FOR
AGENDA

EBS/90/46

CONFIDENTIAL

March 14, 1990

To: Members of the Executive Board

From: The Secretary

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

Attached for consideration by the Executive Directors is the staff report for the midterm review of the second annual arrangement for Senegal under the enhanced structural adjustment facility, which is tentatively scheduled for discussion on Friday, March 30, 1990. A draft decision appears on page 21.

Mr. Nsouli (ext. 6937) or Mr. Pham (ext. 8734) 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 Second 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 Mamoudou Touré and A. Basu

March 13, 1990

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I. Introduction

In the attached letter to the Managing Director, dated March 12, 1990 (Appendix II), concerning the midterm review under the second annual arrangement under the enhanced structural adjustment facility (ESAF) for Senegal, the Minister of Economy and Finance of Senegal reviews the progress made in the implementation of the 1989/90 (July/June) program, and sets out the policies and measures to be pursued during the remainder of the program period. 1/ Based on available data, the program for 1989/90 is broadly on track. In order to base the review on firm data on revenue through February 1990 and on complete data for key financial aggregates at end-December 1989, the letter of intent was finalized only on March 12, 1990. Accordingly, the report could not be issued at an earlier date.

On November 21, 1988, the Fund approved a three-year arrangement for Senegal under the ESAF, in an amount equivalent to SDR 144.67 million (170 percent of quota), and the first annual arrangement thereunder, in an amount equivalent to SDR 59.58 million (70 percent of quota). Both loans under the first annual arrangement were disbursed. Senegal's request for the second annual arrangement, in an amount equivalent to SDR 42.55 million (50 percent of quota), was approved on December 6, 1989, at which time the 1989 Article IV consultation was also concluded. Senegal received the first of two equal semiannual disbursements on December 15, 1989; the second disbursement is subject to the observance of the performance criteria for end-December 1989 and the completion of the midterm review. As of end-December 1989, Senegal's outstanding use of Fund resources amounted to SDR 239.27 million, equivalent to 281.16 percent of quota. On the assumption that all disbursements under the ESAF arrangement are made, and repurchases are

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1/ The discussions on the midterm review under the second annual arrangement under the ESAF were initiated in Dakar during December 8-21, 1989, and concluded in Paris during February 13-15, 1990. The Senegalese representatives included Mr. Jean Collin, Minister of State and Secretary-General of the Presidency; Mr. Serigne Lamine Diop, Minister of Economy and Finance; Mr. Djibo Ka, Minister of Planning and Cooperation; Mr. Famara Sagna, Minister of Industrial Development and Handicrafts; Mr. Moussa Touré, Minister Delegate of Economy and Finance; Mr. Djibril Sakho, National Director of the Central Bank of West African States (BCEAO); and other senior officials concerned with economic and financial matters. The mission was also received by His Excellency Mr. Abdou Diouf, President of the Republic of Senegal. The staff representatives were Messrs. Nsouli (head-AFR), Brou, Daumont, Pham (all AFR), Mrs. Nagy (FAD), and Miss Guyon (secretary-AFR). Mr. Ugolini, the Fund's resident representative in Dakar, took part in the discussions. The mission collaborated closely with the World Bank's resident mission in Dakar. Mr. Corentino Santos, Senegal's Alternate Executive Director in the Fund, attended the discussions in Paris.

effected on schedule, total use of Fund resources outstanding will amount to 288.95 percent of quota at end-June 1991 (Appendix I, Table I).

The Fund and the World Bank staffs have continued to collaborate closely on Senegal. The World Bank approved a sectoral adjustment loan in support of a comprehensive reform program for the banking system on December 18, 1989, and a fourth structural adjustment loan (SAL IV) on February 8, 1990. The World Bank and cofinanciers are providing some CFAF 34 billion (US$112 million) over a three-year period for the reform of the banking system, and about CFAF 53 billion (US$178 million) in support of the structural reforms under SAL IV, including a comprehensive voluntary departures program for the civil service (Appendix V). 1/

II. Performance Under the 1989/90 Program

After making considerable progress in redressing the economic and financial imbalances during 1983/84-1987/88 (Table 1 and Chart 1), the Senegalese economy suffered a setback in 1988/89 owing to an uneven rain distribution, a locust infestation of the crops, and the disruptions caused by temporary civil disturbances. 2/ Accordingly, the Government's updated medium-term policy framework, covering the period 1989/90-1991/92, provides for a reinforcement of financial and structural policies in order to resume the progress toward the achievement of a sustainable rate of economic growth and a viable balance of payments position. The two-pronged strategy, outlined in EBD/89/357 and EBS/89/218, focuses on the promotion of private sector activity and the strengthening of public resource management. The medium-term projections, which were revised to take into account the setback suffered in 1988/89 and the reforms envisaged by the authorities for 1989/90 and beyond, remain valid. The strategy continues to aim at achieving an average annual rate of growth of real GDP of 4.0 percent; containing the rate of inflation, as measured by the GDP deflator, at 2.3 percent; and reducing the external current account deficit, excluding official grants, to 6.1 percent of GDP by 1991/92. Taking into account a programmed reduction in the external Treasury financing requirements from CFAF 97.9 billion in 1989/90 to CFAF 35.0 billion in 1991/92, the balance of payments would record surpluses, excluding debt relief, starting in 1990/91.

Within this broad framework, the authorities have been implementing in 1989/90 wide-ranging structural reforms, while emphasizing financial

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1/ Summaries of Senegal's relations with the Fund and the World Bank Group are given in Appendices III and IV, respectively. Senegal's selected social and demographic indicators are given in Appendix VI.

2/ See EBS/89/218 for a detailed analysis. Statistical information is given in Appendix I.

Table 1. Senegal: Selected Economic and Financial Indicators, 1985/86-1989/90 1/

	1985/86	1986/87	1987/88	1988/89 Est.	1989/90 Prog. 2/	1989/90 Rev. prog.
	(Annual changes in percent, unless otherwise specified)					
National income and prices						
GDP at constant prices	4.2	4.2	4.4	0.6	4.6	4.6
GDP deflator	8.3	5.0	2.5	1.9	2.0	2.0
Consumer prices 3/	9.4	0.4	-2.6	-1.9	2.0	2.0
External sector						
Exports, f.o.b. (in SDRs)	-2.1	-0.4	10.4	11.4	-0.4	-0.4
Imports, f.o.b. (in SDRs)	3.4	-8.5	3.1	5.1	-3.5	-3.5
Non-oil imports, f.o.b. (in SDRs)	14.0	-0.6	0.4	8.0	-3.5	-1.5
Export volume	0.1	-0.8	12.7	4.0	-2.2	1.4
Import volume	11.2	1.7	-5.0	-1.0	-0.3	-3.7
Terms of trade (deterioration -)	5.1	11.7	-9.8	0.8	5.3	0.6
Nominal effective exchange rate (end of period; depreciation -)	6.3	4.6	2.2	3.5	...	...
Real effective exchange rate (end of period; depreciation -)	7.3	-2.0	-8.8	-0.2	...	...
Government financial operations						
Revenue	7.3	14.8	0.2	-2.3	12.3	12.3
Total expenditure and net lending	4.6	7.4	0.8	5.9	4.8	5.0
Of which: total current and capital expenditure	(0.9)	(6.6)	(5.8)	(-0.9)	(3.4)	(2.2)
Money and credit						
Domestic credit 4/	14.3	10.7	9.2	0.1	-4.9	-11.2
Credit to the Government (net) 4/	5.5	0.6	1.8	-2.9	-0.3	-2.0
Credit to the economy 4/						
Including crop credit 4/	8.8	10.1	7.4	3.0	-4.6	-9.2
Excluding crop credit 4/	4.1	0.9	1.9	15.0	-3.4	-7.2
Money and quasi-money (M2)	2.6	17.4	1.2	7.1	5.0	5.5
Velocity (GDP relative to M2) 5/	4.2	3.9	4.1	4.0	4.0	4.0
Interest rates (end of period)						
Minimum rate on time deposits 6/	9.0	8.0	8.0	9.5	...	...
Money market rate for overnight deposits	7.8	8.0	7.5	9.0	...	...
	(In percent of GDP, unless otherwise specified)					
Overall fiscal surplus or deficit (-)						
Commitment basis, excluding grants	-3.9	-2.6	-2.6	-4.0	-2.8	-2.8
Cash basis, excluding grants	-4.9	-4.6	-5.2	-4.3	-4.3	-4.3
Payments arrears of the Government and public agencies (annual change in billions of CFA francs)	-9.6	-14.0	-14.0	—	-8.5	-8.5
Gross domestic investment	14.2	15.0	14.9	15.0	15.2	15.2
Gross domestic savings	4.2	7.0	8.2	8.9	10.2	10.2
External current account deficit (-)						
Excluding official grants	-15.6	-11.3	-10.2	-9.6	-8.3	-8.3
Including official grants	-10.0	-6.1	-5.1	-4.5	-3.0	-3.0
External debt 7/	78.5	74.0	76.7	80.0	78.2	78.2
Debt service ratio (in percent of exports of goods and services, and private transfers)	29.1	29.7	31.2	31.1	31.3	31.3
GDP at current market prices (in billions of CFA francs)	1,223.1	1,338.2	1,432.9	1,467.7	1,564.9	1,564.9
Overall balance of payments surplus or deficit (-) (in millions of SDRs) 8/	-28.0	86.4	-27.4	46.8	79.7	103.7
Gross official foreign reserves (in weeks of imports)	0.2	0.4	0.4	0.4	...	...

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

1/ Fiscal year ending June 30.
2/ EBS/89/218.
3/ Index of consumer prices in Dakar for the average Senegalese family.
4/ Annual percentage change over beginning-of-period money stock.
5/ GDP relative to end-June broad money stock.
6/ 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.
7/ Public and publicly guaranteed debt, including Fund credit and central bank liabilities.
8/ After debt rescheduling.

policies aimed at limiting the growth in aggregate demand in line with available resources. The measures envisaged by the program for the first half of 1989/90 have been implemented (Table 2), and the available data indicate that the program is broadly on track. The two structural performance criteria at end-December 1989 were respected; a plan of action for the acceleration of the public enterprise reform program was finalized, and the protocol governing the financial relations between the Government and the groundnut oil processing company (SONACOS) was signed. In addition, the structural benchmark relating to the completion of the revision of the energy taxation and pricing system was observed. Based on preliminary data, the quantitative performance criteria at end-December 1989 have also been met, with the exception of that on the nonaccumulation of external payments arrears (Table 3). 1/ As explained below, those arrears were rescheduled at the Paris Club meeting of February 12, 1990. During the first half of 1989/90, the Treasury experienced cash-flow difficulties at various points in time owing to delays in the receipt of external budgetary assistance, due mainly to the delay in the conclusion of the negotiations between the authorities and the World Bank on the SAL IV. However, to maintain the program on track, the authorities deferred certain lower priority budgetary outlays. As a result, the fiscal performance in the first half of 1989/90 was better than envisaged and the credit policy more restrained than programmed (Chart 2). The liberalization of the regulatory environment and the prudent financial policies, coupled with favorable weather conditions, contributed to a pickup in activity, a dampening of inflationary pressures, and a strengthening in the external current account position.

In light of the progress achieved in the first half of 1989/90, the discussions with the authorities focused on the perspectives and policies for the second half of the year. The macroeconomic projections for 1989/90 were revised, as envisaged, to take into account the expenditure and external financing under the World Bank's SAL IV and a sectoral loan. The projections were also adjusted to incorporate a downward revision in external Treasury assistance and the additional debt relief secured for the whole fiscal year. The definitive quarterly financial benchmarks based on the revised projections and proposed for the second half of 1989/90 are shown in Table 3.

1. The objectives and the outlook

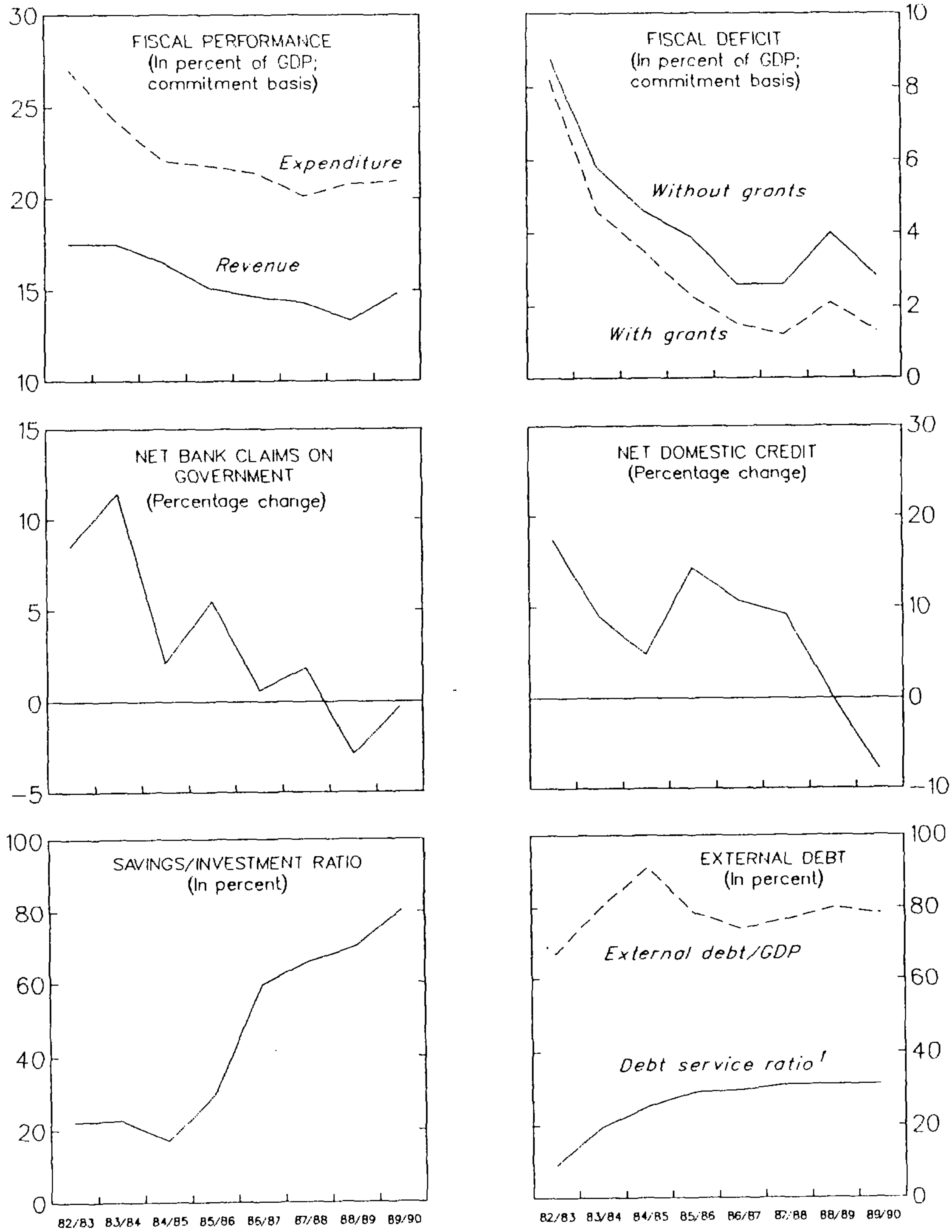
The effective implementation of the policies envisaged and the return of favorable weather conditions are expected to contribute to the achievement of the key objectives of the 1989/90 program. The recovery from the inadequate rain distribution and the locust infestation of the crops in 1988/89 appears to be well under way. Based on preliminary information on the area under cultivation and yield, it is expected that

1/ Definitive data in respect of the quantitative performance criteria are expected to become available shortly.

CHART 1

SENEGAL

KEY ECONOMIC POLICY INDICATORS, 1982/83-1989/90



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

[1] In percent of exports of goods and services, and private transfers; before debt relief.

Table 2. Senegal: Summary of the Adjustment Program for 1989/90 1/

Objectives	Status
1. Real growth: 4.6 percent;	Maintained
2. Inflation (GDP deflator): 2.0 percent;	Maintained
3. External current account deficit, excluding official grants: 8.3 percent.	Maintained
Policies	
A. Industrial policy	
1. Modify investment code to permit the renewal of fixed-term employment contracts over a period of five years (October 1989);	Implemented
2. Eliminate the obligations of newly established small- and medium-sized enterprises to receive prior approval for laying off workers (October 1989);	Implemented
3. Extend new regulations to all new enterprises established in the Dakar free trade zone (October 1989);	Implemented
4. Complete preparations for the introduction of the new system of petroleum pricing and taxation (November 1989);	Implemented
5. Implement new petroleum taxation system (December 1989).	Implemented
B. Agricultural policy	
1. Finalize plan of action to reduce further the costs of groundnut marketing and processing, to rationalize SONACOS's refining capacity, and to privatize the marketing of confectionary groundnuts (November 1989);	Implemented
2. Adopt a new protocol defining the financial relations between SONACOS and the Government (December 1989);	Implemented
3. Prepare a plan of action to improve the performance of the agricultural credit bank (June 1990);	In progress
4. Renegotiate the agreement on the determination of sugar prices (June 1990);	In progress
5. Initiate study on fishing sector (1989/90).	In progress
C. Public enterprise sector	
1. Privatize 30 additional enterprises (1989/90-1990/91);	In progress, four privatized
2. Liquidate 10 additional enterprises (1989/90-1990/91);	In progress
3. Sign eight performance contracts (June 1990);	In progress, three signed
4. Reduce direct subsidies to public enterprises from their 1988/89 level (1989/90);	In progress
5. Continue the settlement of public sector cross-debts (1989/90).	In progress
D. Public investment	
1. Implement the first year of the third three-year rolling public investment program (1989/90-1991/92).	In progress
E. Fiscal policy	
Reduce the fiscal deficit, on a commitment basis and excluding grants, to 2.8 percent of GDP;	Maintained

Table 2 (concluded). Senegal: Summary of the Adjustment Program for 1989/90 1/

1. Revenue target: CFAF 276.0 billion (12.3 percent over the 1988/89 estimate);	Maintained
a. Widen the coverage of the highest rate of the value-added tax (VAT) and reduce its level from 50 percent to 30 percent (September 1989);	Implemented
b. Increase the customs duty rate by 5 percentage points (September 1989);	Implemented
c. Introduce minimum tax assessments for imports to prevent underinvoicing (September 1989);	Implemented
d. Strengthen custom valuation and border procedures (September 1989);	Implemented
e. Expand the withholding system to property and professional income (January 1990);	Implemented
f. Introduce a separate profits tax (January 1990);	Implemented
g. Extend the VAT to the trade and other service sectors (January 1990);	Delayed
h. Replace the schedular income tax system by a global one (January 1990);	Implemented
i. Transfer the surplus from the oil sector to the budget (June 1990).	Implemented through December 1989
2. Total expenditure and net lending: CFAF 319.8 billion (4.8 percent over the 1988/89 estimate);	Revised to CFAF 320.3 billion (5.0 percent over the 1988/89 estimate)
a. Limit the increase in the total wage bill to 3.8 percent (1989/90);	Revised to 1.3 percent
b. Increase allocations for material and maintenance to essential services (1989/90);	Maintained
c. Reduce expenditure for subsidies and transfers to CFAF 24 billion (1989/90);	Maintained
d. Limit the net deficit of the Treasury's special accounts to the previous year's level while eliminating that for the correspondent accounts (1989/90);	Maintained
e. Improve the management of the special and correspondent accounts (1989/90).	Maintained
F. Monetary policy	
1. Limit domestic liquidity growth to 5.0 percent;	Revised to 5.5 percent
2. Reduce credit to the private sector, excluding crop credit, by 3.4 percent; 2/	Revised to 7.2 percent
3. Reduce net bank credit to the Government by 0.3 percent; 2/	Revised to 2.0 percent
4. Reimburse the 1987/88 crop credit;	Maintained
5. Follow a flexible interest rate policy;	Maintained
6. Restore the liquidity of the MFIS and the BSK or remove their licenses;	In progress
7. Implement the comprehensive reform of the banking system.	In progress
G. External debt	
1. Limit new nonconcessional loans;	Maintained
2. Incur no external payments arrears.	Incurred in the first half of 1989/90 and rescheduled in February 1990

Sources: EBS/89/218; Appendix II; and information provided by the Senegalese authorities.

1/ Fiscal year ending June 30.
2/ Annual percentage change over beginning-of-period money stock.

Table 3. Senegal: Financial and Structural Performance Criteria and Benchmarks Under the Second Annual Arrangement Under the Enhanced Structural Adjustment Facility

	Outstanding at end-June 1989	Change from July 1, 1989 to end-						
		1989			1990			
		December			March		June	
		Perf. criteria			Benchmarks			
		Prog.	Adj. prog. 1/	Prel. act.	Indicative	Definitive	Indicative	Definitive
I. Financial benchmarks and performance criteria								
		(In billions of CFA francs)						
Net domestic assets of the banking system 1/ 2/ 3/	602.1	6.5	-7.9 4/	-11.9	4.2	-2.4	-18.0	-22.8
Credit to the Government (net) 1/ 2/	140.0	10.0	3.6 4/	-11.3	6.4	-0.2	-1.1	-7.5
Payments arrears of the Government and public agencies								
Domestic	8.5	--	--	--	-2.0	-2.0	-8.5	-8.5
External 5/	--	--	--	11.4	--	--	--	--
Cumulative minimum tax revenue		100.2	100.2	102.0	165.2	165.2	232.0	232.0
		(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	1.4	24.0	24.0	24.0	24.0

II. Structural benchmarks and performance criteria	Date	Status
1. Benchmarks		
a. Completion of the revision of the energy taxation system.	End-December 1989	Implemented
b. Adoption of a three-year public investment program for 1990/91-1992/93.	End-June 1990	In progress
2. Performance criteria		
a. Completion of the renegotiation of the protocol governing the financial relations between the Government and the groundnut oil processing company (SONACOS).	End-December 1989	Implemented
b. Completion of a plan of action for the acceleration of public enterprise reform program, including in particular the privatization process.	End-December 1989	Implemented

Sources: EBS/89/218; and Appendix II (Attachment).

1/ The original program assumed that Senegal would receive a cumulative amount of external Treasury financial assistance (defined as external budgetary assistance including grants and debt relief but excluding project aid and assistance envisaged for the voluntary departures program and the reform of the banking sector), beginning July 1, 1989, of CFAF 46.8 billion through December 31, 1989. In light of the revision in the projected external financial assistance, the revised program assumes that the cumulative amount of external Treasury assistance received beginning July 1, 1989 will amount to CFAF 66.9 billion through March 31, 1990, and CFAF 97.9 billion through June 30, 1990. 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. Any excess will be deposited in a government account with the banking system until end-1989/90. Its utilization in the following fiscal year will be determined in consultation with the staff of the Fund. The changes through March and June 1990 include the variations resulting from the restructuring of the banking sector through end-December 1989; the ceilings for end-March and end-June 1990 will be adjusted by any further 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, 1989-June 30, 1990 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 initial program envisaged a reduction in crop credit of CFAF 6.2 billion during the period July 1-December 31, 1989. The revised program envisages a reduction in crop credit of CFAF 2.2 billion during the period July 1, 1989-March 31, 1990; and a reduction of CFAF 7.2 billion during the period July 1, 1989-June 30, 1990. The program also envisages a reduction in reclassified crop credit of CFAF 12.5 billion from July 1, 1989 through March 31, 1990 and of CFAF 22.9 billion from July 1, 1989 through June 30, 1990. In the event that the variation in crop credit differs from these amounts, the variation in net domestic assets will be adjusted pro tanto.

4/ The end-December 1989 ceiling on net domestic assets was adjusted downward by CFAF 14.4 billion on account of the fact that crop credit was CFAF 9.9 billion lower than programmed, and that the net impact of the restructuring of the banking system on domestic assets amounted to CFAF 4.5 billion, with CFAF 6.4 billion being an increase in claims of the Government on the banking system netted by CFAF 1.9 billion resulting from the effect of that restructuring on other monetary items (net). The ceiling on net claims on the Government is adjusted downward by the aforementioned CFAF 6.4 billion. External Treasury financial assistance, including debt relief, was programmed at CFAF 46.8 billion for the period July 1-December 31, 1989; the actual assistance received, including debt relief, amounted to CFAF 31.3 billion. In addition, CFAF 11.4 billion in external payments arrears was accumulated. Thus, total external Treasury financial assistance, including debt relief and external payments arrears, amounted to CFAF 42.7 billion during July 1-December 31, 1989.

5/ Excluding debt service obligations under renegotiation, in conformity with the provision of comparable treatment under the rescheduling agreement with the Paris Club.

6/ The exchange rate applicable to these borrowings will be the rate of the SDR vis-à-vis the contract currency on June 30, 1989, 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.

the real value added in agriculture will increase by 14.7 percent in 1989/90, following the sharp decline recorded the previous year. Accordingly, the real value added in the primary sector, which accounts for 21 percent of real GDP, is expected to increase by almost 7 percent. The secondary sector, which represents about one fourth of real GDP, is also expected to grow by some 3 percent in 1989/90, reflecting partly the sharp growth expected from the groundnut oil mills. The tertiary sector, which will benefit from the rebound in the primary and secondary sectors, is estimated to grow by 4.1 percent. Accordingly, the program objective for the growth of real GDP of 4.6 percent for 1989/90 is expected to be realized. With the good supply conditions and the restrained financial policies being pursued, inflationary pressures have remained low, and the objective for the increase in the GDP deflator by 2.0 percent for the fiscal year is also expected to be achieved.

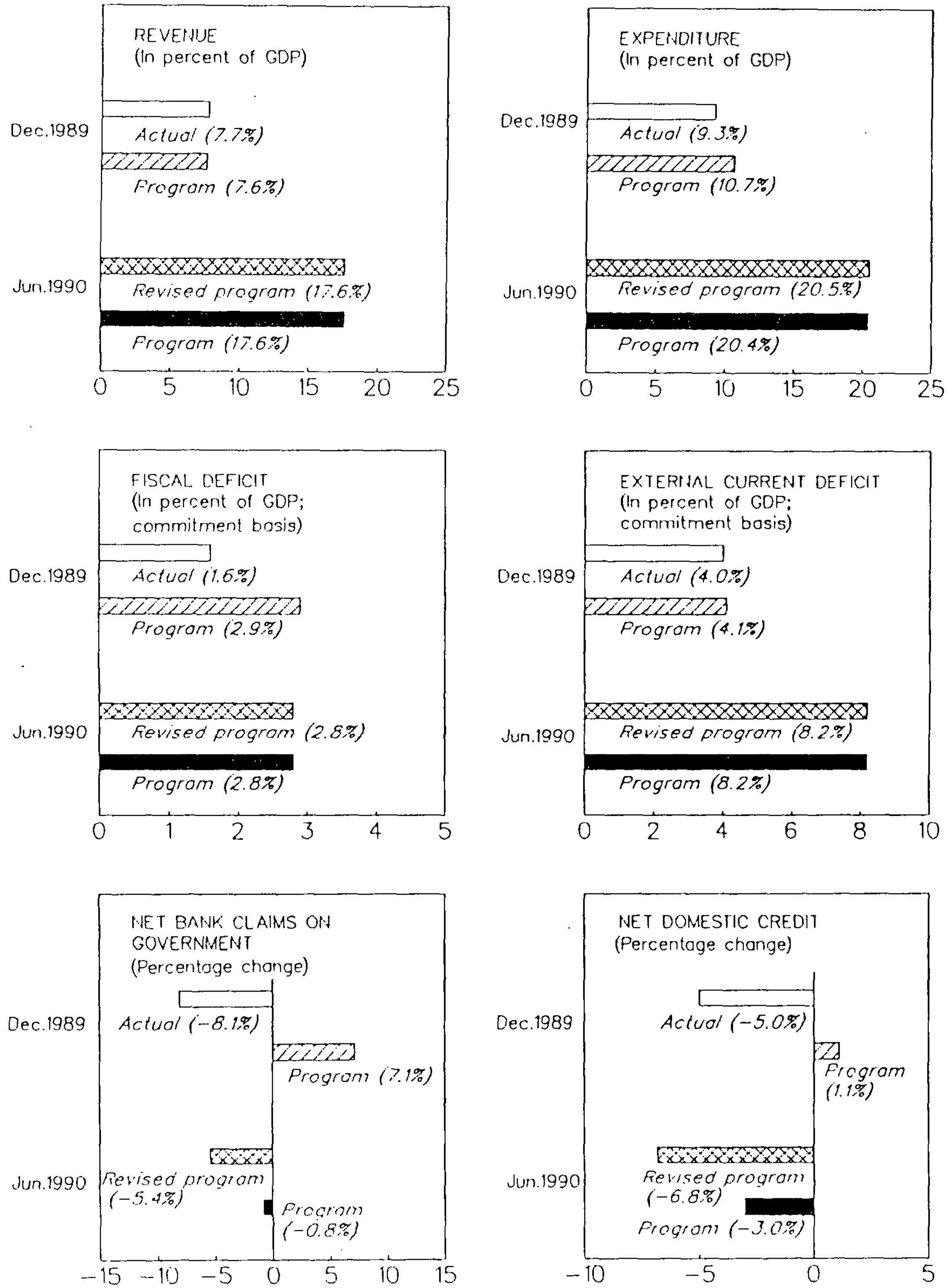
In the external sector, the trade balance is expected to remain in line with the original program projection (Appendix I, Tables IV and V). On the export side, it is estimated that a downward revision in fish and phosphate export earnings will be offset mainly by higher export earnings from refined petroleum products, including a drawdown of existing stocks. On the import side, lower estimated import payments for crude petroleum products, stemming from a reduced import volume, are expected to be offset by a higher-than-projected import volume and unit price for rice. As the service and transfers accounts are anticipated to remain unchanged, the current account deficit, including grants, is estimated at CFAF 47.5 billion, as originally targeted. The capital account surplus has been revised upward to CFAF 31.9 billion, or CFAF 4.5 billion higher than originally projected. In view of the delays encountered in official external financial assistance in the first half of the year, the direct external Treasury assistance has been revised downward for 1989/90. However, this is expected to be offset by higher-than-envisaged capital inflows associated with the voluntary departures program under SAL IV and the banking sector reform program. Hence, it is estimated that the overall balance of payments, before debt relief, will record a deficit of CFAF 15.6 billion, below the original forecast of a deficit of CFAF 20.1 billion.

In support of its adjustment efforts, Senegal has secured considerable debt relief. Senegal had requested that the Paris Club meet in December 1989 to consider its request to reschedule its debt service obligations on previously rescheduled debt for July 1-December 31, 1989, which had been excluded from the previous Paris Club rescheduling, and on its debt service obligations, including those on previously rescheduled debt, for January 1-December 31, 1990. However, the meeting was delayed until February 12, 1990. The Senegalese authorities requested a rescheduling of the external payments arrears accumulated during July 1-December 31, 1989, estimated at CFAF 11.4 billion, at the meeting of the Paris Club of February 12, 1990. At that meeting, Paris Club creditors agreed to reschedule at market-related interest rates the outstanding arrears on government and

CHART 2

SENEGAL

KEY ECONOMIC POLICY INDICATORS, 1989/90



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

government-guaranteed debt at end-December 1989, with the amount outstanding to be paid in two equal installments at end-December 1990 and end-March 1991. The concessional debt relief obtained by Senegal covered the current maturities on government and government-guaranteed debt contracted before January 1983 and falling due in the period January 1, 1990 through June 30, 1990, as well as the debt service during the same period resulting from the first six consolidation agreements; it also covered the current maturities falling due during July 1, 1990, through December 31, 1990, as well as the debt service during the same period resulting from the first four consolidation agreements. The additional debt relief secured for the fiscal year 1989/90 (July/June) is estimated to amount to CFAF 33.4 billion (SDR 80.0 million). Apart from the debt relief already secured under the auspices of the London Club, the Government is also seeking comparable debt relief from other official creditors. Senegal's total debt relief for 1989/90 is estimated to reach CFAF 58.8 billion, *compared with CFAF 53.3 billion projected under the program.* The higher-than-envisaged debt relief obtained compensates, on the fiscal side, for a downward revision in external Treasury financing, in light of the delays experienced in the first half of 1989/90. Total debt relief for the first half of 1990/91 is estimated at CFAF 20.2 billion. 1/

In the attached letter, the Minister of Economy and Finance of Senegal notes that the nonobservance of the performance criterion on external payments arrears at end-December 1989, was temporary, given that the amounts outstanding were rescheduled in February 1990, and that the ceiling on net bank credit to the Government at end-December 1989 was observed, after taking into account the external financial assistance received, including the accumulation of external payments arrears. As the program is on track and appropriate understandings have been reached on policies for the second half of 1989/90, the Senegalese Government requests that the midterm review be completed and that the second loan under the second annual arrangement under the ESAF be made available to Senegal.

2. The regulatory environment

The Government is taking steps to improve the regulatory environment with a view to further reducing distortions and increasing competitiveness, thus consolidating the gains achieved by the virtual abolition of price controls and of quantitative trade restrictions. The ongoing reforms focus on the labor market, the energy sector, and the agricultural sector.

1/ These estimates include debt relief from Paris Club participants, London Club participants, and debt forgiveness, as well as debt relief on comparable terms from other official creditors.

In the first half of 1989/90, the Government adopted politically sensitive measures to reform the labor market in order to introduce more flexibility in employment regulations and wage determination. Employment regulations in Senegal had severely limited the temporary labor that enterprises were allowed to hire and had required prior government authorization for the dismissal of employees. To address these rigidities, starting in mid-September 1989 all existing enterprises were allowed to make unlimited use of temporary contract labor when expanding their activities. In October 1989, the investment code was modified to permit new eligible enterprises to hire their work force on the basis of temporary employment contracts for up to five years. In addition, small- and medium-scale enterprises were exempted from prior government authorization for the dismissal of employees. To address the issue of labor costs, all enterprises located in the Dakar free trade zone also benefited from a modification in wage taxation that exempts them from the minimum payroll tax, which is equivalent to 3 percent of the nominal wage cost. In addition, all new firms that create 50 jobs and all existing firms that expand their labor force beyond that level will be exempted from that part of other taxes owed by the employer for newly hired employees; this is equivalent to about 12 percent of the nominal wage cost. Furthermore, the guaranteed minimum wage rate (SMIG), which has not been changed since January 1985, will continue to be frozen at its current nominal level for the next three years. In order to provide for greater flexibility in wage determination, the Government is giving consideration to reducing the scope of the current government-controlled mandatory collective bargaining system and shifting to a voluntary bargaining process.

The Government is implementing a two-phased reform of energy taxation and pricing aimed at enhancing the efficiency of the sector and rationalizing the price structure, based on a joint Fund-Bank study. The first phase, which entered into effect on December 31, 1989, involves the introduction of a more transparent system of taxation of petroleum products. Previously, the refinery (SAR) calculated its surplus on the basis of its actual costs and receipts. Under the new system, refinery prices are set at import parity, while the SAR is paid a fixed handling fee to cover its operating costs. Prices of petroleum products are then determined by adding an import tax, a value-added tax, and a petroleum levy. In the second phase, adjustments in the prices of energy products for industrial users will be introduced effective July 1, 1990. These adjustments will take into account world market prices for petroleum products, the additional revenue generated by the new system of energy taxation, as well as the overall fiscal situation. As part of the rationalization of energy pricing, the special rebate currently granted to the phosphate sector will be revised accordingly.

Agricultural sector reforms are also designed to achieve improvements in productivity and profitability. In the cereals sector, the various actions include the introduction of new seed varieties, the launching of a program of soil regeneration, improvements in the industrial transformation of maize production, increases in storage capacity, and the rationalization, effective February 1, 1990, of the price of rice to differentiate among various qualities. In the groundnut sector, the first phase of the medium-term plan of action to reduce the costs of groundnut marketing and processing was completed. It envisages that groundnut production will stabilize at about 830,000 metric tons, given the limited areas appropriate for groundnut cultivation and the objective of diversifying agricultural production. It also aims at increasing the productivity of the groundnut oil refinery (SONACOS). In addition, the new protocol defining the financial relations between SONACOS and the Government, signed on December 28, 1989, is designed to achieve full transparency in SONACOS's financial operations. In view of the reduction in the producer price for groundnuts for the 1988/89 crop season, SONACOS's financial position is estimated to have improved. Thus, as programmed, SONACOS transferred CFAF 5.0 billion to the Treasury in December 1989, and will transfer an additional CFAF 5.0 billion by end-March 1990. The agricultural sector is also being supported by the emphasis given to the rural sector under the current public investment program, which is being implemented as envisaged.

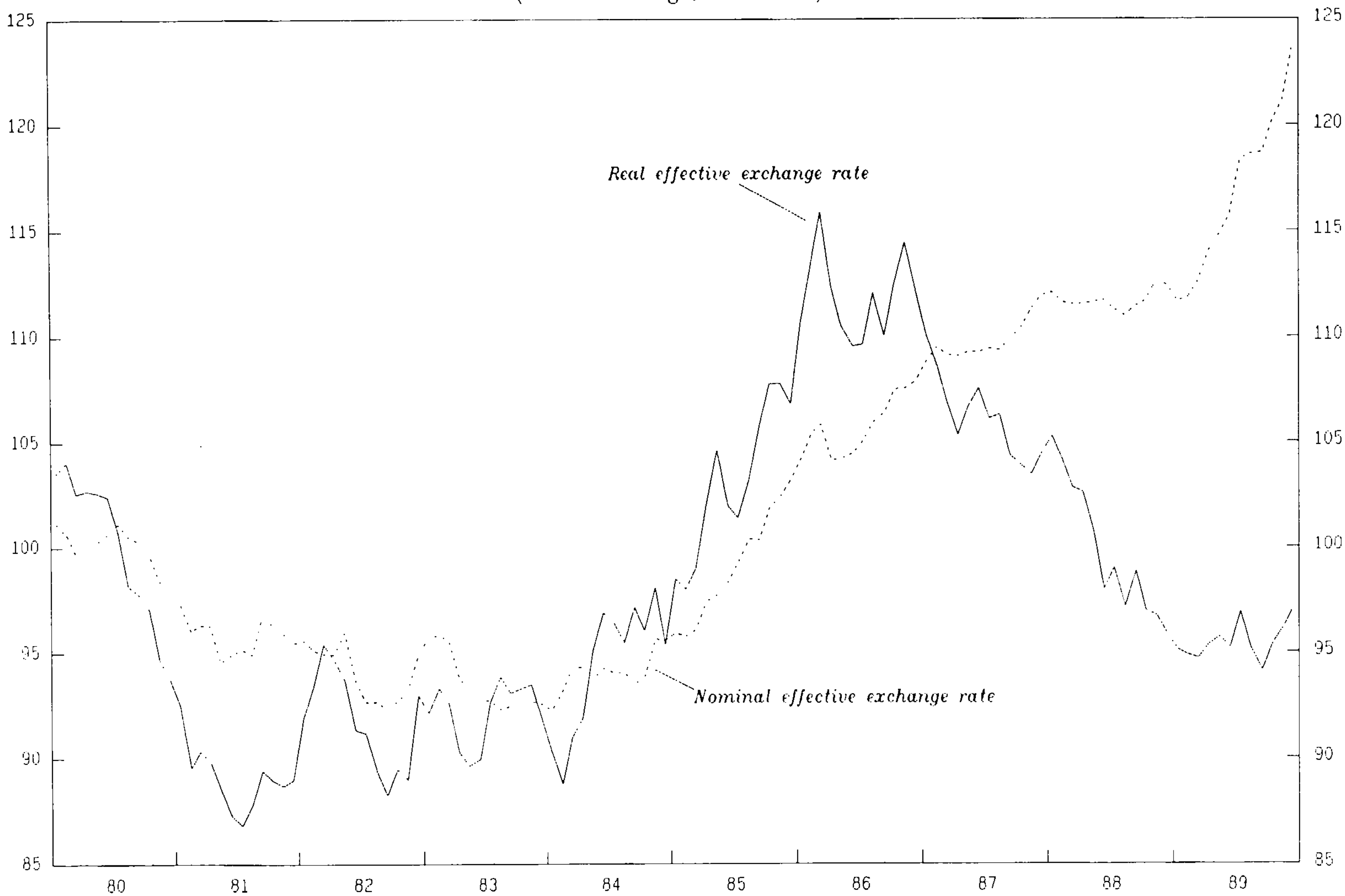
The regulatory environment continued to benefit from an exchange system in the context of the West African Monetary Union (WAMU) that is free from restrictions on payments and transfers for current international transactions, under which the common currency, the CFA franc, is pegged to the French franc at the fixed rate of CFAF 50 = F 1. The authorities noted that the design of their adjustment programs had taken into account Senegal's exchange arrangement. Senegal's efforts to liberalize the regulatory environment, coupled with a restrained incomes policy, had contributed and would contribute to a reduction in real input costs and increased efficiency, thereby helping to enhance competitiveness. The real guaranteed minimum wage rate, which declined by 19 percent during 1985/86-1988/89, is projected to decline further by 6 percent during 1989/90-1991/92. In addition, the reduction in the producer price of groundnuts by some 22 percent in 1988/89, coupled with the streamlining of the operations of the sector, has resulted in the elimination of the subsidy to, and in the mobilization of resources from, the sector to finance the budget. There has also been a rapid increase in export receipts from the sector, which rose at an average annual rate of some 45 percent during 1986/87-1988/89. The prudent fiscal and credit policies have been geared to, and have succeeded in keeping the inflation rate in Senegal below those of its trading partners. The policies pursued resulted in a downward trend in the real effective exchange rate index since 1985/86, even though the nominal effective exchange rate index rose steadily. Thus, the real effective exchange rate index declined by 10.8 percent during 1986/87-1988/89. Despite a rise in the real effective exchange rate index in the last six months of the calendar year 1989, the average real effective exchange rate index for the year as a whole declined by 4.2 percent (Chart 3).

3. Public enterprise reform

The authorities elaborated in the first half of 1989/90 a plan of action designed to serve as a basis for accelerating the reform of the public enterprise sector, in consultation with the World Bank staff. The reform strategy focuses on the liquidation of certain enterprises, the privatization of others, and the rehabilitation of those remaining under government control, as well as the rationalization of the financial relations between the Government and the public enterprises. The sector comprises 85 enterprises, of which 25 are public agencies. It accounts for about 20 percent of total investment in the economy, some 17 percent of total employment, and about 7 percent of GDP (Appendix I, Table VII). The financial performance of the sector has been generally poor, essentially because of undercapitalization, organizational and managerial shortcomings, administrative controls, inappropriate pricing policies, and overemployment.

The new plan of action (Appendix I, Table VIII) envisages that at least 10 public enterprises will be liquidated and 30 others (excluding financial institutions being restructured under the banking sector reform program) will be privatized over the next two years; those enterprises that cannot be privatized by end-1990/91 will be liquidated. To speed up the divestiture process, various steps will be taken, including the introduction of a system of competitive bidding; the abolition of the preset minimum values for the sale of public enterprises; the use of foreign expertise for the necessary preparatory work; and the eventual establishment of a capital market for shares. In the first half of 1989/90, four public enterprises were privatized. Public enterprises remaining in the Government's portfolio will continue to be rehabilitated through the use of performance contracts. Three performance contracts were signed by March 1990. Additional contracts are expected to be signed with five other public enterprises before end-June 1990. The plan of action envisages modifications in the relevant legislation by end-June 1990 to give increased autonomy to public and mixed enterprises. With regard to the financial restructuring of the sector, direct operational subsidies to commercial public enterprises, which amounted to CFAF 0.9 billion in 1988/1989, will be eliminated in 1989/90, while those to noncommercial public enterprises will be reduced from CFAF 13.4 billion in 1988/89 to CFAF 7.4 billion in 1991/92; resources to finance equipment, which amount to CFAF 2.4 billion in 1989/90, will be provided as long-term loans or in the form of equity participation instead of subsidies. With regard to indirect subsidies, the policy of according government guarantees for domestic loans of these enterprises has been abolished; externally funded loans will be on-lent to enterprises by the Government at commercial interest rates, except where the donor agency has a condition for on-lending at a concessional interest rate; and special agreements that grant tax advantages to public enterprises will be renegotiated. All overdraft facilities of the public enterprises have been discontinued since July 1989, and the accumulated overdrafts as of that date will be consolidated into long-term loans. A comprehensive plan of action has

CHART 3
SENEGAL
NOMINAL AND REAL EFFECTIVE EXCHANGE RATES
JANUARY 1980-DECEMBER 1989
(Period average; 1980=100)



Source: IMF, Information Notice System.

been prepared to address the issue of public sector cross-debts, which aims at settling all undisputed cross-debts outstanding at end-1988. The 1989/90 budget includes provisions for settling in cash CFAF 0.6 billion of cross-debts.

4. Financial intermediation

The Government is making considerable progress in implementing a comprehensive reform program for the banking sector, developed in collaboration with the BCEAO, the World Bank, and other multilateral and bilateral creditors and donors, to address the banking system's illiquidity, reflecting the accumulation of nonperforming loans amounting to about half of the portfolio of the banking system. The reform of the banking sector is being supported by a consolidation of bank liabilities by the BCEAO; financial sector loans from the World Bank and from France; and a grant from the U.S. Agency for International Development. The restructuring of the banking system is being reinforced by the reform of monetary policy instruments adopted by the Council of Ministers of the WAMU in September 1989. The reform involves a strengthening in bank supervision and the replacement of the administrative controls on money and credit with an indirect market-oriented system of monetary policy instruments. In 1989, an active interest rate policy was pursued. The preferential rediscount rate was abolished; the schedules of interest rates of the commercial banks were simplified and rationalized; and the banks were given greater flexibility in determining their rates on deposits and loans. The monetary authorities maintained a high level of real interest rates and a positive differential between the BCEAO money market rate and that of France (Chart 4).

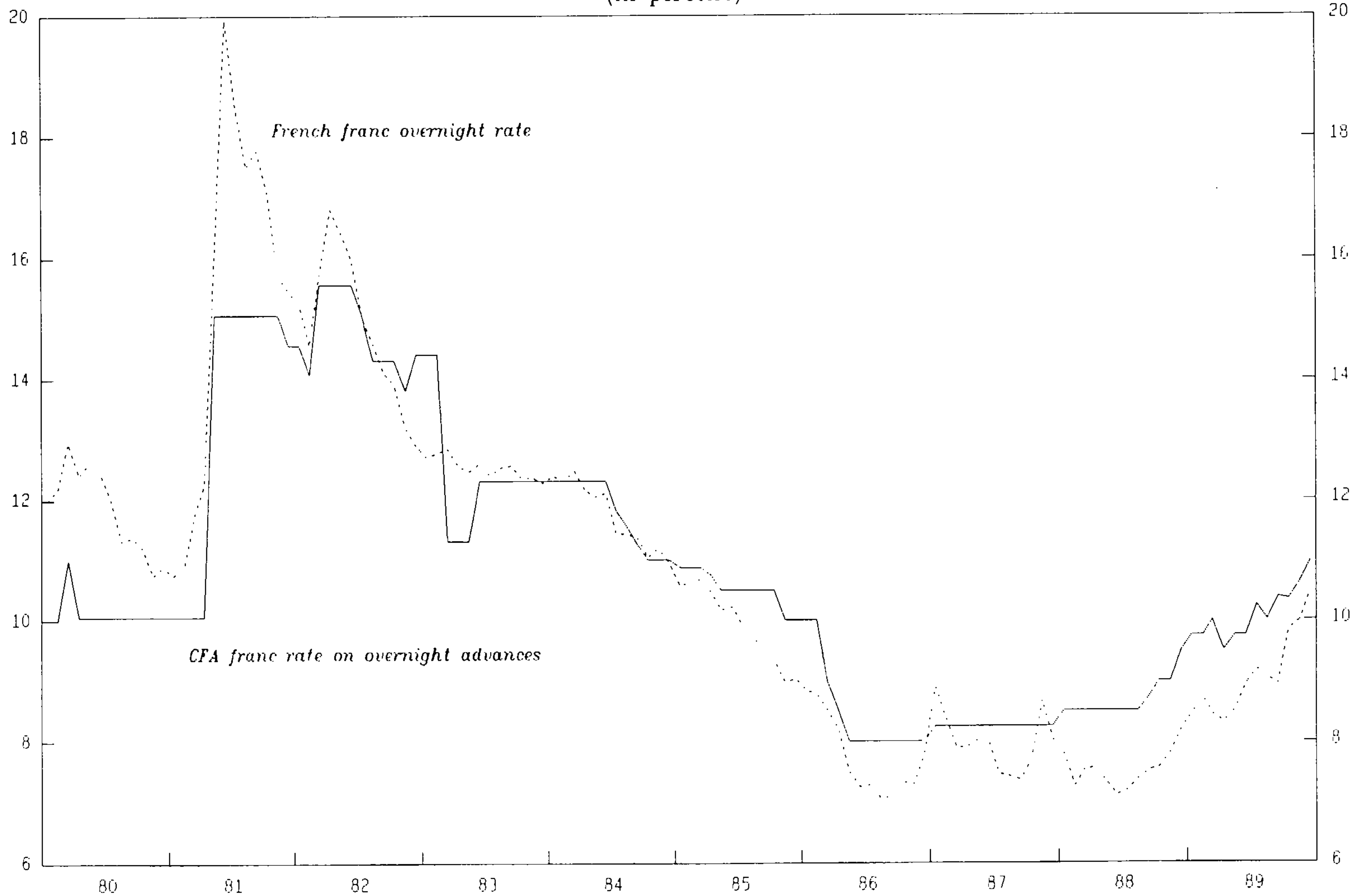
The reform of the banking sector, which includes the rehabilitation of three banks and the restructuring of five others, is under way. The rehabilitation programs for three banks, the Banque Internationale pour l'Afrique Occidentale-Sénégal (BIAO-S), the Banque Fayçal Al-Islami du Sénégal (MFIS), and the Banque Sénégalo-Koweitienne (BSK), involve a restructuring of the banks and an infusion of capital by the private shareholders. The rehabilitation program for the BIAO-S included a reduction in its operating costs, through staff cuts and the closing of branches; an increase in its capital, with a concomitant reduction in the Government's share from 25.0 percent to 18.3 percent; and the granting of a long-term concessional loan to finance temporarily frozen deposits. Additional measures are currently under discussion between the Government and BIAO-S's shareholders. The Government suspended at end-November 1989 the licenses of BSK and MFIS, pending the elaboration of appropriate reform programs for the banks. The programs were finalized in January 1990. Under these, BSK's performing assets and liabilities will be taken over by a newly created bank, with the private sector holding 75 percent of the shares. BSK will then be transformed into a recovery institution that will take over the bank's nonperforming assets and corresponding liabilities. MFIS is to be recapitalized by the private shareholders. The plan of action for the restructuring of the five other banks is under implementation. The five banks are the majority government-owned Union Sénégalaise de Banque (USB); three publicly owned banks; and a private bank (Assurbank). The operational and financial restructuring of the USB is virtually complete. Part of the performing assets and corresponding liabilities of the former USB have been taken over by the newly created Crédit Lyonnais-Sénégal (CL-S), which began operations in July 1989; the USB has now been transformed into a recovery institution, which will manage its nonperforming loans. A new bank, the Crédit National du Sénégal (CNS), which has assumed the performing assets and corresponding liabilities of the three public banks and Assurbank, was established on January 1, 1990. The new bank's capital amounts to CFAF 2.5 billion, shared between the Government (25 percent), the BCEAO and the West African Development Bank (BOAD) (25 percent), and Senegalese insurance companies and other private partners (50 percent). The nonperforming loans and counterpart liabilities of these four banks are being taken over by a third recovery institution.

In the first half of 1989/90, the monetary authorities have pursued a cautious monetary policy. Net bank credit to the Government is estimated to have declined by 3.0 percent of beginning-of-period money stock, against the projected increase of 2.7 percent. Credit to the economy declined by 5.2 percent of beginning money stock, compared with the programmed 0.9 percent. Thus, the overall expansion in credit was lower than envisaged. Other monetary items (net) turned negative, reflecting increases in bank reserves and in the provisions for losses of the restructured banks. Net domestic assets of the banking system are estimated to have been kept below the end-December ceiling. Accordingly, the performance criteria on net bank credit to the Government and on net domestic assets of the banking system at end-December 1989 are estimated to have been met. 1/

For 1989/90 as a whole, domestic credit is now programmed to be reduced by 11.2 percent of beginning money stock, compared with an original projection of a decline of 4.9 percent, owing to a downward revision in the projections for crop and ordinary credit. The decline of ordinary credit in 1989/90 is exclusively due to the repayment of previously reclassified crop credit. Excluding this repayment, ordinary credit will increase by 1.1 percent of beginning money stock. However, the nongovernment sector will also benefit from the injection of

1/ The ceiling on net bank credit to the Government has been adjusted to take into account the claims of the Government on banks resulting from the restructuring of the banking system. In addition, the net domestic assets ceiling was also adjusted for the variation in crop credit from the target, as well as for movements in other monetary items (net) associated with the reform of the banking system. Total external Treasury financial assistance, including the outstanding external payments arrears at end-December 1989, amounted to CFAF 42.7 billion, below the program target of CFAF 46.8 billion.

CHART 4
SENEGAL
COMPARISON OF MONEY MARKET INTEREST RATES 1/
ON FRENCH FRANCS AND CFA FRANCS, JANUARY 1980-DECEMBER 1989
(In percent)



Source: IMF, International Financial Statistics.
1/ Monthly average for French franc; end of month for CFA franc.

liquidity resulting from the repayment of domestic government payments arrears, the reconstitution of the frozen deposits of the banking system, and the indemnities paid under the voluntary departures program, the total of which is estimated at 9.6 percent of beginning money stock. Net credit to the Government will decline by 2.0 percent of beginning money stock. The ceilings under the indicative benchmarks for end-March and end-June 1990 have been revised accordingly and are proposed as definitive benchmarks (Table 3). The expansion in net foreign assets has been revised upward, owing to the revised projection for the balance of payments. Accordingly, the growth rate of domestic liquidity in 1989/90 is estimated at 5.5 percent, compared with a previous projection of 5.0 percent; nevertheless, the growth of domestic liquidity will remain lower than the projected growth rate of 6.6 percent for nominal GDP.

5. Fiscal policy

Fiscal performance in the first half of 1989/90 was better than programmed, as the Government succeeded in maintaining the fiscal program on track in spite of a shortfall in external financial assistance. The revenue measures envisaged for the first half of 1989/90 were implemented. These included the widening of the coverage of the highest rate of the value-added tax with a concurrent reduction in that rate from 50 percent to 30 percent; the increase in the 20 percent value-added tax rate to 30 percent for certain products; an across-the-board increase in the customs duty from 10 percent to 15 percent; the introduction of a minimum tax assessment for certain imports known to be subject to underinvoicing; the computerization of customs procedures; and the strengthening of the customs valuation process and border procedures. The computerization of customs procedures was delayed by a month, until end-December 1989, because of administrative and technical problems, while the customs department continued to lack sufficient equipment for inspections and verification. Nonetheless, reflecting the measures taken, cumulative tax revenue through December 1989 increased by 12.7 percent relative to the first half of 1988/89 and reached CFAF 102.0 billion, exceeding the target of CFAF 100.2 billion. Total revenue amounted to CFAF 120.5 billion, compared with a target of CFAF 119.2 billion. At the same time, expenditure was kept under tight control. In the first half of the year, total expenditure and net lending was held to CFAF 145.4 billion, below the target of CFAF 166.9 billion. This was essentially due to a decision by the Government to defer lower priority expenditure to offset the shortfall in external financial assistance. Furthermore, although CFAF 7.0 billion were utilized for the reform of the banking system, CFAF 6.4 billion of these were deposited with the banking system to improve its liquidity position; thus, only CFAF 0.6 billion constitute government expenditure. As a result, in the first half of 1989/90, the budget deficit, on a commitment basis and excluding grants, which is estimated at CFAF 24.9 billion (1.6 percent of GDP for 1989/90), was considerably lower than the program target of CFAF 47.7 billion (3.0 percent of GDP). The overall fiscal deficit on a cash basis, which takes into account the accumulation of the aforementioned external payments arrears, was financed by external financial assistance. Even though there was a shortfall in external Treasury grants and loans of CFAF 15.5 billion, the improved fiscal position contributed to holding net bank credit to the Government at CFAF 21.3 billion below the program target.

For the year as a whole, the additional combined expenditure associated with the reform of the banking system and the voluntary departures program for the civil service is expected to be virtually offset by economies in the wage bill. Accordingly, the overall fiscal deficit, on a commitment basis and excluding grants, is estimated at CFAF 44.3 billion (2.8 percent of GDP) in 1989/90, broadly in line with the program target of CFAF 43.8 billion (2.8 percent of GDP). The settlement of verified domestic payments arrears of the Government and public agencies, together with the programmed repayment of reclassified crop credit, will result in an overall deficit, on a cash basis and excluding grants, of CFAF 67.8 billion (4.3 percent of GDP). The deficit is expected to be covered entirely by external financial assistance, including debt relief, and net bank credit to the Government is programmed to decline.

To attain the fiscal target, the Government will continue to strengthen its revenue mobilization efforts in order to bring about an increase in revenue of 12.3 percent in 1989/90. The revenue measures taken in the first six months were supplemented on January 1, 1990 by the replacement of the schedular income tax by a global income tax; the extension of the withholding tax scheme to property income; and the aforementioned change in the system of taxation of the surplus of the oil refinery. The extension of the value-added tax to the trade and service sectors has been delayed, as a result of the extensive administrative preparatory work required. The authorities noted that the impact of this delay on revenue will be small and will be offset by their ongoing efforts to strengthen tax administration; in particular, additional resources are being made available to strengthen customs inspection and verification. The authorities plan to submit the requisite legislation at the next session of the National Assembly, scheduled for April 1990. As a basis for monitoring revenue performance, the original monthly targets and quarterly benchmarks for tax revenue for the second half of the year have been retained; the Government will consult with Fund management on appropriate additional tax measures if in any consecutive two-month period the cumulative tax revenue target is not achieved. The cumulative tax revenue through end-February 1990 amounted to CFAF 144.4 billion, in line with the program target and 12.7 percent above the level for the same period in 1988/89.

Expenditure and net lending are projected to increase by 5.0 percent, compared with an original target of 4.8 percent, reflecting expenditure associated with the voluntary departures program, which will be virtually offset by a downward revision in the wage bill through a reduction in indemnities. In order to reduce the share of the wage bill over the medium term, the voluntary departures program aims at a net reduction in the size of the civil service by an estimated 4,800 persons (7.2 percent of the civil service at end-June 1989) over a three-year period. The cost of the program, estimated at CFAF 22.0 billion, will be covered fully by external financial assistance; it is estimated that a minimum of CFAF 5.0 billion will be spent by end-June 1990. In addition, the expenditure relating to the restructuring of the banking system has been revised from CFAF 10.0 billion to CFAF 8.7 billion; of the total projected financing of CFAF 15.1 billion for this purpose, CFAF 6.4 billion was deposited with the banking system and will constitute claims of the Government on banks. To ensure the attainment of the budgetary target, the Government has decided to set aside, as a contingency, CFAF 10.0 billion in lower priority expenditure, which will be authorized only if the cumulative revenue target at end-March 1990 is met; the programmed external financing through end-March has been received; and all the financing agreements relating to the remaining balance have been signed. The net deficit in the Treasury's special and correspondent accounts is estimated to be in line with the program; based on the recommendations of a Fund technical assistance mission, the Government is reinforcing budgetary discipline in the management of these accounts by integrating into the 1990/91 budget the active accounts on a gross basis and eliminating inoperative accounts.

6. Benefits and risks

The effective implementation of Senegal's program in 1989/90 constitutes an important step forward in its medium-term adjustment strategy, with considerable benefits. The reforms aim at achieving further increases in real per capita income, with the real income of the farming community, where the poorest segments of the population are concentrated, benefiting the most. Furthermore, employment opportunities are expected to expand over the medium and long term as private sector activity increases. The progress being made toward strengthening Senegal's budgetary and balance of payments positions will reduce its dependence on external financing and enhance its capacity to service its external debt service obligations, including those to the Fund, over the medium term. This is reflected in the envisaged turnaround in the overall fiscal balance, on a commitment basis and excluding grants, from a deficit of 4.0 percent in 1988/89 to a surplus of 0.8 percent in 1991/92; the rise in domestic savings from 8.9 percent of GDP in 1988/89 to 14.1 percent in 1991/92; and a reduction in the debt service ratio from 31.1 percent in 1988/89 to 26.8 percent in 1991/92 and further to 10.0 percent in 1999/2000 (EBS/89/218). Assuming that all the disbursements under the second and third annual ESAF arrangements are made, that all repurchases are effected on schedule, and that Senegal does not make any further use of Fund resources, the debt service ratio to the Fund would decline from 5.4 percent in 1988/89 to 1.4 percent in 1993/94, increase to an average of 2.1 percent during 1995/96-1997/98, and gradually decline thereafter to less than 1 percent in 1999/2000.

There are, however, three major risks. First, there could be a recurrence of unfavorable weather conditions or a major deterioration in the terms of trade brought about by a drop in the export price of groundnuts or an increase in petroleum import prices. Even with a prompt adaptation of policies, this could delay the progress being made in re-establishing domestic and external financial balance and achieving a sustainable rate of growth. Second, there could be increasing political pressures by interest groups on the Government to relax the adjustment efforts, because of adjustment fatigue and the transitional costs. Such costs are being minimized by the externally financed voluntary departures program; the support being provided to dislocated workers by the redeployment fund; the minor adjustment to civil service salaries and the premia granted to education and health workers in 1989/90, after a five-year freeze; the program of assistance to women in rural areas; and the emphasis the Government is giving to the provision of basic social services. Third, the adjustment process could be derailed by delays in the receipt of external financial assistance. As evidenced in the first half of 1989/90, the Government tightened expenditure policy significantly in order to offset the shortfall in external financial assistance. However, such ad hoc tightening is not sustainable and could disrupt the orderly adjustment process and increase the social costs.

III. Staff Appraisal

Senegal made significant progress in its adjustment efforts during the first half of 1989/90, notwithstanding a marked shortfall in external Treasury assistance. The Government took major structural measures aimed at promoting private sector initiative, while regaining the momentum of fiscal adjustment. These efforts, together with an improvement in weather conditions, have contributed to a rebound in economic activity, a dampening in inflationary pressures, and a strengthening in the external position. Preliminary data available through end-February 1990 indicate that the authorities are pursuing with equal determination their adjustment efforts in the second half of the year. In the period ahead, the authorities will need to focus their attention on consolidating the progress achieved in a number of areas to ensure the attainment of the program targets for 1989/90.

First, the authorities will need to monitor carefully the effective implementation of the measures taken in the first half of 1989/90 to further the liberalization of the economy, thereby reducing distortions and enhancing profitability and competitiveness. Over the last few years, virtually all price controls and quantitative trade restrictions have been eliminated, while the administrative procedures for setting up new enterprises have been simplified. The two major remaining constraints are the rigidities in the labor market and the high energy costs. Accordingly, the authorities have recently taken politically sensitive measures geared toward deregulating the labor market, in terms of employment and wage setting, with a view to reducing labor costs further. In addition, the first phase of the plan of action to rationalize the system of taxation and pricing of energy products has been put in place, with the aim of reducing energy costs in the second phase while safeguarding revenue mobilization. Furthermore, the downward adjustment in the producer price of groundnuts for the 1988/89 crop season and the actions being taken to streamline the operations of the groundnut oil processing company are expected to further improve the profitability of this key export industry.

Second, the reform of the public enterprise sector has to be accelerated. While progress has been made on the privatization of, the signing of performance contracts with, and the reduction of subsidies to, public enterprises, it is important that priority be given to the strict implementation of the recently elaborated plan of action. The privatization process will depend crucially on the introduction of the system of competitive bidding and the use of appropriate technical expertise for the requisite preparatory work. The rapid conclusion of performance contracts with the enterprises remaining in the public domain is essential to ensure the improvement of their operations. The reduction of subsidies and the settlement of cross-payments arrears are needed to regularize the financial operations of the sector.

Third, financial intermediation needs to be enhanced to promote private sector activity, and to mobilize domestic savings and channel them into productive investment. In this regard, the staff welcomes the ongoing restructuring of the banking system. However, in order to limit the financial burden of this restructuring on public finances, the authorities will have to support strongly the recovery of outstanding loans by the institutions established for this purpose. The reform of the monetary policy instruments put in place by the BCEAO will reinforce the positive impact of the restructuring of the sector. In particular, the active interest rate policy being pursued will encourage deposits and reduce reliance on direct controls for credit allocation. In view of the financial imbalances confronting Senegal, the monetary authorities are correctly emphasizing a restrained credit policy, insofar as the private sector is benefiting from the settlement of domestic payments arrears, from the transfers to restore the solvency of illiquid deposits in the banking system, and from the infusion of resources under the voluntary departures program for civil servants.

Fourth, the momentum of fiscal adjustment regained in the first half of 1989/90 has to be sustained. The authorities are to be commended for maintaining the fiscal program on track in the face of the shortfall in external financial assistance. In the first half of 1989/90, a vast array of revenue measures was put in place. These measures, together with a strengthening in tax administration, contributed to mobilizing a higher-than-targeted level of revenue. The authorities reacted rapidly to the emerging delays in the receipt of external financial assistance, by deferring lower priority expenditure. In the second half of the fiscal year, further revenue measures have been put in place, while a tight expenditure policy is being maintained. A major step toward reducing over the medium term the relative size of the wage bill has been taken with the launching of the voluntary departures program for the civil service. The authorities will need to continue to monitor the fiscal situation closely in order to promptly take any further necessary corrective actions. In this regard, the staff welcomes the authorities' decision to make the authorization of certain expenditure items contingent on satisfactory progress on revenue mobilization and the flow of external financial assistance.

In the view of the staff, Senegal has vigorously pursued its adjustment efforts thus far in 1989/90. To enable the authorities to implement the program in an orderly manner in the second half of the fiscal year, it is important that the adjustment efforts be supported by a timely disbursement of the committed external financial assistance. As the program is broadly on track, the staff recommends that the second loan under the second annual ESAF arrangement for Senegal be made available for disbursement.

IV. Proposed Decision

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

Review Under Second Annual Arrangement Under the ESAF

1. The Fund has reviewed Senegal's economic and financial program for 1989/90, in accordance with paragraph 2(d) of the second annual arrangement under the enhanced structural adjustment facility (ESAF) for Senegal (EBS/89/218, Appendix II, 11/15/89).

2. The letter of the Minister of Economy and Finance of Senegal dated March 12, 1990 shall be attached to the second annual arrangement under the ESAF for Senegal (EBS/89/222, Appendix II, 11/15/89) and the letter of the Minister of Economy and Finance of Senegal dated November 1, 1989, together with the memorandum on economic and financial policies attached thereto shall be read as supplemented and modified by the letter dated March 12, 1990. Accordingly, the indicators referred to in paragraph 3(a) of the second annual arrangement under the ESAF for Senegal shall include the benchmarks for March and June 1990 set out in the table annexed to the letter of the Minister of Economy and Finance of Senegal dated March 12, 1990.

3. The Fund determines that, notwithstanding the nonobservance of the performance criterion on external payments arrears referred to in paragraph 2(a) (iv) of the second annual arrangement under the ESAF for Senegal, 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 During Period of ESAF Arrangement 1/

	Outstanding at Dec. 31, 1989	1990 Jan.-March	1990 April-June	1990 July-Sept.	1990 Oct.-Dec.	1991 Jan.-March	1991 April-June	1991 July-Sept.	1991 Oct.-Dec.	1992 Jan.-March	1992 April-June
					(In millions of SDRs)						
Transactions under tranche policies (net)		-6.02	-14.38	-5.56	-13.75	-5.63	-11.85	-5.72	-11.26	-6.29	-9.48
Purchases		—	—	—	—	—	—	—	—	—	—
Ordinary resources		(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Borrowed resources		(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Repurchases		-6.02	-14.38	-5.56	-13.75	-5.63	-11.85	-5.72	-11.26	-6.29	-9.48
Ordinary resources		(-4.71)	(-3.89)	(-3.17)	(-3.08)	(-2.65)	(-3.24)	(-3.78)	(-4.31)	(-3.59)	(-3.28)
Borrowed resources		(-1.31)	(-10.49)	(-2.39)	(-10.67)	(-2.98)	(-8.61)	(-1.94)	(-6.95)	(-2.69)	(-6.20)
Transactions under special facilities (net)		—	—	—	—	—	—	—	—	—	—
Loans under:											
Structural adjustment facility		—	—	—	—	—	—	—	—	—	-1.70
Enhanced structural adjustment facility		—	21.27	—	21.28	—	21.27	—	—	—	—
Total Fund credit outstanding (end of period) 2/	239.27	233.25	240.14	234.58	242.11	236.48	245.90	240.18	228.92	222.63	211.45
Tranche policies	115.87	109.85	95.47	89.91	76.16	70.53	58.68	52.96	41.70	35.41	25.93
Special facilities	—	—	—	—	—	—	—	—	—	—	—
Structural adjustment facility	42.55	42.55	42.55	42.55	42.55	42.55	42.55	42.55	42.55	42.55	40.85
Enhanced structural adjustment facility 2/	80.85	80.85	102.12	102.12	123.40	123.40	144.67	144.67	144.67	144.67	144.67
					(In percent of quota)						
Total Fund credit outstanding (end of period) 2/	281.16	274.08	282.19	275.65	284.49	277.88	288.95	282.23	269.00	261.61	248.47
Tranche policies	136.16	129.08	112.19	105.65	89.49	82.88	68.95	62.23	49.00	41.61	30.47
Special facilities	—	—	—	—	—	—	—	—	—	—	—
Structural adjustment facility	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	48.00
Enhanced structural adjustment facility 2/	95.00	95.00	120.00	120.00	145.00	145.00	170.00	170.00	170.00	170.00	170.00
Memorandum item:											
Trust Fund loans outstanding (end of period)											
In millions of SDRs	1.16	0.71	0.29	0.13	0.13	—	—	—	—	—	—
In percent of quota	1.36	0.83	0.34	0.15	0.15	—	—	—	—	—	—

Source: IMF, Treasurer's Department.

1/ Rounded to the second decimal place.
2/ Includes ESAF Trust loans.

Table 11. Senegal: Government Financial Operations, 1985/86-1989/90 1/

	1985/86	1986/87	1987/88	1988/89	1989/90		1989/90	
				Est.	First semester		Prog.	Rev. prog.
					Prog.	Prel. act.		
	(In billions of CFA francs)							
Total revenue and grants	237.9	266.1	271.4	274.2	131.2	128.0	299.0	299.0
Revenue	218.7	251.0	251.4	245.7	119.2	120.5	276.0	276.0
Tax revenue	185.1	196.0	205.5	196.2	100.2	102.0	232.0	232.0
Nontax revenue	33.6	55.0	45.9	49.5	19.0	18.5	44.0	44.0
Grants	19.2	15.1	20.0	28.5	12.0	7.5	23.0	23.0
Total expenditure and net lending	266.0	285.8	288.2	305.1	166.9	145.4	319.8	320.3
Current expenditure	220.3	232.7	244.7	248.1	124.9	116.8	252.8	249.6
Wages and salaries	111.8	119.8	122.3	125.2	69.0	65.8	130.0	126.8
Interest due 2/	41.0	39.6	46.1	47.7	25.9	25.0	46.8	46.8
Of which: external	(40.3)	(39.3)	(43.6)	(42.6)	(21.9)	(21.0)	(42.2)	(42.2)
Materials and maintenance and other	41.8	44.7	47.3	50.3	20.2	16.2	52.0	52.0
Transfers and subsidies 3/	25.7	28.6	29.0	24.9	9.8	9.8	24.0	24.0
Capital expenditure	33.8	38.1	41.7	41.0	26.0	21.0	46.0	46.0
Budgetary	5.8	8.1	11.7	11.0	10.0	5.0	14.0	14.0
Extrabudgetary	28.0	30.0	30.0	30.0	16.0	16.0	32.0	12.0
Banking sector reform	—	—	—	—	7.0	0.6	10.0	8.7
Voluntary departures	—	—	—	—	—	—	—	5.0
Treasury special accounts (net) 4/	-12.9	-14.8	-9.5	-11.0	-9.0	-7.0	-11.0	-11.0
Treasury correspondents (net) 4/	1.0	-0.2	7.7	-5.0	—	—	—	--
Overall fiscal surplus or deficit (-) (commitment basis)	-28.1	-19.7	-16.8	-30.9	-35.7	-17.4	-20.8	-21.3
Adjustment to cash basis	-12.6	-26.3	-37.1	-4.4	—	11.4	-23.5	-23.5
Payments arrears of the Government and public agencies (reduction -)	-9.6	-14.0	-14.0	—	—	11.4	-8.5	-8.5
Crop credit (repayment -)	-3.0	-12.3	-23.1	-4.4	— 5/	— 5/	-15.0 5/	-15.0 5/
Overall fiscal surplus or deficit (-) (cash basis)	-40.7	-46.0	-53.9	-35.3	-35.7	-6.0	-44.3	-44.8
Financing	40.7	46.0	53.9	35.3	35.7	6.0	44.3	44.8
External	28.0	52.0	51.9	47.7	29.7	17.8	27.6	62.4
Drawings	36.7	76.8	79.9	53.0	39.0	28.0	63.6	68.2
Treasury	16.7	55.8	60.7	28.0	22.0	11.0	34.6	29.1
Project loans	20.0	21.0	19.2	18.0	10.0	10.0	19.0	19.0
Banking sector reform	—	—	—	7.0	7.0	7.0	10.0	15.1
Voluntary departures	—	—	—	—	—	--	—	5.0
Amortization due 2/	-29.6	-43.9	-45.9	-55.9	-28.1	-29.0	-61.4	-64.6
External debt rescheduling	20.9	19.1	17.9	50.6	18.8	18.8	25.4	58.8
Domestic	12.7	-6.0	2.0	-12.4	6.0	-11.8	-11.2	-17.6
Banking system 6/	19.6	1.8	6.0	-9.9	10.0	-11.3	-1.1	-7.5
Reimbursement of consolidated and restructured bank debt (incl. ONCAD)	-8.0	-12.0	-8.6	-3.6	-4.0	-1.2	-10.1	-10.1
Nonbank borrowing	0.8	2.2	1.0	—	—	—	—	--
Other 7/	0.3	2.0	3.6	1.1	--	0.7	—	—
Financing gap	—	—	—	—	—	—	27.9	--
Memorandum items:								
Domestic payments arrears of Government/ public agencies (end of the period)	36.5	22.5	8.5	8.5	8.5	8.5	—	—
Nominal GDP	1,223.1	1,338.2	1,432.9	1,467.7	...	...	1,564.9	1,564.9
	(In percent of GDP)							
Total revenue and grants	19.5	19.9	18.9	18.6	...	...	19.1	19.1
Of which: revenue	(17.9)	(18.8)	(17.5)	(16.7)	(...)	(...)	(17.6)	(17.6)
Of which: tax revenue	(15.1)	(14.6)	(14.3)	(13.4)	(...)	(...)	(14.8)	(14.8)
Total expenditure and net lending	21.7	21.4	20.1	20.7	...	...	20.4	20.5
Of which: current expenditure	(18.0)	(17.4)	(17.1)	(16.9)	(...)	(...)	(16.2)	(15.9)
capital expenditure	(2.8)	(2.8)	(2.9)	(2.8)	(...)	(...)	(2.9)	(2.9)
banking sector reform and voluntary departures	(—)	(--)	(—)	(--)	(...)	(...)	(0.6)	(0.9)
Overall fiscal surplus or deficit (-) (commitment basis, excluding grants)	-3.9	-2.6	-2.6	-4.0	...	...	-2.8	-2.8
Overall fiscal surplus or deficit (-) (cash basis, excluding grants)	-4.9	-4.6	-5.2	-4.3	...	...	-4.3	-4.3

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

1/ Fiscal year ending June 30.
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.
3/ Includes outlays for scholarships.
4/ Deficits are added to expenditure, while surpluses are deducted. For the Treasury's special accounts, excludes net movements in the Debt Amortization Fund, National Energy Fund, and investment expenditures relating to the fifth and sixth Plans, which are shown separately.
5/ Net of a transfer from SONACOS amounting to CFAF 5 billion in the first half of 1989/90, and CFAF 10 billion for the year as a whole.
6/ Includes the counterparts of Fund purchases and repurchases, as well as those of loans under the structural adjustment facility. For some years, the figures differ from the variation shown in the monetary survey because they exclude the amounts of unprogrammed external resources deposited at the BCEAO in the fiscal year involved.
7/ Including errors and omissions.

Table III. Senegal: Monetary Survey, June 1986–June 1990

(In billions of CFA francs; end of period)

	1986	1987	1988		1989						1990			
	June	June	June	Dec.	Mar.	June	Sept.		Dec.		March		June	
						Act.	Prog.	Act.	Prog.	Prel. act.	Prog.	Rev. prog.	Prog.	Rev. prog.
Net foreign assets	-243.8	-207.5	-236.0	-250.7	-234.7	-231.3	...	-244.2	...	-218.9	...	...	-194.8	-188.1
Central bank	-219.8	-185.0	-196.5	-211.4	-179.9	-178.0	...	-190.0	...	-179.8	...	...	-144.8	-134.8
Commercial banks	-24.0	-22.5	-39.5	-39.4	-54.8	-53.3	...	-54.2	...	-39.1	...	...	-50.0	-53.3
Domestic credit	544.0	575.3	606.7	593.6	602.6	607.2	603.2	587.4	613.7	576.6	611.4	586.1	589.2	565.7
Credit to the Government (net)	142.1	143.9	149.9	150.5	150.6	140.0	140.0	140.0	150.0	128.7	146.4	139.8 1/	138.9	132.5 1/
Credit to the economy	401.9	431.4	456.8	443.1	452.0	467.2	463.2	447.4	463.7	447.9	465.0	446.3	450.3	433.2
Ordinary credit	371.9	374.5	380.9	422.2	411.4	433.0	437.2	426.1	435.7	429.8	430.0	414.3	420.3	406.2
Of which: ONCAD 2/	(67.7)	(66.7)	(65.8)	(65.8)	(65.8)	(65.8)	(65.8)	(65.8)	(65.8)	(65.8)	(65.8)	(65.8)	(65.8)	(65.8)
reclassified 3/	(3.5)	(2.2)	(2.4)	(46.2)	(36.4)	(29.9)	(29.8)	(29.8)	(24.0)	(38.8)	(14.0)	(17.4)	(—)	(7.0)
Crop credit	30.0	56.9	75.9	20.9	40.6	34.2	26.0	21.3	28.0	18.1	35.0	32.0	30.0	27.0
Money and quasi-money	291.5	342.2	346.2	334.5	353.3	370.8	...	350.3	...	371.3	...	...	389.3	391.2
Currency in circulation	75.2	108.9	97.7	92.8	99.2	...	...	...	...	...	...	...	...	...
Demand deposits	112.6	121.5	122.0	122.1	124.9	...	...	...	...	...	...	...	...	...
Time deposits	103.7	111.8	126.5	119.6	129.2	...	...	...	...	...	...	...	...	...
Other items (net)	8.7	25.6	24.5	8.4	14.6	5.1	5.1	-7.1	5.1	-13.6	5.1	-13.6	5.1	-13.6
Of which: ONCAD	(19.3)	(13.6)	(10.8)	(13.1)	(10.7)	(11.9)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
Memorandum items:														
Domestic assets (net)	535.3	549.7	582.2	585.2	588.0	602.1	598.1	594.6	608.6	590.2	606.3	599.7 1/	584.1	579.3 1/

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

1/ Performance criteria.
2/ ONCAD, Office National de la Commercialisation Agricole et du Développement.
3/ Crop credit reclassified under ordinary credit.

Table IV. Senegal: Balance of Payments, 1986/87-1989/90

(In billions of CFA francs, unless otherwise indicated)

	1986/87	1987/88 Est.	1988/89 Est.	1989/90 Prog.	1989/90 Rev. prog.
Trade balance	-86.5	-74.5	-65.4	-58.4	-58.4
Exports, f.o.b.	201.1	218.4	245.4	258.6	258.6
Of which: groundnut products	(19.1)	(29.1)	(45.8)	(48.3)	(48.6)
Imports, f.o.b.	-287.6	-292.9	-311.2	-317.0	-317.0
Of which: petroleum products	(-38.2)	(-46.8)	(-41.2)	(-41.8)	(-36.0)
Services (net)	-66.1	-72.8	-76.4	-72.2	-72.2
Of which: interest due on public debt	(-45.6)	(-50.4)	(-52.0)	(-52.1)	(-52.1)
Unrequited transfers	71.6	72.0	75.4	83.1	83.1
Of which: gross official grants	(70.6)	(70.7)	(74.0)	(81.4)	(81.4)
Current account (deficit -)	-81.0	-75.3	-66.4	-47.5	-47.5
Capital account	88.5	38.6	34.3	27.4	31.9
Public sector	93.8	75.2	35.6	30.0	34.5
Drawings	142.1	132.7	99.6	99.6	104.1
Amortization	-48.3	-57.5	-64.0	-69.6	-69.6
Private sector	2.4	-35.2	-8.2	-2.6	-2.6
Errors and omissions	-7.7	-1.4	6.9	—	--
Overall balance (deficit -)	7.5	-36.7	-32.1	-20.1	-15.6
Debt rescheduling	26.6	26.0	50.6	25.4 1/	58.8
Financing	-34.1	10.7	-18.5	-33.2	-43.2
Net use of Fund resources	-0.4	-4.1	7.5	0.2	-0.1
Purchases 2/	17.2	19.8	25.2	17.7	17.7
Repurchases	-17.6	-15.7	-17.7	-17.5	-17.8
Operations account and other	30.1	6.6	-26.0	-33.4	-43.1
Payments arrears (reduction -)	-3.6	—	—	—	--
Financing gap	—	—	—	27.9	—
Memorandum items:					
Current account (in percent of GDP)					
Including gross official grants	-6.1	-5.1	-4.5	-3.0	-3.0
Excluding gross official grants	-11.3	-10.2	-9.6	-8.3	-8.3
Exchange rate (CFAF/SDR)	395.00	390.00	394.23	416.34	416.34
Operations account (end of period)	-56.1	-60.3	-45.4	...	...

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

1/ Debt relief secured for 1989/90 prior to the February 12, 1990 Paris Club meeting.
2/ Includes disbursements under the SAF and the ESAF.

Table V. Senegal: Balance of Payments, 1986/87-1989/90

(In millions of SDRs, unless otherwise indicated)

	1986/87	1987/88 Est.	1988/89 Est.	1989/90 Prog.	1989/90 Rev. prog.
Trade balance	-219.0	-190.9	-165.9	-140.3	-140.3
Exports, f.o.b.	509.1	560.0	623.5	621.1	621.1
Of which: groundnut products	(48.4)	(74.6)	(116.2)	(116.0)	(116.7)
Imports, f.o.b.	-728.1	-750.9	-789.4	-761.4	-761.4
Of which: petroleum products	(-96.7)	(-120.0)	(-104.5)	(-100.4)	(-86.5)
Services (net)	-167.3	-186.7	-193.8	-173.4	-173.4
Of which: interest due on public debt	(-115.4)	(-129.2)	(-131.9)	(-125.1)	(-125.1)
Unrequited transfers	181.3	184.6	191.3	199.6	199.6
Of which: gross official grants	(178.7)	(181.3)	(187.7)	(195.5)	(195.5)
Current account (deficit -)	-205.0	-193.0	-168.4	-114.1	-114.1
Capital account	224.2	98.9	87.0	65.8	76.6
Public sector	237.5	192.9	90.3	72.1	82.8
Drawings	359.8	340.3	252.6	239.2	250.0
Amortization	-122.3	-147.4	-162.3	-167.2	-167.2
Private sector	6.1	-90.3	-20.8	-6.2	-6.2
Errors and omissions	-19.4	-3.7	17.5	--	--
Overall balance (deficit -)	19.1	-94.1	-81.4	-48.3	-37.5
Debt rescheduling	67.3	66.7	128.3	61.0 1/	141.0
Financing	-86.4	27.4	-46.8	-79.7	-103.7
Net use of Fund resources	-1.1	9.0	18.9	0.5	-0.2
Purchases 2/	43.5	50.0	63.9	42.6	42.6
Repurchases	-44.6	-41.0	-45.0	-42.1	-42.8
Operations account and other	-76.2	18.4	-65.9	-80.2	-103.5
Payments arrears (reduction -)	-9.1	--	--	--	--
Financing gap	--	--	--	67.0	--
Memorandum items:					
Current account (in percent of GDP)					
Excluding gross official transfers	-11.3	-10.2	-9.6	-8.3	-8.3
Including gross official transfers	-6.1	-5.1	-4.5	-3.0	-3.0
Exchange rate (CFAF/SDR)	395.00	390.00	394.23	416.34	416.34
Operations account (end of period)	-142.0	-154.6	-115.2	...	...

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

1/ Debt relief secured for 1989/90 prior to the February 12, 1990 Paris Club meeting.
2/ Includes disbursements under the SAF and the ESAF.

Table VI. Senegal: External Public Debt Service, 1986/87-1989/90 1/

(In millions of SDRs, unless otherwise indicated)

	1986/87	1987/88 Est.	1988/89 Est.	1989/90 Prog.	1989/90 Rev. prog.
Principal	166.9	188.4	207.3	209.2	209.2
IMF repurchases	44.6	41.0	45.0	42.1	42.1
Other	122.3	147.4	162.3	167.2	167.2
Interest	115.4	129.2	131.9	125.1	125.1
IMF charges	16.0	14.8	13.5	10.8	10.8
Other	99.4	114.4	118.4	114.3	114.3
Total debt service (before rescheduling)	282.3	317.7	339.2	334.3	334.3
Debt rescheduling	67.3	66.7	128.3	61.0 2/	141.0
Total debt service (after rescheduling)	215.0	251.0	210.9	273.3	193.3
Memorandum items:					
Exports of goods and services, and private transfers	949.1	1,019.2	1,089.2	1,067.2	1,067.2
Debt service ratio (in percent)					
Before debt rescheduling	29.7	31.2	31.1	31.3	31.3
Principal	17.6	18.5	19.0	19.6	19.6
Interest	12.2	12.7	12.1	11.7	11.7
After debt rescheduling	22.7	24.6	19.4	25.6	18.1
IMF debt service ratio (in percent)	6.4	5.5	5.4	5.0	5.0

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

1/ Excludes debt service obligations of the multilateral companies, Air Afrique, and Agence pour la Sécurité de la Navigation Aérienne.

2/ Debt relief secured for 1989/90 prior to the February 12, 1990 Paris Club meeting.

Table VII. Senegal: Public Enterprises by Sector of Activity

(In millions of CFA francs)

	Name	Capital	Govt. share (%)	Value added	Employment (No.)	Investment 1/
Agriculture						
Agricultural research	ISRA	411	100	-1,080	938	1,087
Price stabilization fund	CPSP	1,332	100	-27	141	-17
Rural development	SAED	2,500	100	-100	981	2,477
Rural development	SODESP	241	100	-169	115	258
Rural development in Casamance	SOMIVAC	538	100	-94	364	196
Agricultural development	SODEVA	100	75	NA	...	...
Textiles	SODEFITEX	750	51	-2,057	798	679
Agricultural and industrial development	SODAGRI	120	54	-165	85	43
Livestock	SERAS	619	96	1,102	402	118
Agricultural finance	SEPFA	1,442	40	-86	68	149
Subtotal		8,053	83	-2,676	3,892	4,990
Food Industry						
Food technology	ITA	103	100	-88	104	--
Groundnut oil processing	SEIB	1,600	6	1,873	552	129
Groundnut oil processing	SONACOS	4,882	44	3,494	1,485	1,185
Fishing products	SAFCOP	200	5	...	...	...
Subtotal		6,785	34	5,279	2,141	1,314
Mining						
Phosphates of Thies	SSPT	1,000	50	1,401	368	1,797
Phosphates of Taiba	CSPT	12,000	50	4,959	1,437	1,457
Salt of Sine Saloum	SNSS	723	49	1,241	160	110
Iron mining	MIFERSO	181	44	253	71	1,300
Petroleum products	PETROSEN	130	90	-53	11	614
Coal mining	CTS	100	50	-31	11	213
Gold mine	SABODALA	1,497	41	...	...	...
Cement	SOCOCIM	4,271	49	...	...	...
Oil drilling	SONAFOR	240	74	262	77	31
Subtotal		20,142	50	8,032	2,135	5,522
Petroleum and chemistry						
Pharmaceutical products	SIPOA	330	20	421	76	...
Chemical industries	ICS	32,234	28	...	...	...
Subtotal		32,564	28	421	76	--
Textiles						
Rugs	MSAD	17	100	93	87	--
Jute	SISAC	160	51	-15	12	-8
Textiles	SOTEXKA	4,045	28	--	33	...
Subtotal		4,222	29	78	132	-8
Mechanical						
Aluminum	SAFAL	14	7	...	...	...
Automobile	BERLIET	210	10	210	20	...
Subtotal		224	9	210	20	--
Urban development						
Low-income housing	OHLM	7,938	100	1,178	321	1,005
Housing development	SICAP	2,742	90	2,855	252	220
Subtotal		10,680	97	4,033	573	1,225
Utilities						
Electric power	SENELEC	63,000	100	18,474	2,181	6,200
Water supply	SONEES	3,927	100	6,815	1,253	3,089
Industry	SODIDA	55	64	27	15	278
Urban development	SIAS	1,500	27	-3,094	1,348	1,984
Modern housing	HAMO	150	7	528	...	5
Subtotal		68,632	98	22,750	4,797	11,556
Transport						
Port of Dakar	PAD	5,448	100	5,051	735	3,735
Railroads	RCFS	17,301	100	6,908	1,200	13,250
Air transport	SONATRA	200	50	723	94	179
Naval transport	SODEMHE	500	--	69	...	3
Naval transport	COSENAM	500	15	321	18	30

Table VII (concluded). Senegal: Public Enterprises by Sector of Activity

(In millions of CFA francs)

	Name	Capital	Govt. share (%)	Value added	Employment (No.)	Investment 1/
Naval transport	DAKAR MARITIME	3,655	97	1,929	685	-44
Urban transportation	SOTRAC	2,496	64	4,588	2,833	3,197
Naval transport	COSEC	1,999	100	899	33	--
Subtotal		32,099	94	20,488	5,598	20,350
Communications						
Post office	OPCE	2,912	100	1,178	1,897	--
Radio and television	ORTS	...	...	180	592	121
Telecommunications	SONATEL	5,171	100	8,979	1,957	8,590
Movie distribution	SIDEC	765	95	1,147	497	-488
Movie production	SNPC	50	15	-17	9	75
Advertising and tourism	SSPT	500	50	243	69	11
Printing and publication	SSPP	27	55	191	122	15
Broadcasting	APS	23	100	25	56	2
Subtotal		9,448	96	11,926	5,199	8,326
Tourism and hotels						
Hotel	SAIH	1,405	50	899	338	80
Hotel	SPHU	1,137	45	848	272	156
Tourism	SAPCO	1,100	99	13	74	93
Tourism	VACAP	960	64	660	225	260
Property management and hotel	SENOTEL	510	4	134	119	660
Tourism	SPT	113	13	243	69	6
Subtotal		5,225	56	2,797	1,097	1,255
Others						
Development studies	SONED	98	60	173	69	14
Lottery	LONASE	110	100	708	93	664
Solar energy	SINAES	411	72	40	27	22
Research	CEREEQ	55	100	271	101	119
Subtotal		674	77	1,192	290	819
Banking and financial institutions						
Bank	BNDS	2,400	73	2,631	339	-30,523
Bank	USB	2,000	62	-371	367	8,383
Bank	BICIS	2,500	42	3,478	485	-582
Finance company	SOFISEDIT	1,300	18	180	65	2,169
Rural credit	CNCA	2,300	28	100	57	293
Finance company	SONAGA	1,015	91	514	74	55
Social security fund	CSS	2,036	100	-272	601	1,326
Insurance	CSAR	315	43	438	76	284
Bank	BHS	1,100	9	1,089	109	1,682
Bank	SONABANQUE	600	88	214	41	380
Industrial promotion	SONEPI	55	24	146	56	25
Subtotal		15,621	55	8,147	2,270	-16,508
Distribution and commerce						
Retailing	SONADIS	916	8	310	253	27
Petroleum	IRANSEN	581	25	1,234	200	256
Groundnuts	SONAGRAINE	500	--	763	344	42
Stabilization Fund	CPSP-RIZ	42	100	11,417	308	-420
Subtotal		2,039	13	13,724	1,105	-95
Education, art, culture, other						
Education	INSEPS	14	100	-23	38	-4
Education	COUD	125	100	-1,146	496	67
Rural development institute	INDR	--		-92	65	-32
Education	ISB	--		7	18	34
Education	CNOP	--		-37	65	--
Art	CNTDS	--		3	183	--
Veterans administration	ONAC	--		-4	174	--
Subtotal		139	100	-1,292	1,039	65
Total		216,547	73	95,109	30,364	38,811

Source: Parapublic sector review, World Bank, May 1989.

1/ Investment figures are net changes in fixed assets, and thus many do not correspond exactly to new investment.

Table VIII. Senegal: Plan of Action for Public Enterprise Reform

		Date
	Privatization and liquidation	
-	Privatize the following 30 public enterprises 1/	
.	SIDEC, VACAP, SAIH, SERAS, SNSS, SENPRIM, SONED, SENHOTEL	
.	SIPOA, SINAES, HAMO, DAKAR-MARINE, IRANSEN, SODEHME, PROJET FRUITTIER DE M'BORO, CNCAS, BICIS	
.	SOTEXKA, SICAP, BHS, SODIDA, SODEZI, SODITH, SODISA, SODIKA, SONEPI, SIAS, SEPFA, SONADIS, SONACOS	6/30/91
-	Liquidate the following 5 enterprises: SISAC, SNPG, SOMIVAC, SEIP and SGHCV	6/30/90
-	Identify and liquidate at least 5 other enterprises	6/30/91
-	Complete study and implement recommendation on the creation of a secondary market for shares	12/31/90
	Rehabilitation of public enterprises	
-	Prepare performance contracts for OHLM, PAD, RCFS, OPCE, SONATRA	6/30/90
-	Prepare recovery programs for NIS, "LE SOLEIL," ORTS, ITA, CNTDS, ISRA, SICAP	6/30/90
-	Prepare financial restructuring plans for SONEES, SENELEC, SONATEL	12/31/90
	Legal and institutional framework	
	Modify the relevant legislation in order to:	
.	limit state control on mixed enterprises in which the state holds a minority share, and on private enterprises benefiting from state support	6/30/90
.	eliminate the right of the state to veto public enterprise Board decisions	
.	limit role of the public control commission to a posteriori control of public enterprise accounts	
	Subsidies	
-	Reduce gradually direct subsidies (excluding COUD) to a maximum 2/ of:	
.	noncommercial enterprises	
	CFAF 9.9 billion	1989/90
	CFAF 9.1 billion	1990/91
	CFAF 7.4 billion	1991/92
.	commercial enterprises	
	CFAF 0.6 billion	1989/90
	CFAF 0.3 billion	1990/91
	--	1991/92
-	Restructure COUD in order to reduce its budgetary burden	9/30/90
	Overdrafts of the Central Accounting Office (ACC)	
-	Abolish overdraft system	1989/90
-	Transform all existing ACC overdrafts to long-term loans after one year	9/30/89
-	Cancel all long-term loans that cannot be reimbursed	1990/91
	Cross-debts	
	Stock as of December 31, 1986	
-	Mutually cancel all nondisputed cross-debts between the State and the public enterprises over a three-year period	1989/90-1991/92
-	Settle outstanding debts owed by public enterprises to the State	11/89
-	Cancel the debts of those public enterprises that do not generate their own resources	11/89

Table VIII (concluded). Senegal: Plan of Action for Public Enterprise Reform

		Date
-	Settle all debts owed by the State to public enterprises estimated as follows:	
	CFAF 584 million	1989/90
	CFAF 600 million	1990/91
	CFAF 500 million	1991/92
	Stock as of December 31, 1988	
-	Update the inventory of cross-debts for the period up to December 31, 1988	12/89
-	Settle those debts that can be mutually canceled	3/90
-	Settle the outstanding debts owed by enterprises to the State over a three-year period starting in 1990/91	3/31/90
-	Cancel the debts of the public establishments which do not generate their own resources	1/31/90
-	Arbitrate disputed claims	11/30/90
-	Settle all debts owed by the State to the enterprises over a three-year period	1990/91-1992/93
	Stock as of December 31, 1989	
-	Update the inventory of cross-debts	3/31/90
-	Settle all these cross-debts over a three-year period starting in 1990/91	6/30/90
	Cross-debts between public enterprises	
-	Mutually cancel where possible	1/31/90
-	Settle over a three-year period starting in 1990/91, with the State acting on behalf of these public enterprises unable to generate their own resources	3/31/90

Sources: Information provided by the Senegalese authorities; and the World Bank staff.

1/ Includes activities performed by branches of the Government.
2/ COUD: Social offices of the University.

TRANSLATION

Dakar, March 12, 1990

Dear Mr. Camdessus,

1. In accordance with the second annual arrangement for Senegal under the enhanced structural adjustment facility, approved on December 6, 1989, we have recently held discussions with a Fund staff mission regarding the midterm review of Senegal's adjustment program for the fiscal year 1989/90 (July/June). The discussions focused on the progress made in the implementation of the program during the first half of the fiscal year, and on the prospects and policies for the second half of the year. In this context, understandings were reached on definitive quantitative benchmarks for end-March and end-June 1990, as shown in the annexed table. All the measures envisaged so far under the program have been implemented, and the available data indicate that the program is broadly on track. Based on preliminary data, the quantitative performance criteria at end-December 1989, with the exception of that on external payments arrears as explained in paragraph 14 below, were met. The two structural performance criteria were also respected; a plan of action for the acceleration of the public enterprise reform program was finalized in December 1989, and the protocol governing the financial relations between the Government and the groundnut oil processing company (SONACOS) was signed on December 28, 1989. In addition, the structural benchmark relating to the completion of the revision of the energy taxation and pricing system was observed. The fiscal, balance of payments, and monetary projections have been modified to take into account the effects of the World Bank-supported expenditure and counterpart external financing for the voluntary departures program for civil servants, under the World Bank's fourth structural adjustment loan (SAL IV) approved on February 8, 1990, as well as the reform of the banking system, under the Bank's sectoral adjustment loan approved on December 18, 1989. The revised program also incorporates the results of the Paris Club meeting of February 12, 1990. The Government of Senegal remains committed to the policies described in the letter of intent and the attached memorandum on economic and financial policies of November 1, 1989, as supplemented by this letter.

2. In the context of the medium-term framework for 1989/90-1991/92, the main objectives of the 1989/90 program are to achieve a rate of growth of real GDP of 4.6 percent, to contain the rate of inflation, as measured by the GDP deflator, at 2.0 percent, and to reduce the external current account deficit, excluding official grants, to 8.3 percent of GDP in 1989/90. In the first half of the year, the return of favorable weather conditions and the liberalization of the regulatory environment have contributed to a pickup in economic activity; accordingly, the growth target is expected to be attained. With the good supply conditions and the tight financial policies, inflation has remained low, and the objective for the year has been retained. In the external sector, although the unit prices and volumes of exports and imports of certain commodities have been revised on the basis of the latest

information, the current account deficit is estimated to be contained at the programmed level. The net public capital inflows during the first half of the year were lower than originally envisaged, due mainly to delays in the conclusion of the negotiations between the authorities and the World Bank on the SAL IV. The disbursement of the first tranche under SAL IV is expected in the second half of the fiscal year. Furthermore, during the second half, there will be higher-than-envisaged capital inflows to finance the reform program for the banking sector as well as the voluntary departures program. As a result, the revised capital account surplus should exceed the original program projection. Hence, the overall balance of payments, before debt relief, is estimated to record a deficit of CFAF 15.6 billion, compared with the original projection of a deficit of CFAF 20.1 billion. Senegal secured CFAF 33.4 billion in additional debt relief under the auspices of the Paris Club in February 1990, bringing the total for the fiscal year 1989/90 to CFAF 58.8 billion. Thus, the balance of payments surplus, after debt relief, is now estimated at CFAF 43.2 billion, against an original projection of CFAF 33.2 billion.

3. The momentum of fiscal adjustment has been regained through a significant revenue effort and reinforced austerity measures. Based on preliminary data, fiscal performance in the first half of the year was better than envisaged. The revenue target was achieved, while expenditure was kept substantially below the programmed level. The Government deferred all lower priority nondebt expenditure to offset the aforementioned delay in the receipt of the external financial assistance. As a result, the budget deficit, on a commitment basis and excluding grants, in the first half of 1989/90, is estimated at CFAF 24.9 billion (1.6 percent of GDP for 1989/90) compared with a program target of CFAF 47.7 billion (3.0 percent of GDP). For the year as a whole, the Government has identified elements to reduce the wage bill by CFAF 3.2 billion (0.2 percent of GDP). This will virtually offset the additional combined expenditure associated with the reform of the banking system and the voluntary departures program, amounting to CFAF 3.7 billion (0.2 percent of GDP). Thus, the overall fiscal deficit, on a commitment basis and excluding grants, is estimated at CFAF 44.3 billion (2.8 percent of GDP) in 1989/90, broadly in line with the program target of CFAF 43.8 billion (2.8 percent of GDP). The settlement of verified domestic payments arrears of the Government and public agencies, together with the programmed repayment of reclassified crop credit, will result in an overall deficit, on a cash basis and excluding grants, of CFAF 67.8 billion (4.3 percent of GDP). The Government was officially informed by a key Paris Club participating creditor of its willingness to consider a rescheduling of the arrears that had accumulated on debt service on previously rescheduled debt for the period July 1-December 31, 1989 (CFAF 11.4 billion). At the Paris Club meeting for Senegal, which had been delayed from December 1989 to February 12, 1990, those amounts were considered and rescheduled. For the year as a whole, the deficit is expected to be covered entirely by external financial assistance, including debt relief, and net bank credit to the Government is programmed to decline.

4. Total revenue and grants are estimated to increase by 9.0 percent to CFAF 299.0 billion, with grants projected to decline to CFAF 23.0 billion. Revenue is projected to rise by CFAF 30.3 billion (1.9 percent of GDP), reflecting an increase of CFAF 35.8 billion in tax revenue generated by a wide range of new fiscal and administrative measures, partly offset by a decline in nontax revenue, on account of lower transfers from the oil sector. During the first half of the year, the envisaged measures were implemented, namely, the widening of the coverage of the highest rate of the value-added tax, with a concurrent reduction in the rate from 50 percent to 30 percent; the increase in the value-added tax rate from 20 percent to 30 percent for certain products; an across-the-board increase in the customs duty rate from 10 percent to 15 percent; the introduction of a minimum tax assessment for certain imports known to be subject to underinvoicing; and the strengthening of the customs valuation process and border procedures, primarily through the computerization of customs procedures and the consolidation of regional border offices. However, the computerization of customs procedures, which was to be in place by end-November 1989, was delayed by a month, until end-December 1989. Furthermore, customs services are being reinforced through the provision of more adequate resources to improve the physical verification of imported goods, which is particularly important for the effective application of minimum tax assessments. As envisaged under the program, effective January 1, 1990, the schedular income tax was replaced by a global income tax for individuals and a separate profit tax for enterprises with a 35 percent tax rate; the withholding tax scheme was extended to property income; and the change in the system of taxation of the petroleum sector was introduced. However, due to the preparatory work involved, the extension of the value-added tax to the trade and other services sectors will be submitted for approval at the next session of the National Assembly in April 1990. The Government is also stepping up its efforts to strengthen tax administration, in order to reduce tax evasion and accelerate tax recovery. To monitor tax revenue, monthly targets, quarterly benchmarks, and a performance criterion at end-December 1989 were established under the program. During the first half of the year, the cumulative bimonthly revenue tax targets, as well as the performance criterion on tax revenue at end-December 1989, were observed. During the second half of 1989/90, the Government of Senegal will consult with Fund management on appropriate tax measures if in any consecutive two-month period the cumulative tax revenue target is not achieved. Nontax revenue is projected to remain in line with the program target, with the financial surplus of the oil refinery (SAR) of CFAF 36.0 billion being transferred to the Treasury. As envisaged, CFAF 18.0 billion was transferred in the first half of the year. In light of the change in the system of taxation of the petroleum sector, CFAF 18.0 billion is projected to be mobilized by the energy fund in the second half.

5. Expenditure and net lending will increase by 5.0 percent, compared with a program target of 4.8 percent. This reflects the higher-than-

programmed expenditure associated with the voluntary departures program, which will be partly offset by lower-than-programmed current expenditure. The reduction in the target for current expenditure is exclusively due to a downward revision in the wage bill to CFAF 126.8 billion, compared with the program target of CFAF 130.0 billion, to be achieved through a further reduction in indemnities. Increases in the allocation for materials and maintenance will be offset by a programmed reduction in the provisions for subsidies and transfers, as envisaged. Capital expenditure will increase, as programmed, by 12.2 percent, in line with the three-year rolling public investment program. In order to reduce the share of the wage bill over the medium term, the Government has introduced a voluntary departures program that aims at a net reduction in the size of the civil service by an estimated 4,800 persons over a three-year period. The cost of the program, estimated at CFAF 22.0 billion, will be covered fully by external financial assistance. While CFAF 13.3 billion could be made available for this purpose in 1989/90, it is estimated, as a working hypothesis, that a minimum of CFAF 5.0 billion will be spent by end-June 1990. In addition, the expenditure relating to the restructuring of the banking system has been revised from CFAF 10.0 billion to CFAF 8.7 billion, under the sectoral adjustment program supported by France, the World Bank, and the U.S. Although the total amount to be made available to the banking system is CFAF 15.1 billion, CFAF 6.4 billion will constitute claims of the Government on banks. To ensure the attainment of the budgetary target, the Government has decided to set aside, as a contingency, CFAF 8.0 billion in lower priority current expenditure and that of the Treasury correspondents and special accounts, as well as CFAF 2.0 billion in budgetary capital expenditure. The authorization of these expenditures will take place only if the cumulative revenue target for the period of July 1989-March 1990 is met; the programmed external financing through end-March has been received; and all the agreements relating to the remaining balance have been signed. The net deficit in the Treasury's special and correspondent accounts is estimated to be in line with the program. The financial position of the Price Equalization and Stabilization Fund (CPSP) is expected to be further reinforced as a result of two factors. First, a new arrangement with the flour millers entered into effect on November 1, 1989. This provided for the setting of the reference price for wheat purchases on the basis of international competitive bidding, so as to maximize the mark-up of the CPSP from this source. Second, the CPSP has introduced a new price system for rice, effective February 1, 1990, providing for differentiation in domestic prices of rice depending on the content of broken rice. The Government, based on the recommendations of a Fund technical assistance mission, is reinforcing budgetary discipline in the management of the special and correspondent accounts by integrating into the 1990/91 budget the active accounts on a gross basis and eliminating inoperative accounts.

6. The Central Bank of West African States (BCEAO) has been pursuing a cautious monetary policy consistent with the objectives of the program. During the period July-December 1989, the overall expansion in credit, based on preliminary data, was lower than anticipated. Net bank

credit to the Government was below the ceiling at end-December 1989, having declined by 3.0 percent of beginning money stock, compared with an increase of 2.7 percent under the program. Credit to the economy declined by 5.2 percent, compared with a programmed reduction of 0.9 percent of beginning money stock, owing in part to an increase in bank provisions for the losses on outstanding credit of the restructured banks. The previously reclassified crop credit was reduced by CFAF 4.5 billion, but there was a newly reclassified amount of CFAF 13.4 billion of crop credit related to the 1988/89 crop year. Other monetary items (net) turned negative, reflecting the increases in reserves and in the provisions for the losses of the restructured banks. Accordingly, the net domestic assets of the banking system were below the end-December 1989 ceiling. Thus, the performance criteria on net credit to the Government and on net domestic assets of the banking system at end-December 1989 were met. For the year as a whole, the growth rate in domestic liquidity has been revised to 5.5 percent, compared with a previous target of 5.0 percent. Domestic credit is programmed to be reduced by 11.2 percent of beginning money stock. Crop credit is expected to decline by 1.9 percent of beginning money stock, while ordinary credit will decline by 7.2 percent of beginning money stock owing to a reduction in reclassified crop credit. Net credit to the Government will decline by 2.0 percent of beginning money stock. The ceilings under the indicative benchmarks for end-March and end-June 1990 have been revised accordingly and are proposed as definitive benchmarks. The expansion in net foreign assets is estimated to be higher than envisaged, owing to the upward revision in the surplus of the balance of payments.

7. The Government is implementing a comprehensive reform program for the banking sector. This reform program has been developed in collaboration with the BCEAO, the World Bank, and other multilateral and bilateral creditors and donors. The reform program includes the rehabilitation of three banks and the restructuring of five other banks. The rehabilitation program for three banks, namely the BIAO-S (Banque Internationale pour l'Afrique Occidentale-Sénégal), the BSK (Banque Sénégalo-Koweitienne), and the MFIS (Banque Fayçal Al-Islami du Sénégal), involves an infusion of capital by the private shareholders. The rehabilitation program for the BIAO-S elaborated in 1988 has involved a reduction in its operating costs, through staff cuts and the closing of branches; an increase in its capital from CFAF 1.1 billion to CFAF 1.5 billion by private shareholders, thus reducing the Government's share from 25.0 percent to 18.3 percent; and the granting of a long-term concessional loan amounting to CFAF 5.7 billion to finance nonperforming loans. The financial situation of BIAO-S has been tight, as the CFAF 5.7 billion government loan, financed by the donors, was disbursed only in January 1990. In order to ease the tight financial situation of BIAO-S, the Government transferred CFAF 0.5 billion to BIAO-S in July 1989, financed by the first tranche of a loan from France. The Government notified both BSK and MFIS in August 1989 that their licenses would be withdrawn in the event that the liquidity of the banks was not restored by end-November 1989. The Government suspended the operations

of both banks at end-November 1989. However, reform programs for both the BSK and MFIS have been elaborated, involving the restructuring of BSK with additional resources from the shareholders and the recapitalization of MFIS by the private shareholders. The plan of action for the restructuring of five other banks has started to be implemented. The five banks are the majority-government owned USB (Union Sénégalaise de Banque); three publicly owned banks, BNDS, SOFISEDIT, and SONAGA/SONABANQUE; and the private Assurbank. The operational and financial restructuring of USB is about to be completed. The license of the USB was withdrawn in October 1989. Part of the performing assets and corresponding liabilities of USB have been taken over by the CL-S (Crédit Lyonnais-Sénégal), which began its operations on July 3, 1989; the USB has become a recovery institution, which will manage the nonperforming loans of USB, estimated at some CFAF 40 billion. The licenses of the SOFISEDIT and SONAGA/SONABANQUE were withdrawn in November 1989, while those of BNDS and Assurbank will be withdrawn upon the transformation of BNDS into a second recovery institution, which will assume the nonperforming loans and counterpart liabilities of the four banks. A new bank, the CNS (Crédit National du Sénégal), which has taken over the performing assets and corresponding liabilities of these four banks, is being established. The new bank's capital amounts to CFAF 2.5 billion, shared between the Government (25 percent), the BCEAO and the West African Development Bank (BOAD) (25 percent), and Senegalese insurance companies and other private partners (50 percent). The U.S.AID has agreed to identify a foreign partner and finance the cost of its technical assistance. At first, the operations of the new bank will be limited to the management of the existing loan portfolio and the collection of deposits. On the financial side, the BCEAO has agreed to consolidate CFAF 133.5 billion. In addition, the Government has secured financial sector loans from the World Bank amounting to CFAF 13.5 billion (US$45 million), of which CFAF 2.5 billion was disbursed in January 1990, and from France amounting to CFAF 11.0 billion, of which CFAF 7.0 billion was disbursed by end-June 1989 and CFAF 4.0 billion by end-December 1989. It has also secured a grant from U.S.AID of CFAF 9.6 billion (US$32 million).

8. As a member of the West African Monetary Union (WAMU), Senegal participated in the reform of monetary policy instruments, as adopted by the Council of Ministers of the WAMU in September 1989. The reform aims at improving the conduct of monetary policy, enhancing the mobilization of savings, strengthening the quality of the deposit money banks' loan portfolios, and promoting the financing of the productive sectors of the economy. The reform involves replacing the administrative controls on money and credit with a more simple, indirect, and market-oriented system of monetary instruments, while strengthening bank supervision at the national and supranational levels. The reform is being gradually implemented over the October 1989-September 1991 period. During this transitional phase, the Central Bank will continue to rely mainly on interest rate policy and overall credit ceilings until reserve requirements are introduced. The BCEAO will continue to pursue an active interest rate policy. As of October 2, 1989, the preferential

rediscount rate was abolished; the schedules of interest rates of the commercial banks were simplified and rationalized; and the banks were given greater flexibility in determining their rates on deposits and loans. Nonbank financial institutions will have access to advances from the money market, and direct interbank lending will be liberalized. The Central Bank's discount rate will remain above the money market rates, and the BCEAO will intervene only as a lender of last resort. The maturity of loans that can be refinanced at the Central Bank will be extended from 10 years to 15 years. Overall, the conditions for access to central bank refinancing are being tightened. Crop credit will be refinanced by the Central Bank only within its general refinancing limits, and will be included in the overall credit ceiling to the economy. The level of crop credit will be determined on the basis of a financing plan, which will take into account projected receipts and costs; starting in October 1990, inventories of agricultural goods accepted as collateral will have to be stored in bonded warehouses. The policy of sectoral credit allocation has been abolished. A ceiling will also be set for net bank credit to the Government, to which government-guaranteed nonperforming loans will, under certain conditions, be imputed. With regard to bank supervision, the control by the Central Bank is being strengthened and a supranational Banking Commission will be established in 1990.

9. The authorities have made significant progress in their objective of reforming the labor market in order to introduce greater flexibility in employment regulations and wage determination. First, effective September 15, 1989, all existing enterprises expanding their activities can contract labor on a temporary basis. Second, the Investment Code was modified in October 1989, allowing new eligible enterprises to hire workers on the basis of temporary employment contracts for a period of up to five years. In addition, small- and medium-scale enterprises--firms with a maximum investment of CFAF 200 million and employing at least three persons--will be exempted from prior government authorization for the dismissal of employees. All enterprises established in the Dakar industrial free trade zone will also benefit from these advantages. Third, firms in the free trade zone are exempted from the minimum payroll tax paid by employers, which is equivalent to 3 percent of the nominal wage cost. These same firms will also be exempted from the income tax owed by the employer for newly hired employees, which is equivalent on average to about 12 percent of the nominal wage cost. Furthermore, the latter benefit will be available to any enterprise installed outside the free trade zone but being subject to the Investment Code, if it creates a minimum of 50 new jobs. Fourth, the Government has decided to freeze the guaranteed minimum wage rate (SMIG) at its present nominal level for the next three years. The Government plans to take additional actions in this area, based on a review of the wage-setting mechanism.

10. On the basis of the recommendations of a joint Fund-Bank mission, the Government has started implementing the reform of energy taxation and pricing, which consists of two phases. The first phase, which

entered into effect on December 31, 1989, involves the introduction of a simpler and more transparent system of taxation of petroleum products. Under the new system, refinery prices will be set at import parity. The refinery company (SAR) will be paid a fixed handling fee equivalent to US$2.25 per barrel. Petroleum products will be subject to an import tax, a value-added tax, and a petroleum levy. The new system will be monitored during a three-month trial period, to ascertain that it is resulting in higher receipts. In a second phase, to start on July 1, 1990, the requisite adjustments in the price of petroleum products to industrial users will be determined in consultation with the Fund and the World Bank staffs. These adjustments will take into account the evolution of international prices of petroleum products, the gain in revenue generated by the new system of taxation, and the overall fiscal position. Concurrently, the Government will revise accordingly the rebates to the phosphate industry.

11. The Government is stepping up the reform of the public enterprise sector. The Government has recently adopted a plan of action which will serve as the basis for the envisaged reforms. The objective is to liquidate 10 public enterprises and privatize 30 public enterprises through June 1991. To accelerate the divestiture process, the Government will rely, on a temporary and ad hoc basis, on the use of appropriate expertise, including foreign firms, for the necessary preparatory work; introduce a system of competitive bidding; and abolish the preset minimum values for the sale of public enterprises. To further promote private sector participation, the Government will examine the possibility of creating a secondary market for shares. In the first half of 1989/90, four public enterprises were privatized (SENPRIM, SENHOTEL, SPT, and Renault-Senegal). The Government remains committed to liquidating by end-1990/91 all those enterprises that cannot be privatized. With regard to the financial position of the sector, several actions are being taken. Direct subsidies to public enterprises (both commercial and noncommercial) will be further reduced from their 1988/89 level by 5 percent. In addition, the overdraft facility for public enterprises has been discontinued since July 1989. With regard to cross-debts between the Government and public enterprises, the Government has prepared a comprehensive plan of action to settle all undisputed cross-payments arrears outstanding at end-1986; to verify the disputed amounts of outstanding public sector cross-payments arrears at end-1986; to prepare an updated inventory of the cross-payments arrears through end-1988; and to introduce measures at the enterprise level to prevent the recurrence of cross-debts. In the 1989/90 budget, provisions for settling CFAF 0.6 billion of cross-debts are included. With regard to the public enterprises under rehabilitation, the performance contract with SONATEL was signed in January 1990 and those with SONEES and SNCFS were signed in February 1990; work is under way to conclude performance contracts with five additional public enterprises by end-June 1990. These performance contracts, which will be reviewed by the World Bank, will include phased reductions in subsidies, the settlement of cross-debts, and a clear

definition of the financial relations between the enterprises and the Government.

12. The Government is pursuing its reform of the agricultural sector, and is elaborating its medium-term strategy in consultation with the World Bank, the European Community (EC), France, and U.S.AID. The strategy is expected to be supported by a sectoral credit loan (PASA) from the World Bank. In the cereal sector, various actions are being taken to increase production through an improvement in the quality of seeds; the introduction of a program of soil regeneration; an intensification in the production of maize and its industrial transformation, in collaboration with foreign donors; an improvement in storage capacity; and the provision of credit to organized groups of producers. The authorities have rationalized the pricing of rice by differentiating domestic prices according to the qualities, effective February 1, 1990. In the cotton sector, the subsidies on pesticides financed by foreign donors were reduced by close to 50 percent at the beginning of 1989/90. Additional measures will be taken with a view to reducing collection costs; general costs will also be reduced through, among other things, reductions in the cost of extension services of the Cotton Development Agency (SODEFITEX). The Government is finalizing a plan of action to rationalize agricultural credit. This plan of action will include measures aimed at increasing the capital of the agricultural credit bank (CNCAS), improving loan recovery, and reorienting CNCAS's credit extension toward organized groups of producers. With regard to the groundnut sector, the Government has completed the first phase of a short- and medium-term plan of action to reduce the marketing and processing costs. The plan of action includes measures aimed at stabilizing groundnut production at about 830,000 tons, rationalizing SONACOS's refining capacity through the eventual closure of one inefficient oil processing plant while strengthening the productive capacity of others, and improving SONACOS's productivity. Furthermore, on the basis of a study on SONACOS technical and financial operations, the authorities have signed a new protocol on December 28, 1989 governing the financial relations between SONACOS and the Government. The protocol aims at establishing full transparency of SONACOS's financial operations, based on all its exports, local sales, and changes in stocks. Under the new protocol, the guaranteed profit margin to SONACOS has been eliminated. Instead, SONACOS profits will be derived from the excess between, on the one hand, the difference between realized receipts and costs and, on the other hand, a preset level. This will provide SONACOS with an incentive to improve the efficiency of its operations. In addition, a detailed financial statement will be prepared, identifying SONACOS's gross financial results on the basis of its actual selling prices and quantities, and the allocations for depreciation, reserves, and dividends, as well as the change in stocks. The protocol provides that SONACOS will fully repay all crop credit starting with the 1988/89 crop season, and that the contribution of the Government toward any net losses of SONACOS will be limited to a maximum of CFAF 4.5 billion in 1989/90. The calculation of the financial outcome will be subject to yearly verification by an

independent auditor, in accordance with Senegal's accounting practices. The role of the groundnut guarantee fund (FGPA) will be reinforced to strengthen the monitoring of financial operations of the sector. SONACOS transferred CFAF 5.0 billion to the Treasury in December 1989, and will transfer an additional CFAF 5.0 billion by end-March 1990.

13. The demand management and structural policies described above are expected to help reduce the external current account deficit, excluding official grants, to 8.3 percent of GDP in 1989/90, in line with the original program target. On the export side, a downward revision in fish and phosphate export earnings is estimated to be offset mainly by the revised higher earnings for refined petroleum products. On the import side, the lower estimated import payments for petroleum products are expected to be offset by higher-than-projected imports of rice. Thus, the trade balance is expected to be in line with the original program projections. As the service and transfers accounts are also estimated to remain basically unchanged, the current account deficit, including grants, is estimated at CFAF 47.5 billion, as originally targeted. However, the capital account surplus has been revised upward to CFAF 31.9 billion, CFAF 4.5 billion higher than originally projected, on account of higher-than-envisaged public capital inflows for the banking sector reform and the voluntary departures program. Thus, the balance of payments is estimated to record, before debt relief, an overall deficit of CFAF 15.6 billion, compared with the originally projected deficit of CFAF 20.1 billion. The debt relief obtained by Senegal on concessional terms at the Paris Club meeting on February 12, 1990 covers current maturities falling due in the period January 1, 1990 through December 31, 1990 on debt contracted before January 1983, as well as the debt service falling due during January 1-June 30, 1990 as a result of the previous first six consolidation agreements; and that falling due in the period July 1 through December 31, 1990 as a result of the previous first four consolidations. In addition, the Paris Club agreed to reschedule the outstanding arrears at end-December 1989 at market-related interest rates, with the amounts to be paid in two equal installments at end-December 1990 and end-March 1991. The additional debt relief resulting from the new consolidation (Paris Club VIII) is estimated to amount to CFAF 33.4 billion (SDR 80.0 million) during 1989/90. The Government is seeking debt relief on comparable terms from other official creditors, and expects to reach agreement with them in the near future. Taking into account debt relief secured, the balance of payments is projected to reach an overall surplus of CFAF 43.2 billion (SDR 103.7 million) in 1989/90.

14. As indicated in paragraphs 3 and 13 above, Senegal had requested a meeting of the Paris Club in December 1989 to reschedule the arrears accumulated on debt service obligations on previously rescheduled debt for the period July 1-December 31, 1989, and its debt service obligations, including those on previously rescheduled debt, for January 1-December 31, 1990. The meeting, however, was delayed to February 12, 1990. In view of the end-December performance criterion on

the nonaccumulation of external payments arrears, Senegal had intended to obtain a bridging loan in November 1989 from the domestic banking system to eliminate through cash payments the arrears that had been accumulating to Paris Club creditors. However, in view of the high cost of such a loan, and after consultation with some creditors, the amounts requested for rescheduling outstanding at end-December 1989 were considered in the meeting of the Paris Club of February 12, 1990 and rescheduled. The net bank credit to the Government at end-December 1989 was, accordingly, lower-than-programmed. The nonobservance of the performance criterion on external payments arrears at end-December 1989 was thus temporary. As the program is on track, the Senegalese Government requests that the review be completed and that the second disbursement under the second annual arrangement under the ESAF be made available to Senegal as scheduled. The Government will continue to follow a cautious external debt management policy and will not contract or guarantee any new nonconcessional external loans beyond the limits established in the annexed table, except for normal import-related credits. During the program period, there will be no accumulation of external payments arrears, as specified in the annexed table.

Sincerely yours,

/ s /

Serigne Lamine Diop
Minister of Economy and Finance

Attachment

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

Table. Senegal: Financial and Structural Performance Criteria and Benchmarks Under the Second Annual Arrangement Under the Enhanced Structural Adjustment Facility

	Outstanding at end-June 1989	Change from July 1, 1989 to end-						
		1989			1990			
		December			March		June	
		Perf. criteria			Benchmarks			
		Prog.	Adj. prog. 1/	Prel. act.	Indicative	Definitive	Indicative	Definitive
I. Financial benchmarks and performance criteria								
		(In billions of CFA francs)						
Net domestic assets of the banking system 1/ 2/ 3/	602.1	6.5	-7.9 4/	-11.9	4.2	-2.4	-18.0	-22.8
Credit to the Government (net) 1/ 2/	140.0	10.0	3.6 4/	-11.3	6.4	-0.2	-1.1	-7.5
Payments arrears of the Government and public agencies								
Domestic	8.5	--	--	--	-2.0	-2.0	-8.5	-8.5
External 5/	--	--	--	11.4	--	--	--	--
Cumulative minimum tax revenue		100.2	100.2	102.0	165.2	165.2	232.0	232.0
		(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	1.4	24.0	24.0	24.0	24.0

II. Structural benchmarks and performance criteria	Date	Status
1. Benchmarks		
a. Completion of the revision of the energy taxation system.	End-December 1989	Implemented
b. Adoption of a three-year public investment program for 1990/91-1992/93.	End-June 1990	In progress
2. Performance criteria		
a. Completion of the renegotiation of the protocol governing the financial relations between the Government and the groundnut oil processing company (SONACOS).	End-December 1989	Implemented
b. Completion of a plan of action for the acceleration of public enterprise reform program, including in particular the privatization process.	End-December 1989	Implemented

1/ The original program assumed that Senegal would receive a cumulative amount of external Treasury financial assistance (defined as external budgetary assistance including grants and debt relief but excluding project aid and assistance envisaged for the voluntary departures program and the reform of the banking sector), beginning July 1, 1989, of CFAF 46.8 billion through December 31, 1989. In light of the revision in the projected external financial assistance, the revised program assumes that the cumulative amount of external Treasury assistance received beginning July 1, 1989 will amount to CFAF 66.9 billion through March 31, 1990, and CFAF 97.9 billion through June 30, 1990. 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. Any excess will be deposited in a government account with the banking system until end-1989/90. Its utilization in the following fiscal year will be determined in consultation with the staff of the Fund. The changes through March and June 1990 include the variations resulting from the restructuring of the banking sector through end-December 1989; the ceilings for end-March and end-June 1990 will be adjusted by any further 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, 1989-June 30, 1990 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 initial program envisaged a reduction in crop credit of CFAF 6.2 billion during the period July 1-December 31, 1989. The revised program envisages a reduction in crop credit of CFAF 2.2 billion during the period July 1, 1989-March 31, 1990; and a reduction of CFAF 7.2 billion during the period July 1, 1989-June 30, 1990. The program also envisages a reduction in reclassified crop credit of CFAF 12.5 billion from July 1, 1989 through March 31, 1990 and of CFAF 22.9 billion from July 1, 1989 through June 30, 1990. In the event that the variation in crop credit differs from these amounts, the variation in net domestic assets will be adjusted pro tanto.

4/ The end-December 1989 ceiling on net domestic assets was adjusted downward by CFAF 14.4 billion on account of the fact that crop credit was CFAF 9.9 billion lower than programmed, and that the net impact of the restructuring of the banking system on domestic assets amounted to CFAF 4.5 billion, with CFAF 6.4 billion being an increase in claims of the Government on the banking system netted by CFAF 1.9 billion resulting from the effect of that restructuring on other monetary items (net). The ceiling on net claims on the Government is adjusted downward by the aforementioned CFAF 6.4 billion. External Treasury financial assistance, including debt relief, was programmed at CFAF 46.8 billion for the period July 1-December 31, 1989; the actual assistance received, including debt relief, amounted to CFAF 31.3 billion. In addition, CFAF 11.4 billion in external payments arrears was accumulated. Thus, total external Treasury financial assistance, including debt relief and external payments arrears, amounted to CFAF 42.7 billion during July 1-December 31, 1989.

5/ Excluding debt service obligations under renegotiation, in conformity with the provision of comparable treatment under the rescheduling agreement with the Paris Club.

6/ The exchange rate applicable to these borrowings will be the rate of the SDR vis-à-vis the contract currency on June 30, 1989, 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.

Senegal - Relations with the Fund
(As of January 31, 1990)

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	100.00
(ii) Total Fund holdings of Senegal's currency:	199.30	234.19
(iii) Use of Fund credit:	115.20	135.37
Credit tranches	40.56	47.66
EAR	71.25	83.72
EFF	3.39	3.98
(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	11.49	13.50

III. Current and previous stand-by, extended, SAF and ESAF arrangements

a. One-year stand-by arrangement, approved on March 30, 1979, in an amount equivalent to SDR 10.5 million (25 percent of the existing quota); the full amount was purchased.

Senegal - Relations with the Fund (continued)
(As of January 31, 1990)

b. An extended arrangement, approved on August 8, 1980, in an amount equivalent to SDR 184.8 million (440 percent of the existing quota); only SDR 41.1 million was utilized, and the arrangement was canceled on September 10, 1981 and replaced by a one-year stand-by arrangement.

c. One-year stand-by arrangement, approved on September 11, 1981, in an amount equivalent to SDR 63.0 million (100 percent of the existing quota); the full amount was purchased.

d. One-year stand-by arrangement, approved on November 24, 1982, in an amount equivalent to SDR 47.25 million (75 percent of the existing quota); only SDR 5.9 million was utilized upon Fund approval, and the stand-by arrangement was canceled on September 18, 1983 and replaced by another one-year stand-by arrangement.

e. One-year stand-by arrangement, approved on September 19, 1983, in an amount equivalent to SDR 63.0 million (100 percent of the existing quota); the full amount was purchased.

f. An 18-month stand-by arrangement, approved on January 16, 1985, in an amount equivalent to SDR 76.6 million (90 percent of quota, or 60 percent of quota on an annual basis); the full amount was purchased.

g. One-year stand-by arrangement, approved on November 10, 1986, in an amount equivalent to SDR 34.0 million (40 percent of quota), together with a three-year arrangement under the structural adjustment facility (SAF) in an amount equivalent to SDR 54.04 million (63.5 percent of quota) and the first annual arrangement thereunder for SDR 17.02 million (20 percent of quota); the full amount under the stand-by arrangement was purchased, and the first loan under the SAF equivalent to SDR 17.02 million was disbursed.

h. One-year stand-by arrangement, approved on October 26, 1987 for an amount equivalent to SDR 21.275 million (25 percent of quota), together with the second annual arrangement under the SAF for an amount equivalent to SDR 25.53 million (30 percent of quota); the loan under the SAF and the full amount of the stand-by arrangement have been disbursed. SAF arrangement replaced by ESAF on date of ESAF arrangement.

i. A three-year ESAF arrangement, approved on November 21, 1988 for an amount equivalent to SDR 144.67 million (170 percent of quota), together with the first annual arrangement thereunder for an amount equivalent to SDR 59.57 million (70 percent of quota); the full amount under the first annual arrangement has been disbursed; the first loan under the second annual arrangement for an amount equivalent to SDR 21.275 (25 percent of quota) has been disbursed.

Senegal- Relations with the Fund (continued)
(As of January 31, 1990)

IV. Financial obligations due to the Fund

(In millions of SDRs)

	Overdue Financial Obligations 01/31/90	Principal and interest due 1990 (Feb. 1-Dec. 31)	1991	1992	1993
Principal	--	39.6	34.6	31.5	19.5
Repurchases	--	39.0	34.5	28.1	11.0
Trust Fund repayments	--	0.6	0.1	--	--
SAF Loans	--	--	--	3.4	8.5
Charges and interest including SDR, Trust Fund, SAF, and ESAF (provisional)	--	9.4	9.3	6.1	3.8
Total	--	49.0	43.9	37.6	23.3

V. SDR Department

a. Net cumulative allocation — SDR 24.46 million

b. Holdings — SDR 2.18 million (8.91 percent of the net cumulative allocation)

VI. Administered accounts

a. Trust Fund loans

Disbursed — SDR 33.23 million

Outstanding — SDR 0.71 million

Senegal - Relations with the Fund (continued)
(As of January 31, 1990)

b. ESAF Trust loans

Disbursed	SDR 69.36 million
Outstanding	SDR 69.36 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-December 1989 was CFAF 380.32 = SDR 1.

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

(a) 1989 Consultation

The 1989 Article IV consultation was concluded on December 6, 1989.

(b) ESAF Arrangement

The discussions on the request for the second annual arrangement under the enhanced structural adjustment facility were initiated in Dakar during the period June 17-July 4, 1989 and concluded in Washington during August 8-18, 1989. The staff report (EBS/89/218) was discussed by the Executive Board on December 6, 1989, and the following decision was adopted:

1. The Government of Senegal has requested the second annual arrangement udner 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 first annual arrangement, and notes the updated policy framework paper set forth in EBD/89/357.

3. The Fund approves the arrangement set forth in EBS/89/218.

Senegal - Relations with the Fund (concluded)
(As of January 31, 1990)

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 tariffs 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.

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.

X. Fund resident representative

Stationed in Dakar since July 24, 1984.

Senegal - Relations with the World Bank Group
(As of December 31, 1989)

Commentary on lending operations

1. Bank strategy in Senegal has two broad and interrelated objectives. The first objective is to assist the Government in the medium term in rectifying structural imbalances in the economy resulting from internal and external shocks as well as policy distortions over several years, compounded by the fixed exchange rate regime. The means employed have been to improve the incentives environment and to promote greater efficiency in economic management. The primary instrument to support this objective has been adjustment lending, supported by appropriate technical assistance operations. The second objective is to promote a sustainable level of long-term growth and development. The instruments designed to address this objective are sector-based rehabilitation/investment projects, within an appropriate framework of sectoral policy reforms.

2. As of December 31, 1989, the World Bank Group had approved 88 operations in Senegal for a total of US$976.70 million, consisting of 58 IDA credits (including 3 special fund credits and two SFA), 20 Bank loans, and 10 IFC operations. 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 modernization and expansion of the country's infrastructure, particularly its transport systems (highways, rails, port, and airports). However, in view of the financial difficulties in supporting new investments, 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 research, irrigation, education development, and financial sector reforms relate to both of these concerns.

4. About US$127 million was committed in fiscal year 1987, including the third structural adjustment credit (SAL III) of US$85 million, which was approved in May 1987, and US$142 million in fiscal year 1988. The policy-based operations, financed partly out of the Special Facility for sub-Saharan Africa, aimed at increasing the efficiency of public sector management and 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 and improving financial intermediation. While the specific targets of the program had been met and the third and last tranche of SAL III was disbursed in mid-1988, the desired supply response has been somewhat lagging, necessitating an intensification and deepening of the adjustment process. Over the next three-year period (1989/90-1991/92), the Bank's lending program, all of which would be on IDA terms, is expected to consist essentially of policy-based operations (SAL IV and SECALS).

Senegal - Relations with the World Bank Group (concluded)

Lending operations (As of December 31, 1989; 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 39 credits fully disbursed	549.90	(--)	—	(—)	549.90
Structural adjustment and technical assistance	81.45	(61.79)	—	(—)	81.45
Agriculture, livestock, and forestry	94.60	(50.38)	5.09	(—)	99.69
Energy, industry, and tourism	53.00	(40.10)	51.01	(—)	104.01
Transport, equipment, and telecommunications	24.65	(18.53)	—	(—)	24.65
Urban development, education, and health	117.00	(75.98)	—	(—)	117.00
Total	920.60	(246.78)	56.10	(—)	976.70
Less: repaid or sold					105.50
Total committed					871.21
Held by IBRD					73.65
IDA					775.72
IFC					21.84

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 (June)	21.6	48.8	11.0

Source: World Bank Group.

1/ Less cancellations.

2/ During fiscal year ending June 30.

The Voluntary Departures Program

The voluntary departures program constitutes a further step in the Government's reform of the civil service with a view to improving both efficiency and the allocation of resources. Following the success in reducing the wage bill from 10.3 percent of GDP in 1982/83 to 8.5 percent of GDP in 1988/89, the Government launched a new program in January 1990, aiming at reducing the number of civil servants by 4,806 on a net basis over the period January 1990-June 1992, while providing incentives for good individual performance within a tightly defined overall wage bill ceiling.

The key element of the public service reform is the voluntary departures program, which is open to all civil servants (excluding groups that are targeted to increase staff, as explained below) with a minimum of five years of public sector work. The targeted net reduction of 4,806 (7.2 percent of total employment at end-June 1989) in public sector employment is expected to be achieved through a gross reduction of 8,642 and a contemporaneous increase of 3,836 in the areas of education and health services. The gross reduction will be mainly effected through the voluntary departures program which includes: (a) a fundamental restructuring of the administration by reducing the number of ministries from 26 to 15 (accounting for 33 percent of total gross reduction); (b) an early retirement plan for personnel over 48 years of age (17 percent of the reduction); and (c) privatization of certain government services (15 percent of the reduction). In addition, the remaining 45 percent of the gross reduction will emanate from payroll elimination and normal retirement. 1/

The Government is providing important financial incentives for the departures program. Staff members below the age of 48 are being offered a fixed compensation package, consisting of 60 months of salary for the lowest pay grades, and 40 months for the others. Staff members over the age of 48 but below 55 are eligible for early retirement, and are being given a compensation package equal to 75 percent of the number of months remaining before they reach age 55, with a maximum of 48 months of salary. Those who lose their job because of restructuring will be placed on administrative leave until the time of their voluntary departure or reassignment. Furthermore, those working in units to be privatized will be given 12 months' salary in compensation for the loss of their civil service status. In addition, a separation package will be offered for participants of both the voluntary departures program and the early retirement scheme to provide incentives for an early departure, namely, that full compensation will be granted if the

1/ In particular, this includes the elimination from the payroll of names that have been identified as irregular in a second staff census, and the encouragement of normal retirement.

employee leaves in the first four months of the program, but only half of the compensation will be granted afterward.

In order to support the successful implementation of the departures program, the Government has decided to bar from recruitment any former civil servant who has benefited from the program, and, in general, to pursue employment policies consistent with the envisaged reduction in public sector employment. In addition, there will be no salary increase granted until June 1992, with the exception of performance-improving incentives. As a result of the net reduction in employment and the general wage freeze, the wage bill is expected to be reduced to CFAF 126.8 billion in 1989/90, compared with the original objective of CFAF 130.0 billion, and is targeted to be maintained at CFAF 125.0 billion in the following two years. If successfully implemented, this would reduce the wage bill by an estimated 1.5 percent of GDP over the next two and one-half years.

The total cost of the program is estimated at US$69 million or CFAF 22.0 billion, with some CFAF 13.3 billion available in fiscal year 1989/90. As a working hypothesis, a minimum of CFAF 5.0 billion is expected to be spent in 1989/90. The program will be financed fully by external assistance from the World Bank and cofinancers under the SAL IV as well as other donor assistance.

Senegal - Selected Social and Demographic Indicators

Area

Total	196,200 sq. km.
Agricultural	55.7 percent of total

Population (1988)

7.0 million
Rate of growth (1980-86) 2.9 percent per annum

Population characteristics (1980-88)

Crude birth rate (per thousand)	45.0
Crude death rate (per thousand)	18.0
Life expectancy at birth (years)	47.0
Urban population (percent of total)	37.0

Access to safe water (1980-88)

In percent of population	
Total	43.0
Urban	63.0
Rural	27.0

Nutrition (1980-88)

Per capita supply of	
Calories (per day)	2,418
Proteins (grams per day)	60

Gross domestic product

Per capita (1989)	SDR 545

Population density (1980-88)

58.0 per sq. km. of agricultural land

Health (1980-88)

Population per physician (in thousands)	13.1
Population per hospital bed (in thousands)	0.9
Infant mortality rate (per thousand)	124

Education (1980-88)

Enrollment rates (in percent)	
Primary	55
Secondary	13
Pupil-teacher ratio	
Primary	46
Secondary	23

Source: Social Indicators of Development (World Bank).