deficit (-)								
Commitment basis, excluding grants	-2.6	-4.1	-4.3	0.1	0.2	1.3	0.4	0.2
Cash basis, excluding grants	-5.2	-4.4	-3.2	-1.8	-1.7	-0.1	-1.0	-1.0

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

1/ Fiscal year ending June 30. An 18-month program is also provided in 1991/92, for consistency with the Budget Law 1991/92, which covers July 1991-December 1992 in order to shift the fiscal year to a calendar year basis.

2/ The external debt service figures in this table include all debt directly contracted by the Government, and 10 percent of the government-guaranteed debt up to 1988/89; the ratio is increased to 30 percent in 1989/90 and thereafter. Starting in 1989/90, the impact of debt cancellation is included.

3/ Excludes government deposits held in banks to improve their liquidity.

4/ Expenditure under the voluntary departures program differs from the financing shown owing to lags between disbursement and expenditure and to the inclusion of expenditure financed by nonearmarked funds.

5/ Deficits are added to expenditure, and surpluses are deducted.

6/ Net of a transfer from SONACOS amounting to CFAF 10.0 billion in 1989/90 and CFAF 5.0 billion in 1990/91.

7/ Includes debt rescheduling from the London and Paris Clubs; and the impact of debt cancellation starting in 1989/90.

8/ Includes the counterparts of Fund purchases and repurchases, as well as those of loans under the SAF and the ESAF.

9/ Includes errors and omissions.

10/ Includes cancellation of liabilities of the Government vis-à-vis the banking system of CFAF 5.7 billion.

11/ Includes CFAF 13.5 billion reflecting deposits by three Treasury correspondents.

12/ Includes additional debt rescheduling requested from the Paris Club for the 1990/91 and 1991/92 programs.

Table V. Senegal: Monetary Survey, June 1988-December 1992

	1988	1989	1990			1991				1992		
	June		June	December		June		December		June		Dec.
				Fin. prog.	Act.	Prog.	Prel. act.	Prog.	Rev. prog.	Prog.	Rev. prog.	Proj.
					(In billions of CFA francs; end of period)							
Net foreign assets	-236.0	-231.3	-193.2	...	-191.5	-161.1	-177.8	...	-193.6	-103.9	-151.9	-167.5
Central Bank	-196.5	-178.0	-140.0	...	-163.4	-121.2	-162.8	...	...	-64.0	...	...
Commercial banks	-39.5	-53.3	-53.2	...	-28.1	-39.9	-15.0	...	...	-39.9	...	...
Domestic credit	606.7	607.2	553.7	541.2	523.6	528.5	506.6	503.7	520.4	488.1	499.0	508.2
Credit to the Government (net)	149.9	140.0	122.9	121.7	107.6	115.0 1/	103.5 1/	90.2	113.2	64.5	108.5	112.9
Credit to the economy	456.8	467.2	430.8	419.5	416.0	413.5	403.1	413.5	407.2	423.6	390.5	395.3
Ordinary credit	380.9	433.0	402.5	401.5	404.4	397.5	390.9	401.5	395.2	405.4	378.5	383.3
ONCAD 2/	(65.8)	(65.8)	(65.8)	(64.8)	(65.8)	(61.8)	(65.8)	(59.8)	(65.8)	(57.8)	(61.8)	(61.8)
Reclassified 3/	(2.4)	(29.9)	(33.5)	(28.5)	(31.7)	(18.5)	(27.5)	(16.5)	(20.4)	(14.5)	(12.2)	(6.1)
Other 4/	(312.7)	(337.3)	(303.2)	(308.2)	(306.9)	(317.2)	(297.6)	(325.2)	(309.0)	(333.1)	(304.5)	(315.4)
Crop credit	75.9	34.2	28.3	18.0	11.6	16.0	12.2	12.0	12.0	18.2	12.0	12.0
Money and quasi-money	346.2	370.8	372.8	...	351.1	386.5	367.0	...	365.0	403.3	385.3	378.9
Currency in circulation	97.7	96.6	109.8	...	95.2	...	...	...	...	...	...	...
Demand deposits	122.0	137.1	119.8	...	108.9	...	...	...	...	...	...	...
Time deposits	126.5	137.1	143.2	...	147.0	...	...	...	...	...	...	...
Other items (net)	24.5	5.1	-12.3	-13.6	-19.0	-19.1	-38.2	-19.1	-38.2	-19.1	-38.2	-38.2
Of which: ONCAD 2/	(10.8)	(11.9)	(15.1)	(...)	(16.6)	(...)	(19.1)	(...)	(...)	(...)	(...)	(...)
Memorandum item:												
Domestic assets (net)	582.3	602.1	566.0	554.8	542.6	547.6 1/	544.8 1/	522.8	558.6	507.2	537.2	546.4
					(Change in percent of beginning-of-period money stock)							
Net foreign assets	-8.3	1.4	10.3	...	7.8	8.6	4.1	...	-0.6	14.8	7.1	7.2
Central Bank	-3.4	5.3	10.2	...	4.8	5.0	-6.1	...	...	14.8	...	...
Commercial banks	-5.0	-4.0	—	...	3.0	3.6	10.2	...	...	—	...	...
Domestic credit	9.2	0.1	-14.4	-9.1	-13.8	-6.8	-12.6	-5.4	-0.9	-10.5	-2.1	-3.3
Credit to the Government (net)	1.8	-2.9	-4.6	-1.4	-5.3	-2.1	-5.2	-5.1	1.6	-13.1	1.4	-0.1
Credit to the economy	7.4	3.0	-9.8	-7.6	-8.6	-4.6	-7.4	-0.3	-2.5	2.6	-3.4	-3.3
Ordinary credit	1.9	15.0	-8.2	-7.6	-6.8	-1.3	-3.1	-0.5	-2.6	2.0	-3.4	-3.3
ONCAD 2/	(-0.3)	(—)	(—)	(-0.3)	(—)	(-1.1)	(—)	(-1.7)	(—)	(-1.0)	(-1.1)	(-1.1)
Reclassified 3/	(0.1)	(7.9)	(1.0)	(-2.8)	(-1.9)	(-4.0)	(-1.6)	(-4.3)	(-3.2)	(-1.0)	(-4.2)	(-3.9)
Other	(2.1)	(7.1)	(-9.2)	(-4.6)	(-4.9)	(3.8)	(-1.5)	(5.6)	(0.6)	(4.1)	(1.9)	(1.8)
Crop credit	5.6	-12.0	-1.6	—	-1.8	-3.3	-4.3	0.1	0.1	0.6	-0.1	—
Money and quasi-money	1.2	7.1	0.5	...	-4.8	3.7	-1.6	...	4.0	4.3	5.0	3.8
Currency in circulation	-3.3	-0.3	3.6	...	-2.0	...	...	...	...	...	...	...
Demand deposits	0.1	4.4	-4.7	...	-5.2	...	...	...	...	...	...	...
Time deposits	4.3	3.0	1.6	...	2.4	...	...	...	...	...	...	...
Other items (net)	-0.3	-5.6	-4.7	0.3	-1.2	-1.8	-6.9	—	-5.5	—	—	—
Of which: ONCAD 2/	(-0.8)	(0.3)	(0.9)	(...)	(0.7)	(...)	(1.1)	(...)	(...)	(...)	(...)	(...)
Memorandum item:												
Domestic assets (net)	9.5	5.7	-9.7	-9.3	-12.6	-4.9	-5.7	-5.4	4.6	-10.5	-2.1	-3.3

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

1/ Performance criteria.
2/ ONCAD, Office National de la Commercialisation Agricole et du Développement.
3/ Crop credit reclassified under ordinary credit.
4/ Net of reserves related to the restructuring of the banking sector, and amounting cumulatively to CFAF 35.5 billion from end-June 1990.

Table VI. Senegal: Balance of Payments, 1987/88-1994/95 1/

(In billions of CFA francs, unless otherwise indicated)

	1987/88	1988/89	1989/90	1990/91		1991/92		1992/93	1993/94	1994/95
		Estimates		Prog.	Est.	Prog.	Rev. prog.		Projections	
Trade balance	-74.5	-65.4	-70.8	-56.9	-88.4	-50.7	-66.7	-58.7	-43.1	-41.0
Exports, f.o.b.	218.4	245.4	245.1	261.2	252.7	282.0	265.4	295.3	333.3	362.2
Of which: groundnut products	(29.1)	(45.8)	(42.9)	(42.7)	(39.9)	(38.9)	(25.2)	(30.0)	(39.6)	(40.1)
Imports, f.o.b.	-292.9	-311.2	-315.9	-318.1	-341.1	-332.7	-332.1	-354.0	-376.4	-403.2
Of which: petroleum products	(-42.0)	(-33.8)	(-36.5)	(-40.9)	(-46.8)	(-38.7)	(-40.4)	(-43.4)	(-46.1)	(-49.1)
Services (net)	-72.8	-76.4	-63.5	-56.9	-56.8	-55.6	-58.0	-54.8	-53.2	-53.5
Of which: interest due on public debt	(-50.4)	(-52.0)	(-45.0)	(-41.8)	(-38.6)	(-41.6)	(-44.1)	(-42.9)	(-41.5)	(-41.7)
Unrequited transfers (net)	72.0	75.4	77.5	83.7	87.2	84.9	84.9	87.2	88.3	91.2
Of which: gross official transfers	(70.7)	(74.0)	(78.5)	(84.2)	(87.7)	(85.1)	(85.1)	(88.0)	(88.8)	(91.5)
Current account (deficit -)	-75.3	-66.4	-56.8	-30.0	-58.0	-21.5	-39.9	-26.2	-8.0	-3.2
Capital account	38.6	34.3	37.8	20.0	10.1	49.0	36.6	30.9	14.5	16.4
Public sector (net)	75.2	35.6	40.8	20.0	20.2	46.5	34.1	25.9	9.5	11.4
Drawings	132.7	99.6	101.8	75.6	72.8	99.1	89.2	82.3	67.7	70.0
Amortization due	-57.5	-64.0	-61.0	-55.6	-52.6	-52.6	-55.1	-56.4	-58.2	-58.6
Private sector (net)	-35.2	-8.2	-1.0	—	-5.8	2.5	2.5	5.0	5.0	5.0
Errors and omissions	-1.4	6.9	-2.0	—	-4.3	—	—	—	—	—
Overall balance (deficit -)	-36.7	-32.1	-19.0	-10.0	-47.9	27.5	-3.3	4.7	6.6	13.1
Debt rescheduling 2/	26.0	50.6	51.3	13.9	30.7	1.2	29.2	—	—	—
Financing	10.7	-18.5	-32.4	-24.4	17.2	-57.2	-25.9	-4.7	-6.6	-13.1
Net use of Fund resources	4.1	7.5	-1.0	-7.8	-7.4	-3.2	-3.5	-10.4	-6.6	-9.2
Purchases 3/	19.8	25.2	16.5	6.2	6.4	9.3	10.1	—	—	—
Repurchases	-15.7	-17.7	-17.5	-14.0	-13.8	-12.5	-13.6	-10.4	-6.6	-9.2
Operations account and other	6.6	-26.0	-37.0	-11.0	30.2	-54.0	-22.4	5.7	—	-3.9
Payments arrears (reduction -)	—	—	5.6	-5.6	-5.6	—	—	—	—	—
Financing gap 4/	—	—	—	20.5	—	28.5	—	—	—	—
Memorandum items:										
Current account (in percent of GDP)										
Excluding gross official transfers	-10.2	-9.6	-8.8	-7.2	-9.2	-6.2	-7.3	-6.3	-5.1	-4.7
Including gross official transfers	-5.3	-4.6	-3.7	-1.9	-3.6	-1.3	-2.3	-1.5	-0.4	-0.2
Exchange rate (CFAF/SDR)	390.0	394.2	389.2	364.7	371.8	364.0	393.9	397.0	397.0	397.0
Debt cancellation	—	—	8.7	29.9	29.9	28.6	28.6	28.4	27.9	26.2

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

1/ Data may not add up because of rounding.
2/ Includes debt rescheduling from the London and Paris Clubs; and the impact of debt cancellation starting in 1989/90.
3/ Includes disbursements under the SAF and the ESAF.
4/ Includes additional debt rescheduling requested from the Paris Club for the 1990/91 and 1991/92 programs.

Table VII. Senegal: Balance of Payments, 1987/88-1994/95 1/

(In millions of SDRs, unless otherwise indicated)

	1987/88	1988/89	1989/90	1990/91		1991/1992		1992/93	1993/94	1994/95
	Estimates			Prog.	Est.	Prog.	Rev. prog.	Projections		
Trade balance	-190.9	-165.9	-181.9	-155.9	-237.8	-139.4	-169.3	-147.9	-108.6	-103.3
Exports, f.o.b.	560.0	623.5	629.8	716.2	679.7	774.7	673.8	743.8	839.5	912.3
Of which: groundnut products	(74.6)	(116.2)	(110.2)	(117.1)	(107.3)	(106.9)	(64.0)	(75.6)	(99.7)	(101.0)
Imports, f.o.b.	-750.9	-789.4	-811.7	-872.1	-917.4	-914.1	-843.1	-891.7	-948.1	-1,015.6
Of which: petroleum products	(-107.6)	(-85.7)	(-93.8)	(-112.1)	(-125.9)	(-106.3)	(-102.6)	(-109.3)	(-116.1)	(-123.7)
Services (net)	-186.7	-193.8	-163.1	-155.9	-152.8	-152.8	-147.3	-138.0	-134.0	-134.7
Of which: interest due on public debt	(-129.2)	(-131.9)	(-115.6)	(-114.6)	(-103.8)	(-114.3)	(-112.0)	(-108.1)	(-104.5)	(-105.0)
Unrequited transfers (net)	184.6	191.3	199.1	229.5	234.5	233.1	215.4	219.7	222.4	229.8
Of which: gross official transfers	(181.3)	(187.7)	(201.7)	(230.9)	(235.9)	(233.8)	(216.0)	(221.7)	(223.7)	(230.5)
Current account (deficit -)	-193.0	-168.4	-145.9	-82.3	-156.0	-59.1	-101.3	-66.1	-20.1	-8.2
Capital account	98.9	87.0	97.1	54.8	27.2	134.6	92.9	77.8	36.5	41.3
Public sector (net)	192.9	90.3	104.8	54.8	54.3	127.7	86.6	65.2	23.9	28.7
Drawings	340.3	252.6	261.6	207.3	195.8	272.3	226.5	207.3	170.5	176.3
Amortization due	-147.4	-162.3	-156.7	-152.5	-141.5	-144.5	-139.9	-142.1	-146.6	-147.6
Private sector (net)	-90.3	-20.8	-2.6	—	-15.6	6.9	6.3	12.6	12.6	12.6
Errors and omissions	-3.7	17.5	-5.1	—	-11.6	—	—	—	—	—
Overall balance (deficit -)	-94.1	-81.4	-48.8	-27.5	-128.9	75.5	-8.3	11.8	16.5	33.0
Debt rescheduling 2/	66.7	128.3	131.8	38.1	82.6	3.3	74.1	—	—	—
Financing	27.4	-46.9	-83.2	-66.9	46.3	-157.3	-65.8	-11.8	-16.5	-33.0
Net use of Fund resources	9.0	18.9	-2.5	-21.3	-19.9	-8.9	-9.0	-26.2	-16.5	-23.2
Purchases 3/	50.0	63.9	42.6	17.0	17.2	25.5	25.5	—	—	—
Repurchases	-41.0	-45.0	-45.0	-38.3	-37.1	-34.4	-34.5	-26.2	-16.5	-23.2
Operations account and other	18.4	-65.9	-95.1	-30.2	81.2	-148.4	-56.9	14.4	—	-9.8
Payments arrears (reduction -)	—	—	14.4	-15.4	-15.1	—	—	—	—	—
Financing gap 4/	—	—	—	56.2	—	78.3	—	—	—	—
Memorandum items:										
Current account (in percent of GDP)										
Excluding gross official transfers	-10.2	-9.6	-8.8	-7.2	-9.2	-6.2	-7.3	-6.3	-5.1	-4.7
Including gross official transfers	-5.3	-4.6	-3.7	-1.9	-3.6	-1.3	-2.3	-1.5	-0.4	-0.2
Exchange rate (CFAF/SDR)	390.0	394.2	389.2	364.7	371.8	364.0	393.9	397.0	397.0	397.0
Debt cancellation	—	—	22.4	82.0	80.4	78.6	72.6	71.5	70.3	66.0

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

1/ Data may not add up because of rounding.
2/ Includes debt rescheduling from the London and Paris Clubs, and the impact of debt cancellation starting in 1989/90.
3/ Includes disbursement under the SAF and the ESAF.
4/ Includes additional debt rescheduling requested from the Paris Club for the 1990/91 and 1991/92 programs.

Table VIII. Senegal: External Public Debt Service, 1986/87-1994/95 1/

(In millions of SDRs, unless otherwise indicated)

	1986/87	1987/88	1988/89	1989/90	1990/91		1991/92		1992/93	1993/94	1994/95
				Est.	Prog.	Est.	Prog.	Rev. prog.	Projections		
Principal	166.9	188.4	207.3	201.8	190.8	178.6	178.9	174.4	168.3	163.1	170.8
Medium- and long-term	122.3	147.4	162.3	157.7	152.5	141.5	144.5	139.9	142.1	146.6	147.6
IMF repurchases	44.6	41.0	45.0	45.0	38.3	37.1	34.4	34.5	26.2	16.5	23.2
Interest	115.4	129.2	131.9	115.6	114.6	103.8	114.3	112.0	108.1	104.5	105.0
Other interest	99.4	114.5	118.4	102.3	103.4	92.6	105.8	104.3	103.1	101.2	102.3
IMF charges	16.0	14.8	13.5	13.4	11.2	11.2	8.5	7.7	5.0	3.3	2.7
Debt service before rescheduling	282.3	317.7	339.3	317.4	305.4	282.4	293.2	286.3	276.3	267.6	275.8
Debt rescheduling	67.3	66.7	128.3	131.8	84.2	82.6	81.6	74.1	—	—	—
Debt service after rescheduling	215.0	251.0	211.0	185.6	221.2	199.8	211.6	212.2	276.3	267.6	275.8
Memorandum items:											
Exports of goods, services, and private receipts	949.1	1,019.2	1,089.2	1,107.7	1,238.4	1,191.9	1,311.5	1,169.8	1,251.6	1,364.7	1,455.5
Debt service ratio (in percent)											
Before debt rescheduling	29.7	31.2	31.1	28.7	24.7	23.7	22.4	24.5	22.1	19.6	19.0
Principal	17.6	18.5	19.0	18.2	15.4	15.0	13.6	14.9	13.4	12.0	11.7
Interest	12.2	12.7	12.1	10.4	9.3	8.7	8.7	9.6	8.6	7.7	7.2
After debt rescheduling	22.7	24.6	19.4	16.8	17.9	16.8	16.1	18.1	22.1	19.6	19.0
IMF debt service ratio (in percent)	6.4	5.5	5.4	5.3	4.0	4.1	3.3	3.6	2.5	1.5	1.8

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

1/ Excludes debt service obligations of the multilateral companies, Air Afrique and the Agence pour la Sécurité de la Navigation Aérienne. Figures include debt cancellation, starting in 1989/90.

TRANSLATION

Dakar, September 6, 1991

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Camdessus:

1. In accordance with the third annual arrangement for Senegal under the ESAF approved on June 3, 1991, we have recently held discussions with a Fund staff mission regarding the midterm review of Senegal's adjustment program for the calendar year 1991. The discussions focused on the progress made in the implementation of the program during the first half of the year, and on the prospects and policies for the second half of the year. In this context, understandings were reached on economic and financial policies to be implemented through end-1992, as well as on definitive quantitative benchmarks for end-September and end-December 1991 and quarterly financial targets through end-1992. The Government of Senegal remains committed to the policies described in the memorandum on economic and financial policies of April 26, 1991, as supplemented by the attached memorandum.

2. The Government of Senegal believes that the policies and measures set forth in the attached memorandum are adequate to achieve the objectives of its program, but will take any further measures that may become appropriate for this purpose. During the remaining period of the third annual arrangement, the Government of Senegal will consult with the Managing Director on the adoption of any measures that may become appropriate for this purpose, at the initiative of Senegal or whenever the Managing Director requests such a consultation. Moreover, after the period of the third annual arrangement, and while Senegal has outstanding financial obligations to the Fund arising from loans under the arrangement, Senegal will consult with the Fund from time to time on Senegal's economic and financial policies, at the initiative of the Government or whenever the Managing Director requests a consultation.

Sincerely yours,

/ s /

Famara Ibrahima Sagna
Minister of Economy, Finance,
and Planning

Attachment

TRANSLATION

Dakar, September 6, 1991

SENEGAL

Memorandum on Economic and Financial Policies for 1991/92

1. The third annual arrangement under the enhanced structural adjustment facility (ESAF) was approved by the Fund's Executive Board on June 3, 1991, following the effective implementation of corrective adjustment measures since July 1, 1990, designed to redress the policy slippages during the previous two years and re-establish an appropriate track record of performance. The arrangement is supporting Senegal's program for 1991, which straddles the two fiscal years 1990/91 and 1991/92 (July/June). Although problems were encountered on the fiscal side during 1990/91, the overall budgetary situation was nonetheless strengthened and key structural reforms were undertaken. Thus, the quantitative benchmarks at end-March 1991 were observed, and the quantitative performance criteria at end-June 1991 are estimated to have been met. The structural benchmarks and performance criteria through end-June 1991 were also respected. As envisaged under the arrangement, the Government of Senegal has consulted with the Fund staff with regard to the midterm review and has reached understandings on policies for 1991/92, consistent with the macroeconomic objectives set out in Senegal's medium-term policy framework paper for 1990/91-1992/93. Senegal's adjustment efforts are also being supported by financial assistance from the World Bank, under the ongoing fourth structural adjustment loan (SAL IV) and four sectoral adjustment loans (SECALs), as well as from other multilateral and bilateral donors and creditors, including debt relief.

I. Progress Under the 1990/91 Adjustment Program 1/

2. In 1990/91 the program objectives for growth and inflation were achieved; however, the objective for the external sector position was not. Although the impact of poor weather on agricultural production was worse than envisaged, economic activity in other sectors was better than expected. As a result, real GDP grew by 1.2 percent, virtually as programmed. The rate of inflation, as measured by the GDP deflator, was held to 2.1 percent--below the program target of 2.4 percent--reflecting the tight monetary policy pursued and the openness of the Senegalese economy. The external current account deficit, excluding gross official transfers, widened to 9.2 percent of GDP, as against a target of 7.2 percent. This was due mainly to higher-than-envisaged import

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

payments, stemming principally from the foreign-financed construction of the complex hosting the forthcoming meeting of the Heads of State of the Islamic Conference; higher-than-projected unit prices for petroleum imports; and a larger-than-anticipated volume of food imports. There was also a stronger-than-projected decline in the volume of groundnut exports, owing to a poor harvest; a slower-than-envisaged expansion in fish exports, owing to increased competition from Southeast Asia; and continued difficulties in the marketing of phosphate exports resulting from the cadmium content of Senegal's phosphate deposits. The service account deficit was in line with the program projection, as higher freight and insurance costs were offset by lower interest payments, while net unrequited transfers were larger than programmed. The capital account registered a smaller-than-projected surplus, mainly as a result of a shortfall in external financial assistance and a reduction in external financial liabilities of the monetary sector. Reflecting the above developments, the overall balance of payments, after debt relief, registered a deficit amounting to CFAF 17.2 billion (SDR 46.3 million), against a programmed surplus, inclusive of the coverage of the financing gap, of CFAF 24.4 billion (SDR 66.9 million).

3. The Government took steps in 1990/91 aimed at reforming the labor market, rationalizing the system of energy pricing, and reducing administrative procedures for the establishment of new enterprises. With respect to labor market reform, a revised Labor Code was prepared by end-June 1991, with the objectives of increasing further the flexibility in recruitment and termination procedures and making the wage determination process more market-oriented. The minimum guaranteed wage (SMIG) was maintained unchanged in 1990/91, following a 10 percent increase in January 1990. With regard to energy policy, the Government reduced the taxation of the sector; adopted in May 1991 a mechanism providing for the quarterly adjustment of domestic petroleum prices in line with movements in world prices, consistent with safeguarding CFAF 57.0 billion in total government revenue from the sector; and set a fixed handling fee for the petroleum refinery (SAR). To liberalize the regulatory environment and promote private sector investment, the operations of the one-stop window were streamlined; a law was promulgated in March 1991 providing for the automatic approval of all requests submitted, if not acted upon within 30 days. In addition, the National Assembly enacted a law authorizing a system of free points under which the tax advantages now available within the Dakar Free Industrial Zone would be extended to export-oriented enterprises outside the Zone. Furthermore, a Unit for the Support of the Environment for Enterprises was established in February 1991, with a mandate to promote the development of the private sector.

4. The Government accelerated the implementation of the reform program for the public enterprise sector. A plan of action, elaborated in 1989 with the World Bank, aimed at privatizing or liquidating 40 public enterprises by end-September 1991, and rehabilitating 15 others in the context of performance contracts and financial restructuring and/or rehabilitation plans. By end-June 1991, 16 of the targeted enterprises

had been privatized and six liquidated. The privatization process was well advanced for several others. Moreover, eight additional enterprises had been identified to be either privatized or liquidated. With respect to the performance contracts and restructuring or rehabilitation plans, 12 had been finalized by end-June 1991. Regarding public sector cross-debts, the Government made progress in its efforts to settle them within the framework of a three-year timetable established with the World Bank. Agreements on cross-debts were concluded between the Government and 40 enterprises, as well as among 74 enterprises. During 1990/91, operating subsidies to public enterprises were reduced to CFAF 8.1 billion, below the ceiling established under the reform program.

5. The Government pursued key agricultural reforms. In the groundnut sector, the groundnut oil processing company (SONACOS) began implementing the recommendations of a technical and financial audit, which involve the centralization of the administrative, personnel management, and accounting functions in order to increase the efficiency of its operations. In the cereals sector, the Government continued to promote local cereals marketing and processing; eliminated subsidies on the transportation of rice; and liberalized the pricing and import of high quality rice. The restructuring of the Senegal River Valley Development Agency (SAED) was pursued in the context of a performance contract. With regard to the fishing sector, a comprehensive plan of action was formulated in June 1991 with the objective of enhancing the sector's competitiveness and increasing its value-added, while avoiding the overexploitation of marine resources. As to the agricultural credit system, the Government transferred its shares in the rural credit bank (CNCAS) to the regional development bank (BOAD) to be held in trust pending their sale to the private sector.

6. During the first year of the three-year rolling public investment program (PIP) for 1990/91-1992/93, actual government outlays are estimated to have amounted to CFAF 169.3 billion (compared with the target of CFAF 182.4 billion), equivalent to an implementation rate of about 93 percent. The emphasis continued to be placed on projects to improve the infrastructure and support the agricultural sector. A three-and-a-half-year public investment program for 1991/92-1994 was adopted, and preparatory steps were taken to integrate the Central Government's annual investment program into the regular budgetary and expenditure control processes starting in 1991/92. During 1990/91, efforts to strengthen the project identification, appraisal, and monitoring capacities of the technical ministries were continued.

7. Although problems emerged during 1990/91 in achieving the targeted composition for government revenue and expenditure, the measures taken resulted in a turnaround in the budget position, on a commitment basis and excluding grants, from a deficit of 4.3 percent of GDP in 1989/90 to a surplus of 0.2 percent of GDP, in line with the program objective. Including grants, the budget surplus reached CFAF 30.2 billion (1.9 percent of GDP). The programmed reduction of arrears of

CFAF 20.0 billion was achieved, while the reimbursement of reclassified crop credit was higher than envisaged. Thus, the deficit, on a cash basis and including grants, amounted to CFAF 1.4 billion (0.1 percent of GDP). Net external financing, including debt rescheduling, was less than programmed, owing mainly to a shortfall in external financing for the reform of the banking system. This was offset by higher domestic financing. While net bank credit to the Government was significantly lower than programmed, the Government borrowed CFAF 13.5 billion from three public enterprises, which, in turn, contracted short-term external loans not guaranteed by the Government. The loans from these enterprises will be repaid during the first quarter of 1991/92.

8. Total revenue and grants in 1990/91 reached CFAF 327.2 billion. Total revenue increased by 15.8 percent over the revised outcome for 1989/90, attaining the program target. However, there was a shortfall in tax revenue that was offset by higher-than-projected nontax revenue. Although tax revenue rose by 10.2 percent, it remained 3.7 percent below the program target. The increase in tax revenue reflected the implementation of wide-ranging measures, including: (i) the introduction of a 3.0 percent ad valorem customs fee; (ii) the widening of the scope of the goods subject to minimum customs tax assessments; (iii) the extension of the value-added tax (VAT) to the service and trade sectors; (iv) the introduction of an airport departure tax; and (v) increases in registration fees and stamp duties. Personal income tax rates were raised by 5.0 percentage points on October 1, 1990, but this increase was rescinded on December 1, 1990 in response to strong social pressure. It was replaced by compensatory measures, notably a levy on the sugar sector, a registration fee on the sale of motor vehicles, a levy on imported vegetable oil, and an increase in passport fees. The program also envisaged improvements in the tax and customs administrations, including actions to reduce tax evasion by the informal sector; although the efforts to effect these improvements did not fully yield the anticipated results in 1990/91, thereby accounting for the shortfall in tax revenue, they are likely to have a positive impact in the years ahead. In particular, the tax department was reorganized in January 1990 along functional lines instead of tax categories, and the training of tax inspectors was intensified. The customs administration reinforced its inspection teams; continued the computerization of its operations; and conducted an internal audit of its services. In addition, a verification of the operations of bonded customs warehouses in the Dakar region was undertaken in 1990/91. Nontax revenue rose by 45.5 percent in 1990/91, an outcome that was substantially better than envisaged, owing in part to higher receipts from the petroleum sector and higher payments on guaranteed external debt from public enterprises to the Amortization Fund.

9. Total expenditure and net lending in 1990/91 dropped by 8.9 percent, to a level slightly below the one envisaged in the program. Current expenditure declined by 8.7 percent, as a result of a 25.3 percent reduction in nonwage, noninterest current expenditure, reflecting a contraction in transfers and subsidies to public

enterprises, as well as cuts in lower priority expenditure. Nonetheless, there was a slippage in current expenditure resulting from higher outlays on the wage bill and on materials and supplies. With regard to the wage bill, the slippage stemmed mainly from delays in the implementation of the voluntary departures program and an increase in recruitment, resulting in part from the regularization of a number of pending cases. Thus, the programmed net reduction of 1,274 civil servants was not achieved, as the total departures of 2,043 civil servants were offset by recruitments. The slight overrun in outlays on materials and supplies resulted from increased security-related expenditure in some regions, the participation of Senegalese troops in the recent Middle East war, and the reorganization of the Government. The net outlays of the special accounts were less than envisaged, even though there was a deficit in the operations of the national retirement fund (FNR), while those of the correspondents accounts were higher, mainly because of deficits in the social security fund (IPRES). The contribution rates for the FNR and the IPRES were raised in April 1991. Capital expenditure was markedly higher, as the domestic component increased significantly. These slippages were compensated for by considerably lower expenditure on the reform of the banking system and the voluntary departures program, resulting from shortfalls and delays in the receipt of the corresponding external financial assistance.

10. The monetary authorities continued to pursue a cautious monetary policy during 1990/91. Domestic credit contracted by 12.6 percent of beginning money stock, compared with the program target of 6.8 percent. This reflected a sharp reduction in both net bank credit to the Government and credit to the economy. The Government reduced its net indebtedness to the banking system by 5.2 percent of beginning money stock, compared with a program objective of 2.1 percent. In particular, government deposits with the banking system increased significantly, partly as a result of the unused external financing received at the end of 1990/91, while the liabilities of the Government vis-à-vis banks diminished, owing mainly to the impact of debt cancellation from France in the context of the reform of the banking system. Credit to the economy declined by 7.4 percent of beginning money stock, compared with a targeted reduction of 4.6 percent, reflecting the poor crop season, the strict central bank regulations governing crop credit, and the provisions made for nonperforming loans, as well as the improved liquidity position of the private sector resulting from the repayment of domestic arrears by the Government. Other monetary items (net) declined markedly, mainly as a result of the above-mentioned provisioning of nonperforming loans, and the valuation adjustment in Senegal's position vis-à-vis the Fund at end-April 1991. Because of these factors, net domestic assets contracted by 5.7 percent of beginning money stock, compared with a programmed reduction of 4.9 percent. Net foreign assets were also markedly lower than envisaged, reflecting the weaker balance of payments position. Thus, money and quasi-money declined by 1.6 percent, instead of expanding by 3.7 percent as programmed. During

this period, the Central Bank (BCEAO) continued to pursue a high real interest rate policy.

11. The ongoing reform of the banking system, which involves the restructuring of six banks, has progressed well. Four banks were liquidated prior to 1990/91. Of the two remaining banks, the restructuring of the BIAO-S was completed in 1990/91. The Government assumed financial responsibility for the remaining CFAF 9.2 billion of unsecured nonperforming loans in September 1990, with the BCEAO consolidating about half of this amount. The restructuring of the remaining bank, the BIS, is still pending, as it has not yet been recapitalized by its shareholders; accordingly, all its operations remain suspended. Two new banks, the Crédit Lyonnais-Sénégal (CL-S), established in 1989, and the Crédit National du Sénégal (CNS), incorporated in January 1990, were expected to take over the performing assets of the liquidated banks. While CL-S has been operating normally, the capital of the CNS has not been fully subscribed. The nonperforming assets of the liquidated banks were transferred to a new loan recovery institution, the Société Nationale de Recouvrement (SNR), which became fully operational on June 1, 1991.

12. Work is under way to strengthen the qualitative and quantitative instruments of credit control in the context of the reform of monetary policy instruments in the West African Monetary Union (WAMU). During 1990/91, preparations were undertaken to eliminate the BCEAO's requirement of prior authorization for loans above a preset limit and to replace it with a new creditworthiness rating system (accord de classement des signatures) for lending decisions. Concurrently, the BCEAO undertook consultations with the commercial banks on the modalities for replacing credit ceilings with reserve requirements. Furthermore, the supranational banking supervision commission, set up on October 1, 1990, completed audits in 1990/91 for all banks operating in Senegal.

II. Program for 1991/92 1/

13. In light of developments in 1990/91, the Government plans to pursue resolutely its macroeconomic and structural policies to achieve the medium-term objectives set out in its policy framework paper for 1990/91-1992/93. The major emphasis will continue to be placed on strengthening the fiscal position further so as to reduce government

---

1/ In the context of the ongoing harmonization in the WAMU, the authorities have prepared an 18-month budget, covering July 1, 1991-December 31, 1992, in order to shift the fiscal year subsequently to a calendar-year basis. However, in order to maintain comparability with the program, as detailed in EBS/91/77, the budgetary, monetary, balance of payments, and national income accounts data are presented on the basis of the 12-month period through end-June 1992.

absorption, while alleviating the structural obstacles to economic growth. The policies for 1991/92 are designed: (i) to achieve a rebound in real GDP of 5.1 percent, as agricultural output is expected to return to its normal level; (ii) to hold the rate of inflation, as measured by the GDP deflator, at 2.1 percent; and (iii) to further reduce the external current account deficit, excluding gross official transfers, to 7.3 percent of GDP. The overall balance of payments, after already secured debt rescheduling, is expected to register a surplus of CFAF 25.9 billion (SDR 65.8 million).

a. Fiscal policy

14. The authorities are taking a number of revenue-generating and expenditure-containing measures aimed at achieving a budget surplus, on a commitment basis and excluding grants, of CFAF 6.3 billion (0.2 percent of GDP) during the 18-month period, July 1, 1991-December 31, 1992. For purposes of comparison, the overall budget surplus, on a commitment basis and excluding grants, is programmed to increase from CFAF 3.9 billion (0.2 percent of GDP) in 1990/91 to CFAF 7.1 billion (0.4 percent of GDP) in 1991/92. This is lower than the originally envisaged surplus of CFAF 22.8 billion (1.3 percent of GDP) for 1991/92, owing, as explained below, to a downward revision in revenue of 0.2 percent of GDP and an upward revision in expenditure of 0.7 percent of GDP. The Government will settle all outstanding, identified and verified payments arrears, amounting to CFAF 10.0 billion at end-June 1991, and repay CFAF 14.3 billion in outstanding reclassified crop credit. Accordingly, the budget deficit, on a cash basis and excluding grants, will be reduced from CFAF 27.7 billion (1.7 percent of GDP) in 1990/91 to CFAF 17.2 billion (1.0 percent of GDP) in 1991/92. This deficit, and the domestic and external debt service obligations, are expected to be covered by external and internal financing, including already secured debt rescheduling. The external financing for 1991/92 includes CFAF 10.1 billion from the Fund, programmed to be disbursed by end-November 1991, and the second tranche under the SAL IV from the World Bank and cofinanciers amounting to CFAF 14.3 billion, programmed to be disbursed by end-December 1991. The total external financing of the budget, excluding project-related financing and including use of Fund resources, is now projected at CFAF 68.1 billion, below the original projection of CFAF 80.6 billion. Mainly because of this lower external financing projection, as well as the repayment of the CFAF 13.5 billion borrowed from public enterprises, net bank credit to the Government is now anticipated to rise by CFAF 5.0 billion. Any excess external budgetary financing beyond that currently projected will be utilized to improve the Government's position vis-à-vis the banking system.

15. Total revenue is projected to rise by 2.0 percent in 1991/92, to CFAF 307.0 billion, as an 8.6 percent increase in tax revenue is projected to offset a 24.5 percent drop in nontax revenue. Although the revenue target is lower than originally envisaged, the growth rate of tax revenue is higher, given the outcome for 1990/91. Accordingly, in

addition to the full-year effect of the revenue measures taken during 1990/91, the Government is implementing further measures to achieve the tax revenue target. Particular emphasis is being placed on specific steps to enhance customs revenue mobilization. These include (i) the appointment of a reputable surveillance company to reinforce import valuation assessment, so as to curtail underinvoicing; (ii) the initiation of administrative reforms supported by technical assistance from a bilateral donor and from the Fund; (iii) the allocation of CFAF 1.6 billion to the customs administration to purchase the requisite equipment to increase surveillance of the sea and land borders, as well as to improve customs control at the Dakar airport; and (iv) a step-up in the campaign against customs evasion by the intensification of the verification of customs payments. In addition, the audits of the bonded customs warehouses will be reviewed, and sanctions, including the closing of warehouses, will be imposed against those with irregularities. In this context, the draft decree regulating the system of free points will be submitted for review to the staffs of the World Bank and the Fund before end-September 1991 in order to ascertain that it contains the necessary measures to ensure the proper operation of the system. With respect to domestic taxes, a levy will again be imposed on the sugar sector, and efforts will be intensified to widen the tax net vis-à-vis the informal sector. In particular, the display of the business licenses at selling points will be verified, to ensure that the relevant small businesses have paid the presumptive income tax. An equalization tax (taxe d'égalisation) will replace the VAT on trade for the small traders that operate under a presumptive business license fee and that do not have the necessary accounting to fulfill the requirements of the extension of the VAT. Under the new system, the tax will be levied upstream at the level of the producers and importers. In addition, the VAT rate on telecommunications will be raised from 7.0 percent to between 12.5 and 20 percent. Finally, the restructuring of the tax administration along functional lines will be completed with bilateral external assistance, and the administration enhanced by additional professional training. The decline in nontax revenue is primarily due to the fact that fees for the licensing of fishing rights to the EC, which amounted to CFAF 10.6 billion in 1990/91, are paid only on a biannual basis. Moreover, the authorities will reallocate CFAF 1.3 billion of the levy on cooking oil to the budget. The overall tax and nontax revenue from the petroleum sector will be safeguarded at CFAF 57.0 billion, through the price adjustment mechanism for domestic petroleum prices. To monitor revenue performance, monthly revenue targets have been established, together with quarterly benchmarks through end-1991 and quarterly targets through end-1992. If the cumulative revenue target is not achieved in any consecutive two-month period, the Government will consult with the Fund management on appropriate corrective measures.

16. Total expenditure and net lending will increase by only 1.0 percent in 1991/92, to CFAF 299.9 billion, somewhat higher than originally envisaged primarily because of an upward revision in capital expenditure and outlays on the banking sector reform. Current expenditure,

excluding interest payments, will be reduced through a cut in the wage bill and lower-priority expenditure, which will allow for increases in budgetary allocations for maintenance and supplies and social programs, including education and health. The wage bill will be reduced to CFAF 125.0 billion. The reduction in the wage bill will result mainly from a net cut of 1,000 in the size of the civil service, reflecting (i) 1,300 departures under the voluntary departures program on July 1, 1991; (ii) the departure of 1,300 persons during 1991/92 through attrition (decentralization, and other reorganization, autonomisation); and (iii) the limiting of hiring to 1,600 persons. The hirings reflect essentially the last class of graduates from national administration schools who are benefiting from grandfathering under the automatic hiring policy, which has now been discontinued. Further economies will be achieved through a significant downsizing of the personnel of embassies abroad, as well as a decrease in overtime and in other variable components of the wage bill. An audit of the civil service will be undertaken to identify and verify the status of wages and indemnities (rappels), in order to establish a timetable by end-March 1992 for their regularization. In addition, no cost of living adjustments will be granted. Furthermore, in accordance with the policy framework paper and the letter of development policy of the SAL IV, the authorities will continue the policy of reducing the size of the civil service. To this end, the Government will implement the measures envisaged under the SAL IV, particularly a new round of voluntary departures, to meet the conditions pertaining to the disbursement of the third tranche. In order to finance the pursuit of the voluntary departures program, the authorities will request in writing before end-October 1991 financing on concessional terms from donors and creditors. If this financing is available, the budget for 1991/92 will be revised to take into account the expenditure for and the financing of the voluntary departures program. In view of the level of external financing mobilized for this purpose, the authorities will consult with the staffs of the Bank and the Fund by end-December 1991 to determine the additional steps to be taken to finalize a plan of action to respect the objectives of the SAL IV. The balance of the special and correspondents accounts will shift from a deficit of CFAF 10.9 billion in 1990/91 to a surplus of CFAF 3.0 billion, because of the integration of 12 special accounts into the revenue and expenditure accounts of the budget, and the increase in the contribution rates to the IPRES and the FNR. Capital expenditure will increase by 22.0 percent to CFAF 54.3 billion, reflecting the integration of the expenditure of 6 of the 12 special accounts under this heading and the provision of more adequate allocations for the maintenance of economic infrastructure. Expenditure on the reform of the banking system reflects the expected external financing, while expenditure on the voluntary departures program relates to the payment of the remaining indemnities for the civil servants who left the service on July 1, 1991.

b. Monetary policy

17. During 1991/92, the monetary authorities will continue to pursue a cautious monetary policy. Domestic credit is programmed to decline by 2.1 percent of beginning money stock in 1991/92. Net credit to the Government is expected to increase by 1.4 percent of beginning money stock, while credit to the economy is expected to decline by 3.4 percent. The latter reflects the programmed repayment of the consolidated debt and reclassified crop credit. Other ordinary credit is projected to increase by 1.9 percent of beginning of period money stock. This increase is relatively small, as the private sector is expected to benefit from the restoration of liquidity of the deposits in the banking system and the repayment of domestic arrears. Crop credit is forecast to remain stable. Overall, net domestic assets are programmed to decline by 2.1 percent of beginning of period money stock. Taking into account the balance of payments objective, the money supply is programmed to rise by 5.0 percent during 1991/92. The monetary targets established through end-1992 are predicated on achieving a growth of 4.1 percent of domestic liquidity for the calendar year 1992.

18. The Government is intent on completing the reform of the banking system by end-December 1991. In this context, priority is being given to strengthening the mechanisms for the recovery of nonperforming loans. In particular, the SNR has been given the objective of recovering CFAF 9.0 billion in 1991 and CFAF 12.5 billion in 1992. With regard to the BIS, the Government will withdraw its license if its capital cannot be fully subscribed by end-December 1991. Following the shutdown of the Bank of Credit and Commerce International (BCCI) in a number of countries, the BCEAO decided to close down all branches of the BCCI in the Union as well. Accordingly, effective July 8, 1991, the operations of the Senegalese branch of that bank were suspended and a liquidator appointed. Further changes in instruments to control money and credit will be implemented in 1991/92. The aforementioned creditworthiness rating system is expected to become fully operational effective January 1, 1992, while reserve ratios are foreseen to be introduced in the subsequent months. The monetary authorities plan to monitor closely banking activities in Senegal, drawing on the audits of the supranational banking supervision commission.

c. Industrial policy

19. Industrial policy will continue to focus on alleviating distortions and increasing competitiveness, while reducing the scope of the public enterprise sector. With respect to labor market reform, the Government will submit the revised Labor Code to the National Assembly by end-September 1991. The revised code gives employers greater leeway in hiring their work force on fixed-term contracts; eliminates the requirement for prior authorization from the Government to lay off workers; breaks the link between the SMIG and occupation-specific salary scales; and authorizes employers and employees to conduct wage

negotiations at the enterprise level. In the area of energy pricing, the Government lowered most domestic petroleum prices in mid-July 1991; the Government will continue to adjust domestic petroleum prices quarterly, based on the formula adopted in May 1991. Furthermore, the Government will review the distribution and retail margins for petroleum products. Reflecting the savings in production costs resulting from the lowering of fuel prices, electricity rates will also be reduced. In addition, the Government will review the handling fee granted to the SAR, in light of efficiency and profitability considerations. The Government will also complete the technical and financial audit in progress of the electricity generating company (SENELEC), as well as audits of the water (SONEES) and telecommunications (SONATEL) utilities, with a view to identifying measures to enhance efficiency and reduce tariffs.

20. The Government has strengthened its divestiture process in order to complete it by end-September 1991. Of the remaining 18 enterprises, the privatization of 6 is well under way; discussions with purchasers interested in 5 others are ongoing; and 7 others are to be liquidated. Regarding the financial restructuring or rehabilitation plans, it is expected that the three remaining plans will be signed by end-December 1991. In 1991/92, operating subsidies to public enterprises will be reduced further, to CFAF 7.4 billion. The settlement of the public cross-debts identified at end-December 1989 will continue on the basis of the timetable set out under the SAL IV, while measures to prevent their recurrence are being put in place in consultation with the World Bank. Furthermore, for cross-debts for the period following December 1989, similar settlement agreements will be signed before end-September 1991 with the relevant enterprises.

d. Agricultural policy

21. The Government is revising its plan of action for the agricultural sector, taking into account the proposals of the World Bank and cofinanciers, in order to reach understandings that could serve as a basis for an agricultural sector adjustment loan. In this context, the Government is reviewing the pricing system for both locally produced and imported rice; the protection system for cereals produced locally; the roles of the price stabilization fund (CPSP) and the SAED in the production, processing, importation, and marketing of rice; the privatization of SONACOS; the system of sugar pricing; and the restructuring of the cotton development agency (SODEFITEX). Other issues to be included in the elaboration of an agricultural policy include a forestry code, a community-based land management system for grazing areas, the expansion of the rural credit system, and the protection of the environment. Regarding the fishing sector, the plan of action to develop the sector focuses on industrial fishing, with a view to substantially enhancing value added and exports. The Government plans to convene a meeting of creditors and donors to mobilize resources in support of the plan. The measures envisaged include the development of facilities to improve the sanitary conditions for fish exports; the

establishment of a mutual guarantee fund to facilitate the opening of lines of credit for industrial fishing; the improvement of the marketing of fish products in foreign markets; and the amelioration of the management and control of fish resources.

22. As regards the groundnut sector, the Government will define the modalities for the privatization of SONACOS. Pending its privatization, SONACOS will continue implementing the recommendations of the recently completed technical and financial audit on measures to improve operational efficiency. In this regard, overhead costs will be reduced by raising the utilization rate of the more efficient plants; reducing transportation costs through a rationalization of the collection points; and centralizing administrative and accounting operations. The link between the producer price of groundnuts and the export price will be maintained. Accordingly, an announced premium of CFAF 10 per kilogram over the current producer price of CFAF 70 per kilogram may be paid to producers (i) only following the completion of exports relating to the 1991/92 crop, and (ii) only if the actual margin between the c.i.f. export price and the delivered cost permits it, so as to avoid any direct or indirect subsidies. The interministerial committee for the marketing of agricultural crops will make an announcement to this effect in November 1991, before the start of the marketing season.

e. Public investment program

23. The rolling public investment program for 1991/92-1994, covering a period of three and a half years, accords priority to infrastructural projects supporting the directly productive sectors. The three-and-a-half-year program targets a total of CFAF 517.5 billion in capital outlays (about 8 percent of GDP), of which CFAF 174.9 billion (some 7 percent of GDP) represents the outlays for the first 18 months. The transportation sector is projected to account for 22 percent of total investment outlays; the agricultural sector for 14 percent; and urban water facilities for 12 percent. Other important sectors include energy (8 percent), housing (7 percent), and rural water supply (6 percent). The programmed investment in the transportation sector focuses on the rehabilitation and maintenance of existing infrastructure. In agriculture, irrigation projects represent the bulk of total outlays. The planned investment in water facilities aims primarily at maintaining and improving the existing distribution network in urban areas and at developing small-scale projects in rural areas. The integration of the public investment program into the regular budgetary and expenditure control processes will strengthen the monitoring of foreign-financed outlays. More adequate allocations are also being made for the domestic component. The Government intends to continue taking steps to improve the selection of projects within the context of a coherent macroeconomic framework.

f. External sector

24. The program aims at further strengthening Senegal's external sector position, although the external current account and balance of payments targets for 1991/92 have been revised downward in light of the 1990/91 outcome and the prospects for 1991/92. Nonetheless, the medium-term prospects have not changed appreciably. Export receipts are expected to expand by 5.0 percent in 1991/92, in CFA franc terms. This objective is predicated mainly on (i) the return to normal weather conditions, conducive to a strong rebound in groundnut and cotton production, partially offset by a forecast drop of 12 percent in the international price for groundnut crude oil; (ii) the recovery of phosphate export receipts, in light of more favorable world prices; and (iii) the improved performance of the fishing sector, which will benefit over the medium term from the implementation of the aforementioned plan of action. Import payments, in CFA franc terms and excluding the CFAF 15.0 billion of exceptional imports generated in 1990/91 by the building of the complex for the Islamic Conference, would grow by 1.8 percent in 1991/92. This projection reflects (i) the anticipated decline in food and petroleum prices; (ii) the reduction in the import volume of petroleum products in view of the currently high domestic stocks; (iii) the decline in rice imports because of improved domestic cereals supplies; and (iv) the conservative demand management stance. The deficit in the service account is projected to widen further, as a result of the increase in scheduled interest payments, owing partly to the appreciation of key currencies vis-à-vis the CFA franc. Thus, the external current account deficit, excluding gross official transfers, is expected to decline from CFAF 145.7 billion in 1990/91 (9.2 percent of GDP) to CFAF 125.0 billion (7.3 percent) in 1991/92, but to remain higher than the original program target of CFAF 106.6 billion (6.2 percent). The capital account surplus is expected to be significantly lower than programmed, as the disbursement of the third tranche of the World Bank's SAL IV is now expected a year later, in 1992/93, and scheduled amortization payments have increased in line with exchange rate movements. The net private capital account is projected to be moderately positive, reflecting the realignment of private sector portfolios in 1990/91, the rehabilitation of the banking system, the resurgence of economic activity, and the maintenance of high real interest rates. The recent rescheduling of Senegal's external debt obligations under the auspices of the Paris Club is estimated to have resulted in an exceptional financing of CFAF 28.0 billion for 1991/92, virtually as anticipated in the program. Thus, the overall balance of payments, after debt rescheduling, is projected to register a surplus of CFAF 25.9 billion, rather than the original program target of CFAF 57.2 billion. Taking into account the scheduled net repurchases from the Fund, it is expected that Senegal will reduce its net debtor position in the operations account by CFAF 22.4 billion in 1991/92.

25. The Government will continue to pursue a cautious external debt management policy. It will not contract or guarantee any external loans on nonconcessional terms beyond the limits specified in the annexed

tables, except for normal short-term import-related credits. The ceiling on the nonconcessional borrowing excludes operations by the regional multinational companies in the airline industry (Air Afrique and ASECNA). Moreover, the computerized debt management system will be extended to track all actual and expected official external financial assistance disbursements in favor of Senegal. At the end of each quarter, the actual debt service payments will be integrated into the computerized external debt data base.

g. Prior actions, financial benchmarks, and targets

26. The following prior actions will be taken by end-September 1991: (i) the issuance of a ministerial directive adjusting the budgetary revenue and expenditure targets in conformity with the revised program; (ii) the issuance of a decree limiting government hiring to 1,600 persons and downsizing the staffs of the Senegalese embassies abroad; (iii) the decision to impose a levy on the sugar sector; (iv) the decision to allocate directly to the budget the levy on cooking oil; (v) the signing of a contract with a reputable surveillance firm to reinforce the customs valuation verification process; (vi) the signing of a bilateral agreement to provide technical assistance in the restructuring of the tax and customs administrations; and (vii) the submission of the revised Labor Code to the National Assembly.

27. The proposed definitive financial benchmarks through end-1991 and targets through end-1992 are shown in the annexed tables. These comprise quarterly ceilings on the net domestic assets of the banking system and net bank credit to the Government; the reduction of domestic payments arrears; the nonaccumulation of domestic and external payments arrears; the cumulative minimum government revenue; and the cumulative limits on the contracting of government or government-guaranteed nonconcessional external debt. The standard clauses regarding the exchange and payments system will also constitute benchmarks.

Table I. Senegal: Financial and Structural Performance Criteria and Benchmarks Under the Third Annual Arrangement Under the Enhanced Structural Adjustment Facility, December 1990-December 1991

	Outstanding at end-December 1990	Change from January 1, 1991 to end-1991									
		March			June			September		December	
		Benchmarks			Performance criteria			Benchmarks			
		Prog.	Prog. adj.	Act.	Prog.	Prog. adj.	Prel. act.	Indicative	Definitive	Indicative	Definitive
I. Financial performance criteria and benchmarks											
	(In billions of CFA francs)										
Net domestic assets of the banking system 1/ 2/ 3/	542.6	4.9	11.8	2.2	5.6	2.2	2.2	-19.3	20.9	-19.2	16.0
Credit to the Government (net) 1/ 2/	107.6	5.5	2.4	-6.4	6.8	-1.8	-4.1	-12.1	15.4	-18.0	5.6
Payments arrears of the Government and public agencies											
Domestic	19.1	-4.1	-4.1	-5.2	-9.1	-9.1	-9.1	-11.6	-9.6	-14.1	-12.1
External	3.9	-3.9	-3.9	-3.9	-3.9	-3.9	-3.9	-3.9	-3.9	-3.9	-3.9
Cumulative minimum revenue	136.3 4/	220.4 4/	220.4 4/	221.0 4/	300.2 4/	300.2 4/	300.9 4/	68.2 5/	65.7 5/	143.4 5/	140.5 5/
	(In millions of SDRs)										
New external borrowing on nonconcessional terms by the Government or with government guarantee 6/											
Short-term (less than 1 year)		—	—	—	—	—	—	—	—	—	—
1-5 years' maturity		—	—	—	—	—	—	—	—	—	—
1-12 years' maturity		24.0	24.0	—	24.0	24.0	—	24.0	24.0	24.0	24.0

II. Structural performance criteria and benchmarks

	Date	Status
a. Performance criteria		
1. Adoption of the 1991/92 budget 7/	End-June 1991	Implemented
2. Formulation of action plan to develop the fishing sector	End-June 1991	Implemented
3. Integration of relevant Treasury's special accounts and the accounts of the CPSP into the regular budgetary and expenditure control processes	End-June 1991	Implemented
4. Integration of public investment program into the regular budgetary and expenditure control processes	End-June 1991	Implemented
b. Benchmarks		
1. Adoption of three-year public investment program for 1991/92-1993/94	End-June 1991	Implemented
2. Revision of Labor Code	End-June 1991	Implemented

Table I (concluded). Senegal: Financial and Structural Performance Criteria and Benchmarks Under the Third Annual Arrangement Under the Enhanced Structural Adjustment Facility, December 1990-December 1991

1/ The program assumed that Senegal would receive a cumulative amount of external Treasury financial assistance (defined as external budgetary assistance including grants and debt rescheduling, but excluding project aid and assistance envisaged for the voluntary departures program and the reform of the banking sector), beginning July 1, 1990, of CFAF 38.0 billion through March 31, 1991; of CFAF 48.5 billion through June 30, 1991. In the event that the external Treasury assistance exceeded the above amounts, the changes were to be reduced pro tanto, net of any budgetary assistance used to accelerate (a) the reduction in payments arrears of the Government and public agencies; and (b) the repayment of reclassified crop credit. Through end-March, such assistance amounted to CFAF 36.6 billion, including CFAF 9.8 billion in grants, CFAF 4.3 billion in loans, and 22.5 billion in debt rescheduling; as this assistance was below that programmed, no adjustment was necessary. Through end-June, such assistance amounted to CFAF 47.8 billion, including CFAF 12.8 billion in grants, CFAF 6.5 billion in loans, and CFAF 28.5 billion in debt rescheduling; as this assistance was below that programmed, no adjustment was necessary. The program further assumes that, beginning July 1, 1991, Senegal would receive a cumulative amount of external Treasury financial assistance of CFAF 6.5 billion through September 30, 1991; and CFAF 28.5 billion through December 31, 1991. In the event that the external Treasury assistance exceeds the above amounts, the changes will be reduced pro tanto, net of any budgetary assistance used to accelerate (a) the reduction in payments arrears of the Government and public agencies; and (b) the repayment of reclassified crop credit. The ceilings will be adjusted by any additional variations resulting from the restructuring of the banking system.

2/ The program did not envisage the receipt by Senegal of any extrabudgetary external financial assistance during the period January 1-June 30, 1991 that would have had the effect of improving the net position of the Government vis-à-vis the banking system. In the event that such assistance were received, however, the changes were to be reduced pro tanto, net of any expenditure tied to such assistance. Through end-March Senegal received such assistance tied to the reform of the banking sector in the amount of CFAF 1.5 billion, as programmed; however, as actual related expenditure fell short by CFAF 1.9 billion of the targeted amount, net domestic assets and net credit to the Government were adjusted downward by the same amount. Through end-March, Senegal also received such assistance tied to the voluntary departures program in the amount of CFAF 2.5 billion, as programmed; however, as actual related expenditure fell short by CFAF 1.2 billion of the targeted amount, net domestic assets and net credit to the Government were adjusted downward by the same amount. Through end-June, Senegal received such assistance tied to the reform of the banking system in the amount of CFAF 1.5 billion instead of CFAF 6.4 billion programmed; however, as actual related expenditure fell short by CFAF 7.4 billion of the targeted amount, net domestic assets and net credit to the Government were adjusted downward by CFAF 2.5 billion. Through end-June, Senegal also received such assistance tied to the voluntary departures program in the amount of CFAF 4.2 billion instead of CFAF 4.3 billion programmed; however, as actual related expenditures fell short by CFAF 6.2 billion of the targeted amount, net domestic assets and net credit to the Government were adjusted downward by CFAF 6.1 billion. The program does not envisage the receipt by Senegal of any extrabudgetary financial assistance during the period July 1-December 31, 1991 that would have the effect of improving the net position of the Government vis-a-vis the banking system. In the event that such financial assistance is received, however, the changes will be reduced pro tanto, net of any expenditure tied to such assistance.

3/ The program envisaged reductions in crop credit, beginning July 1, 1990, of CFA 10.3 billion through March 31, 1991; and of CFAF 12.3 billion through June 30, 1991. The program also envisaged reductions in reclassified crop credit beginning July 1, 1990, of CFAF 15.0 billion through March 31, 1991; and of CFAF 15.0 billion through June 30, 1991. In the event that variations in crop and reclassified crop credit differed from these amounts, the variations in net domestic assets were to be adjusted pro tanto. The actual reduction in crop credit exceeded the programmed amount at end-March by CFAF 1.1 billion and at end-June by CFAF 3.8 billion; the corresponding ceilings for net domestic assets were adjusted downward by these amounts. The actual reduction in reclassified crop credit fell short of the programmed amount at end-March by CFAF 11.1 billion, and at end-June by CFAF 9.0 billion; the corresponding ceilings for net domestic assets were adjusted upward by these amounts. The program further envisages reductions in crop credit, beginning July 1, 1991, of CFAF 4.2 billion through September 30, 1991; and of CFAF 0.2 billion through December 31, 1991. The program also envisages reductions in reclassified crop credit, beginning July 1, 1991, of CFAF 3.6 billion through September 30, 1991; and of CFAF 7.1 billion through December 31, 1991. In the event that the variations in crop credit and in reclassified crop credit differ from these amounts, the variation in net domestic assets will be adjusted pro tanto.

4/ Change from July 1, 1990 to end of period.

5/ Change from July 1, 1991 to end of period.

6/ The exchange rate applicable to these borrowings will be the rate of the SDR vis-à-vis the contract currency on December 31, 1990, as reported in International Financial Statistics. For debts directly contracted by the Government, the loan will count toward the ceiling on the date of the signing. For debts guaranteed by the Government, the full amount of the loan will count toward the ceiling on the date of full or first partial guarantee, whichever is earlier. For the purposes of this ceiling, the length of the loan is deemed to be from the date of signing or the date that the loan enters into effect (whichever is later) until the last scheduled amortization payment. Loans on concessional terms, as defined by the OECD Development Assistance Committee, are excluded from these ceilings, as well as normal short-term import-related credits.

7/ The 1991/92 budget covers 18 months, from July 1, 1991 to December 31, 1992.

Table II. Senegal: Financial Targets, 1992

	Outstanding at end-June 1991	Change from July 1, 1991 to end-1992			
		March	June	September	December
	Preliminary actuals	Targets			
		(In billions of CFA francs)			
Net domestic assets of the banking system 1/ 2/ 3/	544.8	7.6	-7.6	4.1	1.6
Credit to the Government (net) 1/ 2/	103.5	7.0	5.0	13.3	9.4
Payments arrears of the Government and public agencies					
Domestic	10.0	-6.0	-10.0	-10.0	-10.0
External	—	—	--	—	—
Cumulative minimum revenue	300.9 4/	223.9	307.0	383.4	461.4
		(In millions of SDRs)			
New external borrowing on nonconcessional terms by the Government or with government guarantee 5/					
Short-term (less than 1 year)		—	—	—	—
1-5 years' maturity		—	—	—	—
1-12 years' maturity		24.0	24.0	24.0	24.0

1/ The program assumes that Senegal would receive a cumulative amount of external Treasury financial assistance (defined as external budgetary assistance including grants and debt rescheduling, but excluding project aid and assistance envisaged for the reform of the banking sector), beginning July 1, 1991, of CFAF 38.6 billion through March 31, 1992; of CFAF 48.1 billion through June 30, 1992; of CFAF 51.6 billion through September 30, 1992; and CFAF 69.9 billion through December 31, 1992. In the event that the external Treasury assistance exceeds the above amounts, the changes will be reduced pro tanto, net of any budgetary assistance used to accelerate (a) the reduction in payments arrears of the Government and public agencies; and (b) the repayment of reclassified crop credit. The ceilings will be adjusted by any additional variations resulting from the restructuring of the banking system.

2/ The program does not envisage the receipt by Senegal of any extrabudgetary external financial assistance during the period July 1, 1991-December 31, 1992 that would have the effect of improving the net position of the Government vis-à-vis the banking system. Should such assistance be received, however, the changes will be reduced pro tanto, net of any expenditure tied to such assistance.

3/ The program envisages an increase in crop credit, beginning July 1, 1991, of CFA 4.8 billion through March 31, 1992; and reductions of CFAF 0.2 billion through June 30, 1992; of CFAF 2.2 billion through September 30, 1992; and of CFAF 0.2 billion through December 31, 1992. The program also envisages reductions in reclassified crop credit, beginning July 1, 1991, of CFAF 10.6 billion through March 31, 1992; of CFAF 15.3 billion through June 30, 1992; of CFAF 17.8 billion through September 30, 1992; and of CFAF 21.4 billion through December 31, 1992. In the event that the variations in crop credit and in reclassified crop credit differ from these amounts, the variation in net domestic assets will be adjusted pro tanto.

4/ Change from July 1, 1990 to end of period.

5/ The exchange rate applicable to these borrowings will be the rate of the SDR vis-à-vis the contract currency on June 30, 1991, as reported in International Financial Statistics. For debts directly contracted by the Government, the loan will count toward the ceiling on the date of the signing. For debts guaranteed by the Government, the full amount of the loan will count toward the ceiling on the date of full or first partial guarantee, whichever is earlier. For the purposes of this ceiling, the length of the loan is deemed to be from the date of signing or the date that the loan enters into effect (whichever is later) until the last scheduled amortization payment. Loans on concessional terms, as defined by the OECD Development Assistance Committee, are excluded from these ceilings, as well as normal short-term import-related credits.

Medium-Term Outlook for the Balance of Payments and Capacity to Repay the Fund 1/

1. Baseline scenario

The medium-term scenario for the balance of payments, presented in the last staff report on Senegal (EBS/91/77), has been updated on the basis of the preliminary outcome for 1990/91 and the policies envisaged for 1991/92, as well as the revised prospects for the medium term, including the latest international price projections provided in the World Economic Outlook (Appendix I, Tables VI and VII). Even though the external current account deficits, excluding official transfers, are now about 1 percentage point higher than previously projected, Senegal is expected to begin in 1992/93 to record balance of payments surpluses (albeit lower than originally foreseen), without further recourse to debt relief.

Export receipts have been revised downward to reflect (i) the lower export base in 1990/91; (ii) the lower volume of groundnut exports in 1991/92, owing to the poor 1990/91 harvest; (iii) the projected cumulative fall of 30.2 percent in groundnut oil export prices over the next three years; (iv) the slower-than-expected recovery in phosphate exports because of marketing difficulties stemming from the presence of cadmium in Senegal's phosphate deposits, as well as technical problems at the mines. Notwithstanding the impact of these factors, export receipts are projected to increase by 5.0 percent in 1991/92, and at an average annual rate of 12 percent thereafter. These growth rates are predicated on (i) the recovery in the export volume of groundnut products after 1991/92, with the return of normal weather; (ii) the continued expansion of the fishing sector, as well as favorable world price prospects; and (iii) the growth in the volume of phosphate exports as well as a projected sharp rise in export unit prices.

Import projections remain broadly in line with those under the previous baseline scenario. In 1991/92 import payments are projected to drop, primarily as a result of the completion of the complex for the Islamic Conference. For the subsequent years, virtually all the assumptions made in the previous baseline scenario remain valid, except those for petroleum import prices, which have been revised upward. Thus, after declining by 2.6 percent in 1991/92, import payments are projected to grow thereafter at an average annual rate of some 6 percent, notably as a result of the need to sustain Senegal's development through imports of capital and intermediate goods. The trade deficit is thus anticipated to narrow from CFAF 88.4 billion in 1990/91 to CFAF 66.7 billion in 1991/92, and CFAF 41.0 billion in 1994/95--some 0.5 percent of GDP higher than under the previous scenario.

1/ The analysis is based on preliminary data for 1990/91; all data are expressed in CFA franc terms.

The service account is now projected to improve somewhat more slowly, mainly as a result of the rise in scheduled interest payments owing to the anticipated appreciation of key currencies vis-à-vis the CFA franc. Accordingly, the current account deficit, excluding gross official transfers, is projected to shrink from CFAF 145.7 billion (9.2 percent of GDP) in 1990/91 to CFAF 125.0 billion (7.3 percent of GDP) in 1991/92, and CFAF 94.7 billion (4.7 percent of GDP) in 1994/95--about 1 percentage point higher than under the previous baseline scenario.

Net public capital inflows during 1990/91 were in line with the program projections, as a delay in the disbursement of the second tranche of the World Bank's financial sector adjustment program was compensated for by higher budgetary loans and lower amortization payments. For the future, however, the disbursement of the third tranche under the World Bank's SAL IV has been postponed by one year, from 1991/92 to 1992/93. At the same time, scheduled amortization payments for the external debt have been increased in line with the projected exchange rate movements. As before, it is assumed that Senegal will benefit over the medium term from concessional external financial assistance from multilateral and bilateral donors and creditors to finance its public investment program; the previously projected amounts remain unchanged. The private capital account in 1990/91 registered a deficit of CFAF 5.8 billion, rather than the projected balanced position, mainly because the commercial banks reduced their foreign liabilities as a result of the drawdown of deposits used to finance the complex for the Islamic Conference. Medium-term private capital projections starting in 1991/92 remain in line with the previous ones. Accordingly, the overall balance of payments, before debt rescheduling, is projected to be in virtual balance in 1991/92, instead of the originally projected surplus. However, including the effect of already secured debt rescheduling, the balance of payments is expected to record a sizable surplus in 1991/92. In subsequent years, the balance of payments is anticipated to generate increasing surpluses, without recourse to further debt rescheduling.

2. Alternative scenarios

Two alternative scenarios have been developed to conduct a sensitivity analysis of Senegal's balance of payments to exogenous factors. The two scenarios explore adverse and positive developments beyond the authorities' control. Scenario I assumes that there will be a drought in 1992/93. Accordingly, all groundnut and cotton exports will be reduced in volume, and cereals imports will surge to compensate for the shortfall in domestic coarse grain production. In particular, groundnut oil exports would drop to 60,000 metric tons, instead of 100,800 tons under the baseline scenario, while groundnut oil cake exports would decline to 120,000 tons from the projected 166,000 tons. Concurrently, rice imports would increase to 350,000 tons, against 308,300 tons under the baseline scenario, and wheat imports would reach 180,000 tons, compared with 152,800 tons under the baseline scenario.

In line with previous experience, the recovery would be gradual. Thus, Senegal would suffer a serious setback in the expected improvement in its external sector position. The current account deficit, excluding gross official transfers, would remain at 7.3 percent of GDP in 1992/93, and would narrow more slowly thereafter than under the baseline scenario (Appendix III, Table I). The balance of payments would register a cumulative deficit over the three years under review, against a surplus under the baseline scenario, and external financing gaps would emerge.

Scenario II supposes that, instead of the forecast decline in the world groundnut oil price, as incorporated in the baseline scenario, this price would remain constant in real terms at the average level of the last three years, namely US$900 per metric ton. Under this scenario, the improvement in the external sector position would be faster and larger, thus allowing for an accelerated reduction of the Central Bank's net foreign liabilities.

3. Capacity to repay the Fund

The baseline scenario and Scenario I have been extended through 2001/02 to assess Senegal's long-term external position and repayment capacity (Appendix I, Table III). The underlying medium-term assumptions are close to those envisaged in EBS/91/77. After 1994/95 (i) export receipts would grow at an average annual rate of about 6.0 percent; (ii) import payments, 5.0 percent; (iii) net private and public transfers, 3.0 percent; (iv) net public sector capital inflows, 12.0 percent; (v) net private capital inflows would stabilize at CFAF 5.0 billion; and (vi) nominal GDP would grow at an average annual rate of 6.0 percent. Under these assumptions, the external current account deficit, excluding gross official transfers, would narrow from 4.7 percent of GDP in 1994/95 to 2.4 percent in 2001/02. The external debt service ratio would decline from 19.0 percent of exports of goods and services and private receipts in 1994/95 to 12.8 percent in 2001/02. The corresponding results of Scenario I would be somewhat less favorable during and immediately after the envisaged drought, but after 1995/96 the results would converge with those projected under the baseline scenario.

Assuming that after the last disbursement under the third annual ESAF arrangement Senegal will not have further recourse to Fund resources, Senegal's projected outstanding Fund credit would decrease steadily from SDR 220.4 million in 1990/91 and would be completely eliminated by 2001/02. In relation to GDP, Fund credit would also decline gradually from 5.1 percent to nil during the same period. The debt service ratio vis-à-vis the Fund is expected to diminish steadily from 4.1 percent in 1990/91 and to be virtually eliminated by 2001/02. Although the corresponding ratios under Scenario I would be slightly worse than under the baseline scenario during 1992/93-1994/95, there would not be significant differences in subsequent years.

Table I. Senegal: Medium-Term Outlook for the Balance of Payments, Alternative Scenarios, 1990/91-1994/95

(In percent, unless otherwise indicated)

	1990/91 Estimate	1991/92 Rev. prog.	1992/93	1993/94 Projections	1994/95
			Baseline scenario		
Current account (deficit -)/GDP					
Excluding official transfers	-9.2	-7.3	-6.3	-5.1	-4.7
Including official transfers	-3.6	-2.3	-1.5	-0.4	-0.2
Overall balance (deficit -) (CFAF billion) 1/	-47.9	-3.3	4.7	6.5	13.2
Financing gap (CFAF billion) 2/	—	—	—	—	—
Debt service ratio 3/	23.7	24.5	22.1	19.6	19.0
Terms of trade (change)	3.3	6.6	-3.2	-3.1	1.1
			Scenario I (Drought in 1992/93)		
Current account (deficit -)/GDP					
Excluding official transfers	-9.2	-7.3	-7.3	-5.8	-4.9
Including official transfers	-3.6	-2.3	-2.4	-1.1	-0.4
Overall balance (deficit -) (CFAF billion) 1/	-47.9	-3.3	-12.3	-7.0	8.8
Financing gap (CFAF billion) 2/	—	—	17.0	13.6	4.3
Debt service ratio 3/	23.7	24.5	22.6	20.1	19.1
Terms of trade (change)	3.3	6.6	0.7	-3.0	-1.5
			Scenario II (Higher groundnut oil prices)		
Current account (deficit -)/GDP					
Excluding official transfers	-9.2	-7.2	-6.0	-4.4	-4.0
Including official transfers	-3.6	-2.2	-1.1	0.3	0.5
Overall balance (deficit -) (CFAF billion) 1/	-47.9	-0.6	11.4	19.8	26.8
Financing gap (CFAF billion) 2/	—	—	—	—	—
Debt service ratio 3/	23.7	24.3	21.8	19.1	18.5
Terms of trade (change)	3.3	7.7	-2.0	-1.4	0.9

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

1/ Before debt rescheduling, but after debt cancellation.
2/ After accounting for disbursements under the ESAF arrangement.
3/ In percent of exports of goods and services, and private receipts; before debt rescheduling, but after debt cancellation.

Senegal - Relations with the Fund
(As of August 31, 1991)

I. Membership status

a. Date of membership — August 31, 1962

b. Status — Article XIV

A. Financial Relations

II. General Department

	Millions of SDRs	Percent of quota
a. General Resources Account		
(i) Quota:	85.10	
(ii) Total Fund holdings of Senegal's currency:	141.34	166.08
(iii) Use of Fund credit:	57.25	67.27
Credit tranches	23.07	27.11
EAR	34.18	40.16
(iv) Reserve tranche position	1.01	1.19
b. Special Disbursement Account		
(i) Structural Adjustment Facility	42.55	50.00
(ii) Enhanced Structural Adjustment Facility	14.25	16.75

Senegal - Relations with the Fund (continued)
(As of August 31, 1991)

III. Previous and current stand-by, extended, SAF, and ESAF arrangements

	Date of approval	Amount approved (in millions of SDRs)	Percent of quota 1/	Amount disbursed (in millions of SDRs)	Status
1. One-year stand-by arrangement	3/30/79	10.50	25	10.50	Expired on 3/29/80
2. Extended arrangement	8/8/80	184.80	440	41.10	Replaced on 9/10/81
3. One-year stand-by arrangement	9/11/81	63.00	100	63.00	Expired on 9/10/82
4. One-year stand-by arrangement	11/24/82	47.25	75	5.90	Replaced on 9/18/83
5. One-year stand-by arrangement	9/19/83	63.00	100	63.00	Expired on 9/18/84
6. Eighteen-month stand-by arrangement	1/16/85	76.60	90	76.60	Expired on 7/15/86
7. One-year stand-by arrangement 2/	11/10/86	34.00	40	34.00	Expired on 10/25/87
Three-year SAF arrangement 2/	11/10/86	54.04	64	42.55	Canceled on 11/20/88
Of which: first annual arrangement	(11/10/86)	(17.02)	(20)	(17.02)	(Replaced on 10/25/87)
8. One-year stand-by arrangement 3/	10/26/87	21.28	25	21.28	Expired on 10/25/88
Second annual SAF arrangement 3/	10/26/87	25.53	30	25.53	Replaced on 10/25/88
9. Three-year ESAF arrangement	11/21/88	144.67	170	102.13	In progress
Of which: first annual arrangement	(11/21/88)	(59.58)	(70)	(59.58)	(Expired on 11/20/89)
10. Second annual ESAF arrangement	12/6/89	42.55	50	42.55	Expired on 12/5/90
11. Third annual ESAF arrangement	6/3/91	42.55	50	17.02	In progress

1/ At the time of approval.
2/ Arrangements approved simultaneously.
3/ Arrangements approved simultaneously.

Senegal - Relations with the Fund (continued)
(As of August 31, 1991)

IV. Projected Payments to the Fund

(In millions of SDRs, unless otherwise indicated)

	Overdue	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Beyond	Total
A. Obligations from existing drawings													
1. Principal													
a. Repurchases	—	15.6	28.1	11.0	2.5	—	—	—	—	—	—	—	57.3
b. ESAF/SAF repayments	—	—	3.4	8.5	17.4	26.8	30.6	28.9	23.8	14.9	5.5	1.7	161.7
c. TF obligations	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Charges and interest 1/													
a. Total	—	1.2	5.9	3.7	2.7	2.4	2.2	2.1	1.9	1.8	1.8	—	25.8
Total obligations	—	16.8	37.5	23.3	22.7	29.2	32.9	31.0	25.8	16.7	7.3	1.7	244.8
(Percent of quota)	—	20.6	44.0	27.3	26.6	34.3	38.6	36.4	30.3	19.6	8.6	2.0	287.4
B. Obligations from prospective drawings													
1. Principal													
a. Repurchases	—	—	—	—	—	—	—	—	—	—	-	—	—
b. ESAF/SAF repayments	—	—	—	—	—	—	—	5.1	5.1	5.1	5.1	5.1	25.5
c. TF obligations	—	—	—	—	—	—	—	—	—	—		—	—
2. Charges and interest 1/													
a. Total	—	—	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	—	—	1.0
Total obligations	—	—	0.1	0.1	0.1	0.1	0.1	5.2	5.2	5.2	5.1	5.1	26.5
(Percent of quota)	—	—	0.2	0.2	0.2	0.2	0.2	6.1	6.1	6.1	6.0	6.0	31.2
C. Cumulative (existing and prospective)													
1. Principal													
a. Repurchases	—	15.6	28.1	11.0	2.5	—	—	—	—	—	—	—	57.3
b. ESAF/SAF repayments	—	—	3.4	8.5	17.4	26.8	30.6	34.0	28.9	20.0	10.6	6.8	187.2
c. TF obligations	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Charges and interest 1/													
a. Total	—	1.2	6.3	3.8	2.9	2.5	2.3	2.2	2.0	1.9	1.8	—	26.8
Total obligations		16.8	37.6	23.4	22.8	29.3	33.0	36.2	31.0	21.9	12.4	6.8	271.2
(Percent of quota)	—	20.6	44.2	27.5	26.8	34.4	38.8	42.6	36.4	25.7	14.6	8.0	318.6

1/ Projections are based on current rates of charge, including burden-sharing charges where applicable, for purchases in the GRA, and on current interest rates for SAF, ESAF, and Trust Fund. The current SDR interest rate is assumed for net use of SDRs.

Senegal- Relations with the Fund (continued)
(As of August 31, 1991)

V. SDR Department

a. Net cumulative allocation	SDR 24.46 million
b. Holdings	SDR 0.60 million (2.46 percent of the net cumulative allocation)

VI. Administered accounts

a. Trust Fund loans	
Disbursed	SDR 33.23 million
Outstanding	--
b. ESAF Trust loans	
Disbursed	SDR 104.89 million
Outstanding	SDR 104.89 million
c. SFF Subsidy Account	
Payments by the Fund	SDR 7.79 million

B. Nonfinancial Relations

VII. Exchange rate arrangements

Senegal's currency, the CFA franc, is pegged to the French franc, which is the intervention currency, at the rate of CFAF 1 = F 0.02. The exchange rate at end-August 1991 was CFAF 395.45 = SDR 1.

VIII. Last Article IV consultation and request for the third annual arrangement under the enhanced structural adjustment facility (ESAF)

a. 1991 consultation

The 1991 Article IV consultation was concluded on June 3, 1991.

Senegal - Relations with the Fund (continued)
(As of August 31, 1991)

b. ESAF Arrangement

The discussions on the request for the third annual arrangement under the enhanced structural adjustment facility were initiated in Dakar during the period June 26-July 10, 1990; continued in Washington and Dakar during August 16-24, 1990 and January 25-February 17, 1991, respectively; and concluded in Washington during March 25-April 13, 1991. The staff report (EBS/91/77) was discussed by the Executive Board on June 3, 1991, and the following decision was adopted:

1. The Government of Senegal has requested the third annual arrangement under the enhanced structural adjustment facility.

2. The Fund has appraised the progress of Senegal in implementing economic policies and achieving the objectives under the program supported by the second annual arrangement, and notes the updated policy framework paper set forth in EBD/91/153.

3. The Fund approves the arrangement set forth in EBS/91/77.

IX. Technical assistance

a. Central Banking Department

An external debt expert was assigned, as a consultant, to the Ministry of Economy and Finance during the period January 1984-December 1985.

b. Fiscal Affairs Department

A consultant from the fiscal panel assisted a unit in the Ministry of Economy and Finance during the period October 1981-January 1982 in taking stock of government payments arrears.

A team of two Fund staff members and a member of the fiscal panel provided technical assistance in the customs and internal revenue fields during a period of three weeks in May 1985. Follow-up technical assistance was provided by a Fund staff member and a member of the fiscal panel for two weeks in October-November 1985 and one week in February 1986.

A Fund staff member participated in May 1986 in a World Bank mission to assist the authorities with a revision of the customs tariffs, and with a simplification and rationalization of the tariff structure and nomenclature.

A member of the fiscal panel was assigned, as Tax Advisor, to the Ministry of Economy and Finance for the period June 1986-November 1989.

Senegal - Relations with the Fund (concluded)
(As of August 31, 1991)

A team of one Fund staff member and a member of the fiscal panel provided technical assistance in the area of budgeting and treasury accounting for a period of three weeks in March 1988.

A team of one Fund staff member, two members of the fiscal panel, and one consultant from the World Bank visited Dakar in February 1989 to provide technical assistance in the area of fiscal reform and taxation of petroleum products.

c. Bureau of Statistics

Technical assistance was provided in the area of government finance statistics in September-October 1982, and again in May 1984; in the area of balance of payments statistics in February 1984; as well as in the area of monetary statistics in May 1985. A course in money and banking statistics was given in April 1990.

X. Fund resident representative

Stationed in Dakar since July 24, 1984. Mr. Franco succeeded Mr. Brou on April 4, 1991.

Senegal - Relations with the World Bank Group
(As of June 30, 1991)

Commentary on lending operations

1. The World Bank's assistance strategy in Senegal is designed to support a far-reaching medium- and long-term structural adjustment program. The main objectives of this strategy are to assist the Government in (a) addressing the central issues of economic management by promoting institutional reforms in the public enterprise sector and in the investment programming and budgeting process, and by improving the efficiency of the civil service and reducing its costs; (b) developing and diversifying the productive base by implementing appropriate private sector incentive policies, reducing input costs and in general improving the investment climate, and (c) improving the effectiveness of external assistance by acting as a focal point for increased aid coordination among the donors.

2. As of June 30, 1991, the World Bank Group had approved 96 operations in Senegal for a total amount committed of US$1,079.49 million, consisting of 66 IDA credits (including 3 special fund credits and two SFA), 20 Bank loans, and 10 IFC operations. The physical execution of most projects is progressing reasonably well. The attached table contains the latest disbursement status of World Bank and IFC operations in Senegal.

3. Past projects strongly supported agricultural diversification, institutional development and expansion of the country's infrastructure, particularly its transport systems (highways, rails, port, and airports). In recent years, emphasis has shifted to better utilization and maintenance of existing facilities, and on helping the Government resolve some of the key issues related to long-term development prospects. Ongoing or planned operations for agricultural extension and research, health, education, and financial sector reforms relate to both of these concerns.

4. Only US$16 million was committed in fiscal year 1989, but lending increased both in fiscal year 1990 (US$185 million in commitments) and 1991 (commitments totalled US$107 million). The 1990 commitments included policy-based operations (SAL IV and Banking Sector Reform) which aim at increasing the efficiency of resource use by the public sector; restoring public sector savings through an acceleration of the public enterprise sector reform; extending the reform of production and private investment incentives in agriculture and industry; and rehabilitating the financial sector while improving financial intermediation. The first tranche of SAL IV was released in early 1990 based on reform actions undertaken by the Government prior to the credit's effectiveness. Over the three-year period 1992/93-1994/95, the Bank's lending program, all of which would be on IDA terms, is expected to consist of sector operations in agriculture and human resources and investments in the water supply and energy sector and for private sector development.

Senegal - Relations with the World Bank Group (concluded)

Lending operations (As of June 30, 1991; in millions of U.S. dollars)

	IBRD and IDA 1/		IFC loans/equity and investment participations 1/		Grand total
	Total commitments	Of which: undisbursed	Total commitments	Of which: undisbursed	
Twenty loans and 43 credits fully disbursed	591.79	(—)	—	(—)	591.79
Structural adjustment and technical assistance	164.27	(86.51)	—	(—)	159.00
Agriculture, livestock, and forestry	101.40	(55.70)	4.29	(—)	105.69
Energy, industry, and tourism	53.00	(30.65)	51.86	(—)	104.86
Transport, equipment and telecommunications	85.34	(76.76)	—	(—)	20.34
Urban development, education, and health	152.00	(82.50)	—	(—)	117.00
Total	1,147.80	(334.82)	56.15	(—)	1,203.95
Less: repaid or sold					124.46
Total committed					1,079.49
Held by IBRD					58.94
IDA					998.88
IFC					21.67

Memorandum items:

Annual IBRD/IDA operations 2/	Commitments	Disbursements	Repayments
1976	36.3	16.7	0.3
1977	19.6	20.7	0.6
1978	37.3	16.3	1.8
1979	31.5	27.2	2.6
1980	57.6	30.0	2.1
1981	93.9	69.4	2.4
1982	18.8	25.8	3.1
1983	59.1	31.8	5.6
1984	34.2	29.0	5.9
1985	24.2	33.7	6.0
1986	72.4	77.7	9.9
1987	127.0	71.0	10.3
1988	142.0	100.0	10.8
1989	16.0	33.6	11.0
1990	185.0	93.1	10.1
1991	107.1	61.4	14.5

Source: World Bank Group.

1/ Less cancellations.
2/ During fiscal year ending June 30.

- 60 -

APPENDIX VI

Senegal - Selected Social and Demographic Indicators

Area

Total	196,200 sq. km.
Agricultural	55.5 percent of total

Gross domestic product

Per capita (1989)	SDR 508

Population (1989)

7.2 million
Rate of growth 3.0 percent per annum

Population density

62 per sq. km. of agricultural land

Population characteristics

Crude birth rate (per thousand)	45.1
Crude death rate (per thousand)	15.8
Life expectancy at birth (years)	48.1
Urban population (percent of total)	38.1

Health

Population per physician (in thousands)	13.4
Population per hospital bed (in thousands)	0.9
Infant mortality rate (per thousand live births)	77

Access to safe water

In percent of population

Total	55
Urban	79
Rural	38

Nutrition

Per capita supply of

Calories (per day)	1,989
Proteins (grams per day)	62

Education

Enrollment rates (in percent)	
Primary	60
Secondary	15
Pupil-teacher ratio	
Primary	54
Secondary	33

Source: Social Indicators of Development (World Bank).

External Debt Renegotiation with the Paris Club

At a meeting of the Paris Club held on June 21, 1991, the representatives of the governments of Belgium, Canada, France, Italy, Japan, the Netherlands, Norway, Spain, Switzerland, the United Kingdom, and the United States considered Senegal's request for restructuring part of its external debt service obligations. Observers from the governments of two other countries, 1/ the Fund, 2/ the World Bank, the African Development Bank, the Organization for Economic Cooperation and Development, and the Secretariat of the United Nations Conference on Trade and Development also attended the meeting. 3/

The Senegalese delegation, which was headed by Mr. Sagna, the Minister of Economy, Finance, and Planning, outlined the country's serious economic and financial difficulties, and described the policies supported by the Fund through a three-year arrangement under the enhanced structural adjustment facility (ESAF) approved on November 21, 1988, and the third annual arrangement thereunder, approved on June 3, 1991. The delegation reiterated the strong determination of the Government of Senegal to reduce the existing economic and financial imbalances by rigorously implementing its medium-term adjustment program.

The Fund staff representative described the country's economic and financial situation, and the major elements of the program undertaken by the Government of Senegal. The representatives of the governments of the participating creditor countries took note of the strong measures of adjustment undertaken by the Government of Senegal, and stressed the importance they attach to the continued and full implementation of the program, including in particular the revitalization of the productive sectors of the economy. They also took note of Senegal's protracted balance of payments problems and heavy debt service obligations, in conjunction with its very low per capita income, which were deemed, given the strong adjustment program, to warrant exceptional treatment of the country's debt.

In the Agreed Minute of June 21, 1991, the representatives of the participating countries agreed to recommend to their governments or appropriate institutions that debt relief be provided, through rescheduling or refinancing on loans from, or commercial credits guaranteed or insured by, the governments or appropriate institutions of

---

1/ Denmark and Finland.

2/ The Fund staff representatives were Mr. Nsouli (AFR) and Mr. Kuhn (ETR).

3/ The meeting was chaired by Ms. Anne Le Lorier, Deputy Assistant Secretary for Debt and Development, French Ministry of Economy, Finance, and Budget.

the participating creditor countries that were extended to the Government of Senegal or covered by its guarantee before January 1, 1983 with an original maturity of more than one year, as well as debt service resulting from consolidation agreements concluded according to the Agreed Minutes dated November 29, 1982, December 21, 1983, January 18, 1985, November 21, 1986, and November 17, 1987. Debt service due as a result of the agreements concluded on January 24, 1989 and February 12, 1990 was excluded from the present reorganization. The reorganization will not apply to the debts contracted by two multinational entities, Air Afrique and the Agence pour la Sécurité de la Navigation Aérienne, which are guaranteed jointly by the Government of Senegal and other governments.

The debt relief covers 100 percent of the amount of principal and interest (excluding late interest) due as at June 30, 1991 inclusive and not paid, and 100 percent of the amount of principal and interest due from July 1, 1991 up to June 30, 1992 inclusive and not paid on loans, credits, and the previous consolidations mentioned above. The representatives of each participating creditor country agreed to recommend to their authorities the provisions of debt relief on the basis of one of three options. The representatives of France and the United Kingdom chose to cancel one third of the amounts consolidated and to reschedule or refinance the balance, excluding late interest, over a 14 year period, with the first payment to be made on June 30, 2000, at an interest rate to be determined bilaterally on the basis of the appropriate market rate (Option A). The representatives of Canada, Italy, Norway, and Switzerland opted to reschedule or refinance the amounts consolidated, excluding late interest, over a 14 year period, with the first payment to be made on June 30, 2000, at an interest rate to be determined bilaterally on the basis of the appropriate market rate, reduced by the lesser of 3.5 percentage points or 50 percent (Option B). The representatives of Belgium, Japan, the Netherlands, Spain, and the United States elected to reschedule or refinance the amounts eligible, excluding late interest, over a 25 year period, with the first payment to be made on June 30, 2006, at an interest rate to be determined bilaterally on the basis of the appropriate market rate (Option C). The terms of rescheduling are subject to the further proviso that official development assistance loans rescheduled or refinanced would be repaid over a 25-year period, with a 14-year grace period, with conditions and rates of interest at least as favorable as the concessional rates applying to those loans.

In order to secure comparable treatment of public and private external creditors on their debts, the Government of Senegal undertook to seek from external creditors rescheduling or refinancing arrangements on terms comparable to those set forth in the Agreed Minute for credits of comparable maturity, making sure to avoid inequality between different categories of creditors. The Government of Senegal also agreed not to accord any creditor country not participating in the Paris Club repayment terms more favorable than those accorded to the participating creditor countries. The Government of Senegal agreed to inform the Chairman of the Paris Club in writing not later than December 31, 1991 of the progress made in negotiations with other creditors.

The Agreed Minute also included the following provisions concerning debt swaps:

> On a voluntary basis, the Government of each creditor country or its appropriate institutions may sell or exchange, in the framework of debt for nature, debt for aid, debt for equity swaps or other local currency debt swaps:
>
> (i) the amounts of outstanding loans mentioned ... above as regards official development aid loans and direct government loans;
>
> (ii) the amounts of other outstanding credits mentioned ... above, up to 10 percent of the amounts of outstanding credits as of June 30, 1991 or up to an amount of 10 million U.S. dollars, whichever is higher.

The details of the rescheduling or refinancing arrangements will be determined bilaterally between the Government of Senegal and the government or appropriate institutions of each of the participating creditor countries. The bilateral agreements are to be concluded with the least delay and in any case before December 31, 1991. The provisions of the Agreed Minute do not apply to creditor countries with eligible consolidation principal and interest falling due during the reorganization period on debts, including arrears, of less than SDR 500,000. The Government of Senegal also undertook to pay all debt service due, as of the date of the Agreed Minute, on consolidations, on loans, on credits, or pursuant to contracts or other financial arrangements payable on cash terms, extended or guaranteed by the governments of the participating or observer creditor countries or their appropriate institutions, and not covered by the Agreed Minute, as soon as possible and, in any event, not later than August 31, 1991. Late interest, on the basis of the appropriate market rate, will be charged on those amounts.

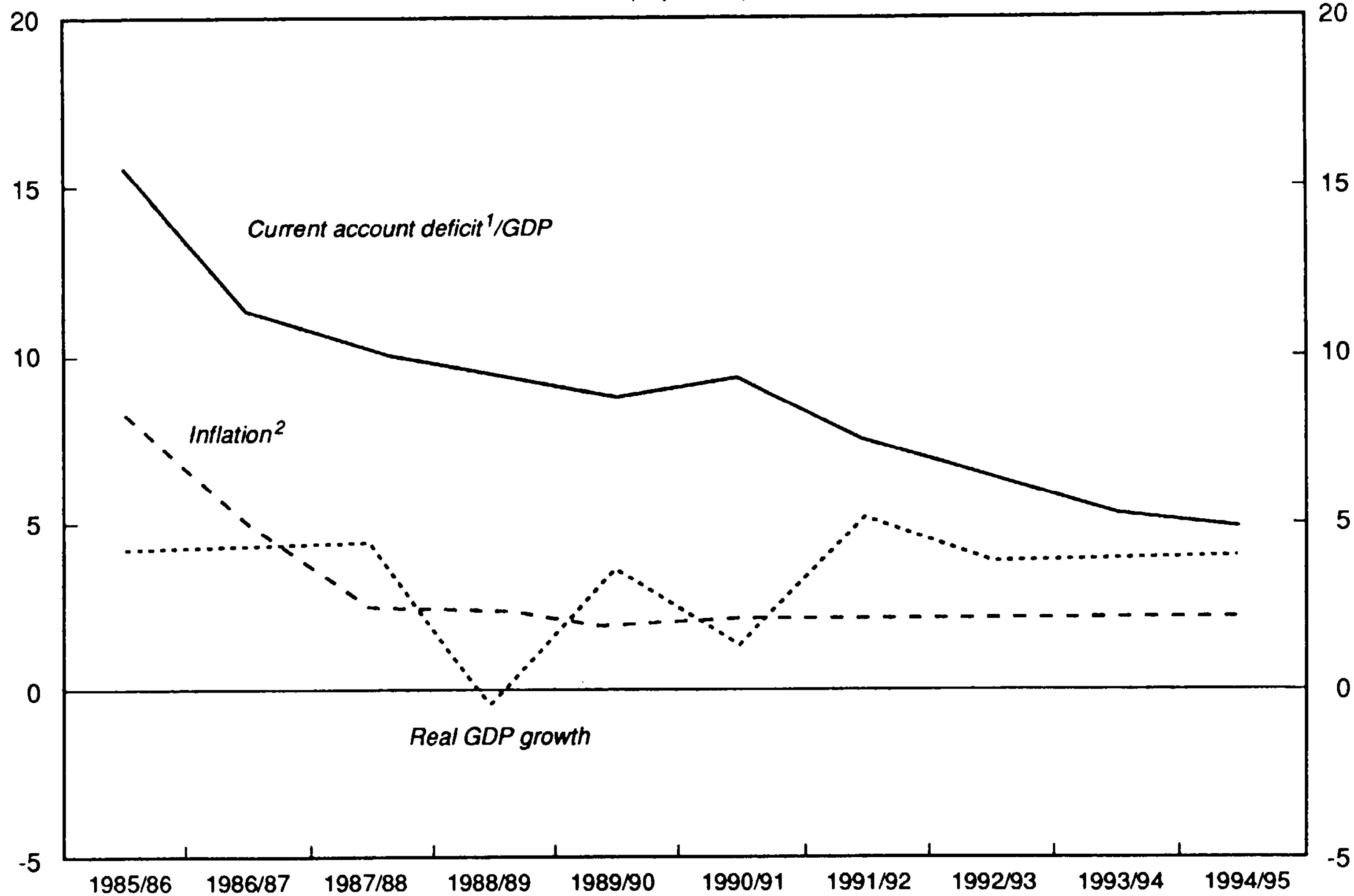
The provisions of the Agreed Minute will apply provided that the Government of Senegal continues to have an appropriate arrangement from the Fund. For this purpose, the Government of Senegal agreed that the Fund would inform the Chairman of the Paris Club of the status of Senegal's relations with the Fund.

The amount of debt relief that Senegal has obtained from the Paris Club as a result of this consolidation is estimated at CFAF 13.4 billion (SDR 35.1 million) for the period January 1, 1991 through June 30, 1991 and CFAF 23.6 billion (SDR 59.9 million) for the period July 1, 1991 through June 30, 1992. Including additional debt relief on comparable terms from other bilateral creditors as well as debt rescheduling from the London Club, Senegal's total debt relief is estimated to amount to CFAF 29.2 billion (SDR 74.1 million) in 1991/92, compared with CFAF 29.7 billion (SDR 81.6 million) initially projected under the Fund-supported program.

CHART 1
SENEGAL

REAL GROWTH AND ADJUSTMENT, 1985/86–1994/95

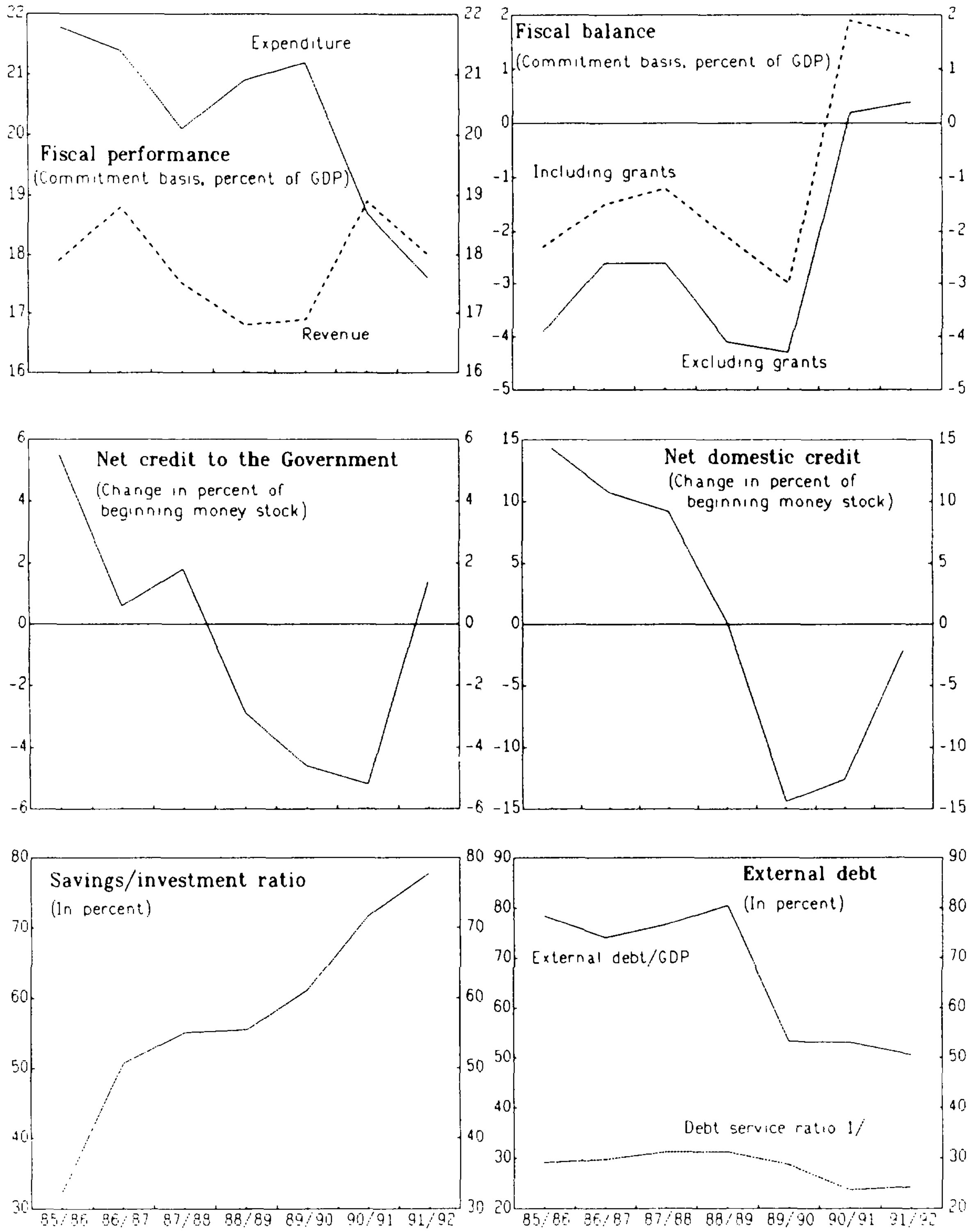
(In percent)



Sources: Data provided by the Senegalese authorities; and staff estimates and projections.
[1]Excluding official transfers.
[2]As measured by the GDP deflator.

CHART 2

SENEGAL
KEY ECONOMIC POLICY INDICATORS, 1985/86-1991/92



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

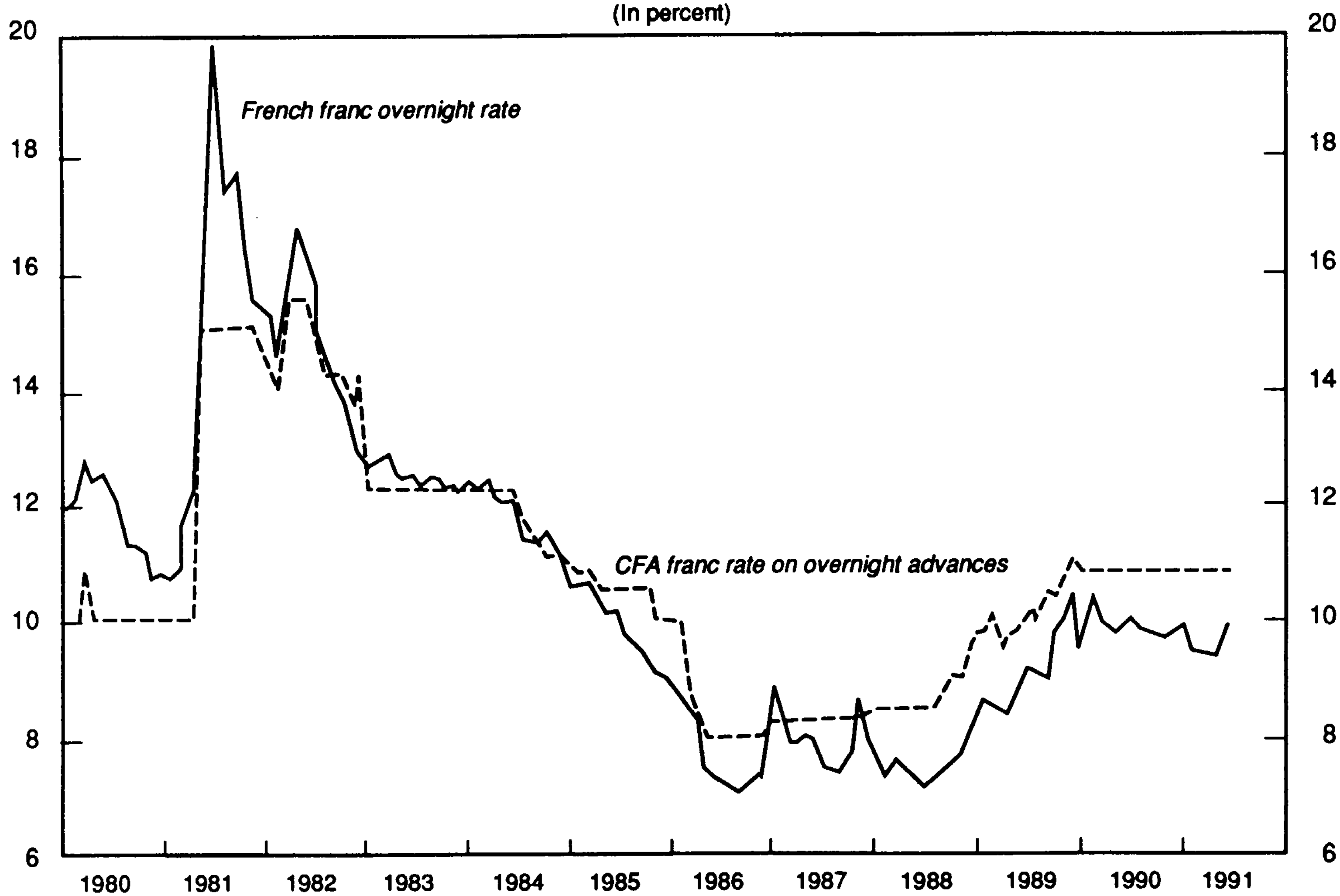
1/ In percent of exports of goods and services, and receipts of private transfers; before debt rescheduling, but after debt cancellation.

CHART 3

SENEGAL

COMPARISON OF MONEY MARKET INTEREST RATES ON FRENCH FRANCS AND CFA FRANCS, JANUARY 1980–JUNE 1991

(In percent)



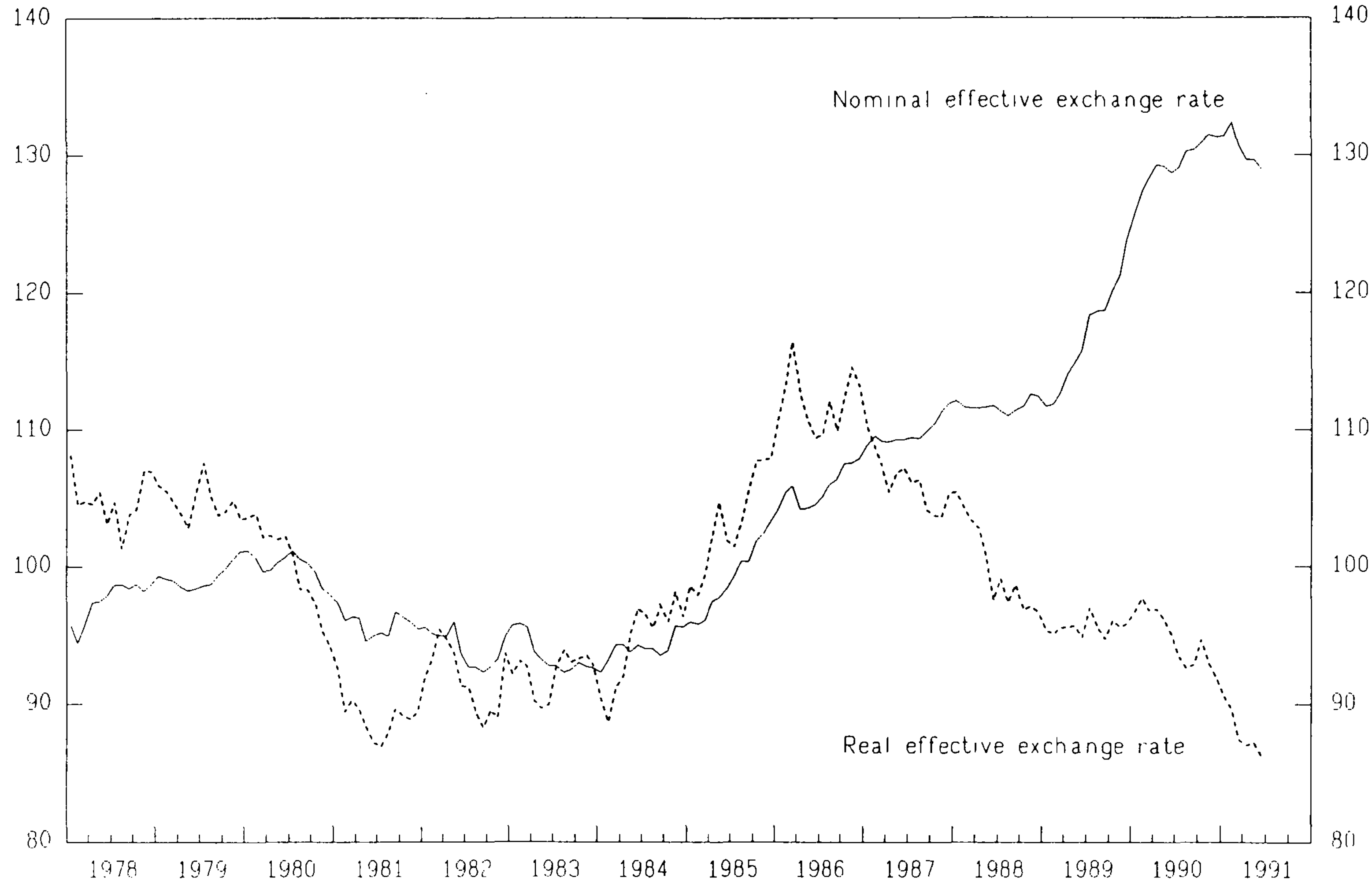
Source: BCEAO; and IMF, *International Financial Statistics*.

[1] Monthly average for French franc; end of month for CFA franc.

Chart 4

Senegal
Nominal and Real Effective Exchange Rates Indices, January 1978-June 1991

(1980 = 100)



Source: IMF, Information Notice System