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EBS/88/52

CONFIDENTIAL

March 4, 1988

To: Members of the Executive Board
From: The Secretary
Subject: Senegal - Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the review under the stand-by arrangement for Senegal, which will be brought to the agenda for discussion on a date to be announced. A draft decision appears on page 21.

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

Att: (1)

INTERNATIONAL MONETARY FUND

SENEGAL

Review Under Stand-By Arrangement

Prepared by the African Department

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

Approved by A.D. Ouattara and John T. Boorman

March 3, 1988

I. Introduction

In the attached letter dated March 1, 1988, regarding the mid-term review under the current one-year stand-by arrangement for Senegal, the Secretary of State attached to the Minister of Economy and Finance of Senegal describes the progress achieved in the implementation of the 1987/88 adjustment program, sets forth the policies and measures to be pursued during the remainder of the program period, and proposes appropriate ceilings on the net domestic assets of the banking system and net bank claims on the Government as performance criteria for end-March and end-June 1988. 1/

The current one-year stand-by arrangement, in an amount equivalent to SDR 21.275 million (25 percent of quota), was approved on October 26, 1987, in support of the Government's adjustment program for the fiscal year 1987/88 (July/June). The program is also being supported by the second annual arrangement under the structural adjustment facility (SAF), which was approved on the same date. Senegal has made two

1/ The discussions on the mid-term review under the current one-year stand-by arrangement were held in Dakar during the period December 4-21, 1987. The Senegalese representatives included Mr. Jean Collin, Minister of State and Secretary General of the Presidency of the Republic; Mr. Mamoudou Touré, Minister of Economy and Finance; Mr. Famara Sagna, Minister of Rural Development; Mr. Abdourahmane Touré, Minister of Commerce; Mr. Moussa Touré, Secretary of State attached to the Minister 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 staff representatives were Messrs. Nsouli (head-AFR), Baldet (FAD), Brou (AFR), Daumont (AFR), Mathieu (EP-AFR), and Miss Earll (secretary-AFR). Mr. Ngo, of the World Bank, also participated in the mission. Mr. Ugolini, the Fund's resident representative in Dakar, took part in the discussions.

purchases to date under the stand-by arrangement, totaling SDR 8.375 million, and has received a loan under the second annual SAF arrangement amounting to SDR 25.53 million. The first of the three remaining purchases under the stand-by arrangement, each amounting to SDR 4.3 million, may be made after March 14, 1988, subject to the observance of the performance criteria for end-December 1987 and completion of the mid-term review under the stand-by arrangement (Appendix I, Table I). If the three remaining purchases are made, and after taking into account scheduled repurchases, the Fund's holdings of Senegal's currency subject to repurchase would amount to 203.67 percent of quota by September 30, 1988 (Appendix I, Table II).

The Fund and the World Bank staffs have continued their close cooperation on Senegal, both at headquarters and in the field. Senegal's adjustment efforts in 1987/88 are also being supported by a Development Credit of SDR 35.0 million and a Special African Facility Credit of SDR 31.1 million on standard IDA terms. Under the latter, Switzerland is making a nonreimbursable contribution of Sw F 12.0 million.

The 1987 Article IV consultation with Senegal was concluded on March 25, 1987. As Senegal is on the standard 12-month consultation cycle, the 1988 Article IV consultation should be concluded by March 25, 1988, or at the latest by June 25, 1988, allowing for the three-month grace period beyond the end of the specified interval. However, on October 26, 1987, the Executive Board held a comprehensive review of developments and policies in Senegal, in connection with the consideration of Senegal's request for the current stand-by arrangement and the second annual arrangement under the SAF (EBS/87/205). Furthermore, the present report provides up-to-date information on the progress made thus far in the implementation of the 1987/88 program and the prospects and policies for the rest of the year. In the circumstances, and to align the consultation discussions more closely with the timing of the Government's fiscal year (July/June), it is intended to hold the discussions for the 1988 Article IV consultation jointly with the discussions of the authorities' new program for 1988/89. Accordingly, the Board discussion for the 1988 Article IV consultation would be delayed until October 1988.

The following appendices are attached to the report: economic and financial data (Appendix I); the letter of intent from Senegal's Secretary of State attached to the Minister of Economy and Finance (Appendix II); a summary of Senegal's relations with the Fund (Appendix III); a summary of Senegal's relations with the World Bank Group (Appendix IV); and selected social and demographic indicators (Appendix V).

II. Background: Adjustment and Growth 1/

At the end of the 1970s the Senegalese economy faced a severe crisis, reflecting the cumulative effects of inadequate economic and financial policies and adverse exogenous factors. For almost a decade, Senegal had pursued highly expansionary financial policies, implemented overly ambitious investment programs, fostered the growth of an inefficient public enterprise sector, resorted to heavy domestic and external borrowing, and instituted widespread pricing and marketing controls. The effects of these policies were aggravated by recurrent drought, and declining terms of trade. In an effort to redress the mounting domestic and external financial imbalances and attenuate the structural bottlenecks, the authorities adopted, during 1980/81-1982/83, a series of adjustment programs, supported by Fund and World Bank resources as well as by other external financial assistance, including debt relief. However, owing mainly to the adverse impact of drought and slippages in policy implementation, little progress was achieved.

In mid-1983 the Government started vigorously implementing appropriate structural and financial policies and adapting them promptly to deal with unforeseen developments. These efforts have been supported by successive stand-by arrangements from the Fund and, starting in 1986/87, arrangements under the SAF; two structural adjustment loans from the World Bank; and further multilateral and bilateral financial assistance, including debt relief. Reflecting these efforts, the economy has been progressively liberalized, agricultural and industrial production incentives strengthened, public investment programming improved, and the reform of the public enterprise sector initiated. Furthermore, the overall fiscal deficit, on a commitment basis and including grants, was reduced from 8.2 percent of GDP in 1982/83 to 1.5 percent of GDP in 1986/87, 2/ while the growth of domestic credit was curtailed from 17.4 percent to 5.8 percent (Table 1).

The policies pursued have succeeded in revitalizing the economy, dampening inflationary pressures, and strengthening the external sector position. Thus, economic growth and adjustment have moved in tandem (Charts 1 and 2). Following a recovery in 1982/83, economic activity declined marginally in 1983/84-1984/85 due largely to drought conditions. However, with a return of favorable weather conditions and the improved domestic economic environment, economic growth resumed, averaging about 4.3 percent annually during 1985/86-1986/87. The rate of inflation, as measured by the GDP deflator, which had peaked at an average annual rate of over 11 percent in 1983/84-1984/85, was brought

1/ This section provides a broad overview of the progress made in recent years in Senegal. For a detailed analysis of developments during the 1986/87 adjustment program, see EBS/87/205.

2/ Excluding grants, it was reduced from 8.8 percent of GDP to 1.8 percent, respectively.

Table 1. Senegal: Selected Economic and Financial Indicators, 1982/83-1989/90

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
					Prov.	Prog.	Rev. prog.	Projections
(Annual changes in percent, unless otherwise specified)								
National income and prices								
GDP at constant prices	8.4	-1.1	-0.5	4.2	4.4	4.2	4.2	3.5
GDP deflator	8.6	10.8	11.4	8.4	5.6	3.8	3.8	3.4
Consumer prices	11.5	14.0	13.5	9.4	0.4	3.5	3.5	3.4
External sector								
Exports, f.o.b. (in SDRs)	...	21.6	-10.5	-3.0	3.3	19.5	16.0	13.0
Imports, f.o.b. (in SDRs)	...	-1.5	-4.4	1.2	-8.3	8.9	6.5	9.0
Non-oil imports, f.o.b. (in SDRs)	...	-2.7	-5.5	12.8	0.7	8.1	3.2	8.7
Export volume	...	10.5	-14.1	2.0	8.0	14.2	16.9	2.7
Import volume	...	-1.6	-1.7	9.2	1.4	-3.4	0.3	5.0
Terms of trade (deterioration -)	...	9.9	7.2	2.6	5.8	-7.2	-6.5	1.3
Nominal effective exchange rate (end of period; depreciation -)	-1.0	1.6	4.3	6.3	4.6
Real effective exchange rate (end of period; depreciation -)	-1.5	7.7	5.2	7.3	-2.0
Government budget								
Revenue	15.7	7.8	7.7	7.3	14.7	4.5	4.5	7.1
Total current and capital expenditure	15.1	8.9	2.5	0.9	6.6	6.3	5.4	2.7
Money and credit								
Domestic credit	17.4	4.7	2.7	8.0	5.8	-1.3	-1.3	1.4
Government (net)	28.8	33.7	4.7	12.2	1.3	4.5	4.5	0.7
Private sector								
Including crop credit	15.0	-2.2	2.1	6.6	7.3	-3.2	-3.2	1.9
Excluding crop credit	11.5	6.6	1.0	3.2	0.7	2.1	2.1	2.0
Money and quasi-money	12.1	3.7	2.8	2.5	17.4	7.5	3.2	7.3
Velocity (GDP relative to M2) ^{1/}	3.3	3.5	3.8	4.2	3.9	4.0	4.1	4.0
Interest rate (end of period)								
Minimum rate on time deposits ^{2/}	9.5	9.5	9.5	9.0	8.0	...	8.0	...
Money market rate for overnight deposits	12.0	12.0	10.2	7.8	8.0	...	7.5 ^{3/}	...
(In percent of GDP, unless otherwise specified)								
Overall fiscal deficit (-) ^{4/}								
Commitment basis	-8.2	-4.6	-3.5	-2.3	-1.5	-0.5	-0.3	1.2
Cash basis	-7.4	-6.9	-4.6	-3.3	-3.4	-2.9	-2.9	0.8
Gross domestic investment	15.3	15.4	14.5	14.0	14.0	14.0	14.0	14.0
Gross domestic savings	3.4	3.5	3.1	4.3	7.3	9.5	9.5	10.5
External current account deficit (-)								
Excluding official grants	-21.7	-17.3	-18.7	-15.6	-10.8	-9.2	-9.2	-7.3
Including official grants	-14.0	-10.2	-12.2	-9.9	-5.6	-4.1	-4.1	-2.5
External debt ^{5/}	66.8	80.0	90.5	80.3	73.4	71.0	72.7	66.3
Debt service ratio (in percent of exports of goods, services, and private transfers) ^{4/}	...	19.6	25.2	29.1	29.3	30.5	28.9	30.4
(In millions of SDRs, unless otherwise specified)								
GDP at current market prices (in billions of CFA francs)	891.8	977.5	1,083.8	1,224.0	1,350.2	1,460.3	1,460.3	1,572.5
Overall balance of payments deficit (-) ^{6/}	-111.1	-29.5	-75.7	-28.0	86.3	74.7	72.8	93.1
Gross official foreign reserves (in weeks of imports)	0.7	0.5	0.6	0.2	0.5

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

^{1/} GDP relative to end-June broad money stock.

^{2/} Minimum rate on time deposits in excess of one year and in amounts of more than CFAF 2 million; the actual rates generally follow closely the money market quotations.

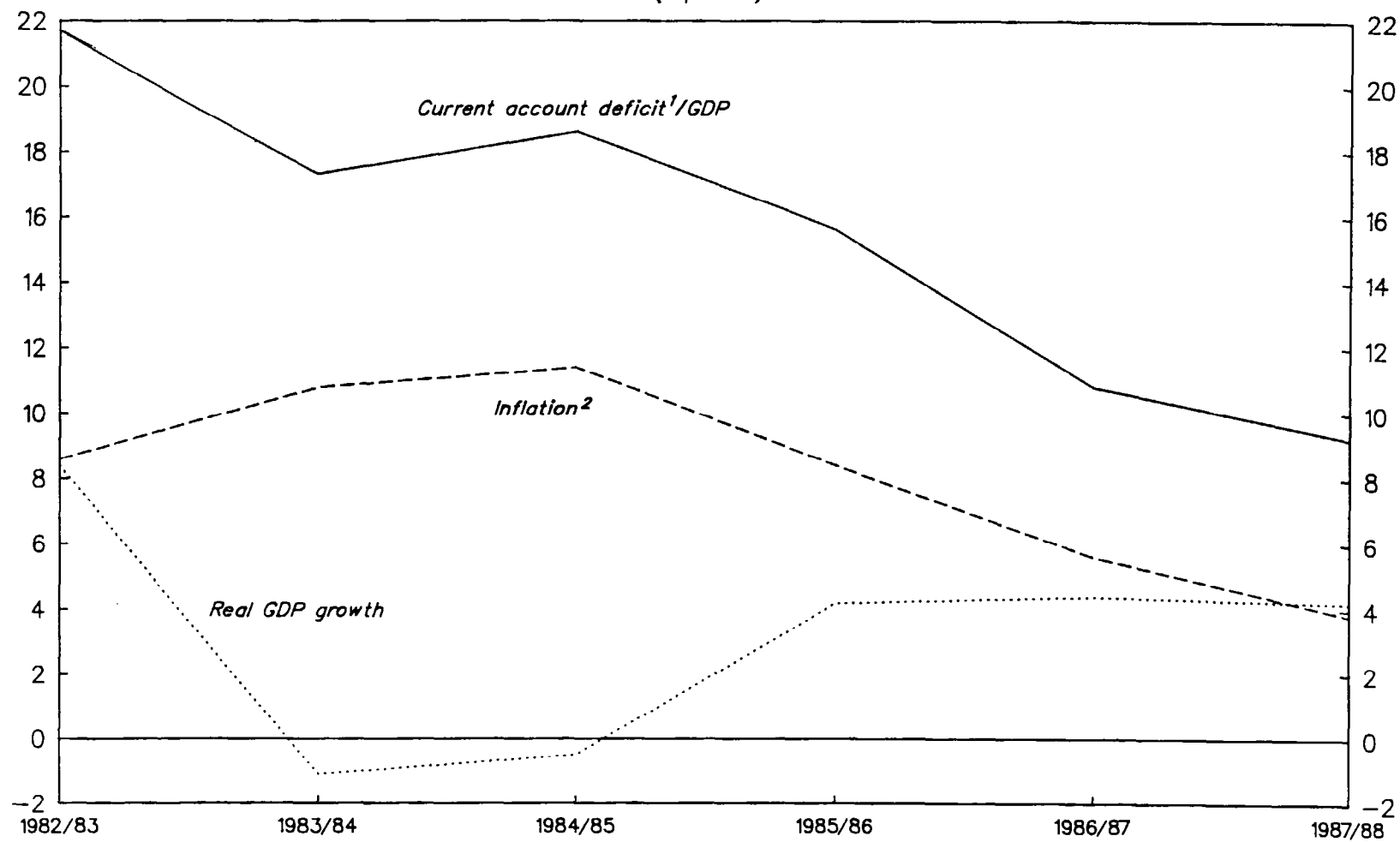
^{3/} Since February 29, 1988.

^{4/} Before debt rescheduling.

^{5/} Public and publicly guaranteed debt, including Fund credit and central bank liabilities.

^{6/} After debt rescheduling.

CHART 1
 SENEGAL
 REAL GROWTH AND ADJUSTMENT, 1982/83-1987/88
 (In percent)

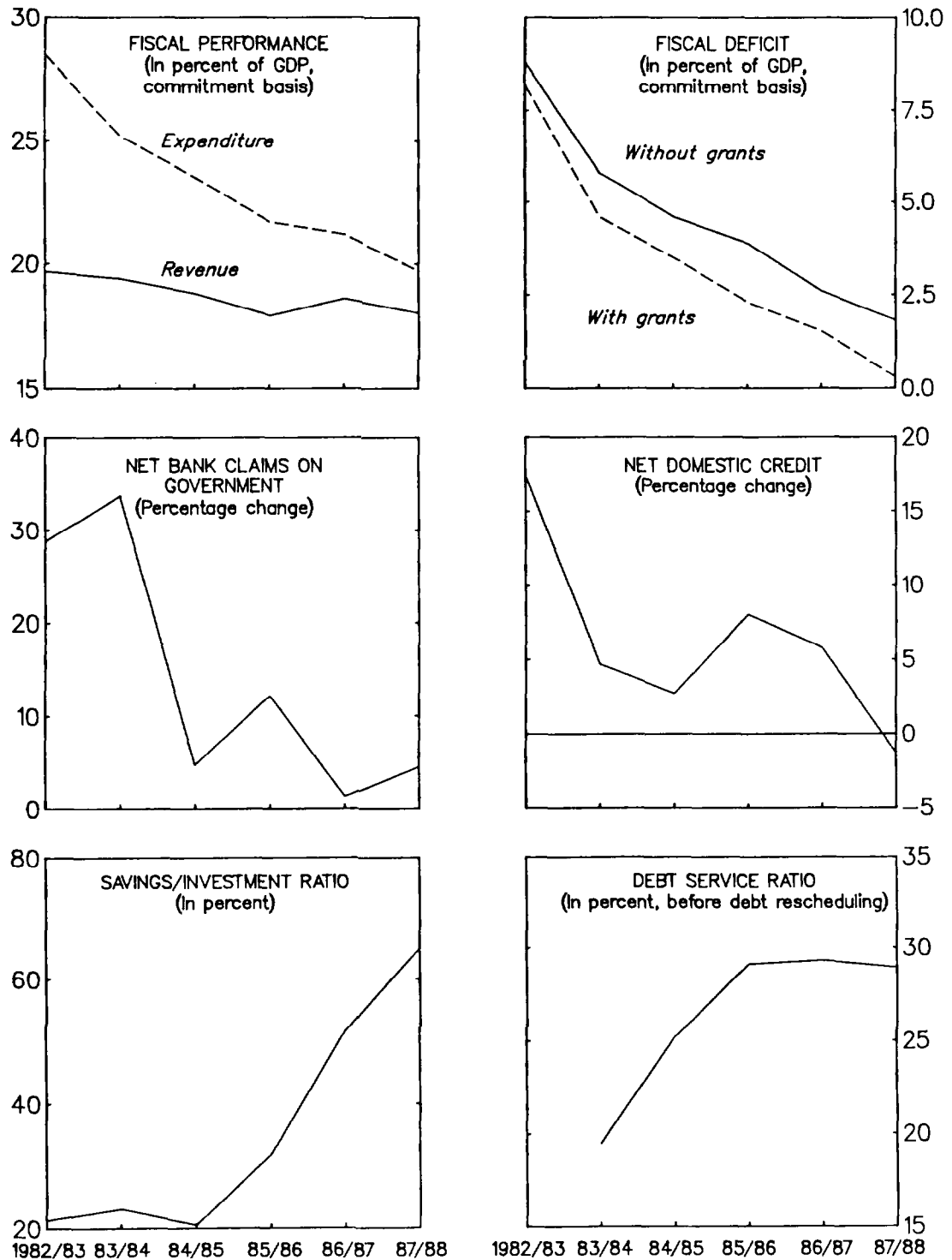


Sources: Data provided by the Senegalese authorities and staff estimates.
 1 Excluding grants.
 2 As measured by the GDP deflator.



CHART 2
SENEGAL

KEY ECONOMIC POLICY INDICATORS, 1982/83-1987/88



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

down to 5.6 percent in 1986/87. The external current account deficit, excluding official grants, narrowed sharply, from 21.7 percent of GDP in 1982/83 to 10.8 percent of GDP in 1986/87. This reflected a marked increase in gross domestic savings, from 3.4 percent of GDP in 1982/83 to 7.3 percent in 1986/87. The improved financial situation, together with the strengthening in external debt management, resulted in a reduction in the ratio of public and publicly guaranteed external debt to GDP from a peak of 90.5 percent in 1984/85 to 73.4 percent in 1986/87, as well as in a stabilization of the debt service ratio, before debt relief, at about 29 percent of exports of goods and services, and private transfers.

III. The Medium-Term Outlook and Progress Under the 1987/88 Adjustment Program

Notwithstanding the significant progress made during the past four years, Senegal still faces major structural and financial problems. The economy is fragile and vulnerable to external shocks, inflationary pressures persist, and the internal and external financial imbalances are unsustainable. A number of commercial and development banks also face serious difficulties, owing mainly to the sizable nonperforming loans held in their portfolios. Furthermore, Senegal's sizable external debt service obligations, the legacy of the expansionary policies pursued in the 1970s, continue to weigh heavily on government finances and the balance of payments.

To overcome the remaining structural bottlenecks and further reduce the financial imbalances, the Senegalese authorities are continuing their adjustment efforts in the context of a medium-term framework for 1987/88-1989/90, elaborated in close consultation with the staffs of the Fund and the World Bank (EBD/87/245 and EBS/87/205). The Government's two-pronged medium-term strategy involves (a) the promotion of private sector initiative and the efficient utilization of resources through appropriate pricing and other incentive policies, particularly in agriculture and industry, while reducing the direct involvement of public entities in production activities; and (b) the achievement of greater efficiency in public resource management through improvements in the allocation and implementation of public investment, reform of the public enterprise sector, and strengthening of government finances. The measures envisaged over the three-year period aim at promoting a sustainable rate of economic growth, further curbing inflationary pressures, and reducing the external current account deficit to achieve a viable external payments position by the end of this decade.

The base-line medium-term scenario for Senegal's balance of payments presented in EBS/87/205 has been revised to take into account recent developments in the Senegalese economy, as well as current projections for international prices provided in the latest World Economic Outlook. The revised base-line scenario (Table 2), which is

Table 2. Senegal: Medium-Term Outlook of the Balance of Payments,
Alternative Scenarios, 1986/87-1990/91

(In percent, unless otherwise indicated)

	1986/87	1987/88	1988/89	1989/90	1990/91
<u>Base-line scenario</u>					
Current account/GDP <u>1/</u>	-10.8	-9.2	-8.2	-7.3	-5.8
Overall balance					
(SDR million) <u>2/</u>	19.1	6.1	34.7	42.7	34.5
Financing gap					
(SDR million) <u>3/</u>	—	—	37.6 <u>4/</u>	—	—
Debt service ratio <u>5/</u>	29.3	28.9	30.4	29.6	26.6
Export volume growth	8.0	16.9	2.7	6.1	5.9
Import volume growth	1.4	0.3	0.6	5.0	4.8
<u>Scenario I</u> (Lower export volumes and higher import volumes)					
Current account/GDP <u>1/</u>	-10.8	-9.2	-8.5	-7.8	-6.8
Overall balance					
(SDR million) <u>2/</u>	19.1	6.1	20.6	18.0	-9.3
Financing gap					
(SDR million) <u>3/</u>	—	—	51.6	24.5	43.8
Debt service ratio <u>5/</u>	29.3	28.9	30.5	29.8	26.9
Export volume growth	8.0	16.9	1.8	5.1	4.9
Import volume growth	1.4	0.3	1.6	6.0	6.1
<u>Scenario II</u> (Improved terms of trade)					
Current account/GDP <u>1/</u>	-10.8	-9.2	-8.1	-6.9	-5.4
Overall balance					
(SDR million) <u>2/</u>	19.1	6.1	39.2	56.7	54.2
Financing gap					
(SDR million) <u>3/</u>	—	—	33.0	—	—
Debt service ratio <u>5/</u>	29.3	28.9	30.3	29.4	26.2
Export volume growth	8.0	16.9	2.7	6.1	5.9
Import volume growth	1.4	0.3	0.6	5.0	4.8

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

1/ Excluding official grants

2/ Before debt rescheduling.

3/ After accounting for purchases under the current stand-by arrangement and loans under the SAF arrangements.

4/ Expected to be covered mainly by external budgetary assistance and debt relief.

5/ In percent of exports of goods and services, and private transfers.

broadly in line with the previous one, indicates that Senegal can still attain a viable balance of payments position toward the end of this decade, provided that it continues to implement the structural and financial policies described in the authorities' medium-term policy framework paper, and readapts them promptly to offset the effects of any unforeseen adverse developments. The revised scenario differs from the original one mainly in three respects. First, groundnut oil export receipts after 1987/88 have been revised downward. The export volume is estimated to be higher in 1987/88, owing to a good harvest and a drawdown of stocks, but it is expected to drop in 1988/89 and to increase by only 3.5 percent annually thereafter, compared with an annual volume growth of 6.5 percent in the previous scenario. The unit price for groundnut oil exports has also been revised downward by 3.6 percent in 1987/88, and is now projected to rise by 7 percent annually thereafter, as against an original projection of an annual growth rate of 9 percent. Second, other export receipts have also been revised downward in 1987/88, to take into account lower volume and unit prices for phosphate exports and petroleum re-exports; they are, however, projected to grow annually by about 12 percent thereafter, virtually in line with the previous scenario. Third, given improved domestic supply conditions as well as lower international food prices, payments for food imports have been revised downward in 1987/88, but are projected to grow by 8.5 percent annually thereafter, compared with 7.7 percent in the previous scenario. Overall, as these revisions of exports and imports virtually offset each other, the projected reductions in the external current account deficit are consonant with those in the previous base-line scenario and with the elimination of the balance of payments financing gap in 1989/90.

Senegal's medium-term balance of payments outlook is highly sensitive to the assumptions regarding the evolution of the external environment and the strength of the adjustment policies. Two alternative scenarios are presented in Table 2. Scenario I assumes the recurrence of adverse weather conditions or, alternatively, some slippage in domestic policy implementation. If this were to reduce the annual growth of the export volume by about 1 percentage point and increase the growth of the import volume by about 1 percentage point, compared with the base-line scenario, the current account deficit, excluding official grants, would narrow at a slower pace and a financing gap would still remain in 1990/91. Scenario II assumes that the improvement in Senegal's terms of trade will be more marked than what is assumed in the base-line scenario. In these circumstances, the financing gap would be lower in 1988/89 and would be eliminated by 1989/90.

Within the medium-term framework, the authorities have been implementing effectively wide-ranging supply- and demand-oriented measures in 1987/88 (Table 3). Considerable progress has been made in the implementation of the measures envisaged in the program, despite the political pressure associated with the parliamentary and presidential

Table 3. Senegal: Summary of the Adjustment Program for 1987/88

Objectives	Status
1. Real growth: 4.2 percent;	Maintained
2. Inflation (GDP deflator): 3.8 percent;	Maintained
3. External current account deficit, excluding official grants: 9.2 percent of GDP.	Maintained
<u>Policies</u>	
<u>A. Agricultural policy</u>	
Continue to implement new agricultural policy, including Cereals Plan;	
1. Prepare study on agricultural producer prices;	Completed
2. Prepare an action plan on producer prices for 1988/89 crop season;	In progress
3. Complete a technical and financial audit of SONACOS by end-March 1988.	In progress; delayed until June 1988
<u>B. Industrial policy</u>	
1. Remove remaining quantitative restrictions on imports by January 1988;	Removed in February 1988
2. Implement final stage of rationalization of effective protection system by July 1988;	Maintained
3. Gradual phasing out of product-specific exceptions to general tariff schedule by December 1988;	In progress
4. Eliminate direct operating subsidies to sugar company (CSS) by November 1987;	Implemented
5. Revise investment code by July 1987;	Implemented
6. Revise labor code by July 1987;	Implemented
7. Abolish price controls by December 1988, except for those on certain strategic or sensitive goods and services.	In progress; some already removed
<u>C. Public investment</u>	
Implement first year of the three-year rolling public investment program (1987/88-1989/90), with an overall target of CFAF 144.0 billion for 1987/88.	In progress
<u>D. Public enterprise sector</u>	
1. Initiate divestiture programs for ten public enterprises in 1987/88;	Implemented in October 1987
2. Liquidate seven public enterprises and two public agencies by December 1987;	Implemented
3. Identify a second group of 10 to 17 enterprises for partial or complete privatization in 1987/88;	Implemented
4. Finalize and sign performance contracts for SAED, SOTRAC, OHLM, OIPE, SOMIVAC, SONACOS, RCPS, SONATRA and SONEES in 1987/88;	In progress
5. Pursue progressive elimination of direct government subsidies to public enterprise sector.	In progress
<u>E. Fiscal policy</u>	
Reduce overall deficit on a commitment basis, including grants, from 1.5 percent of GDP in 1986/87 to 0.5 percent of GDP in 1987/88. Domestic payments arrears are to be reduced to CFAF 8.5 billion.	In progress; revised to 0.3 percent in 1987/88
Revenue: increase by 4.5 percent;	
1. Implementation of the second phase of the tax reform (with Fund technical assistance), including:	In progress
(1) restructuring of revenue departments with increased emphasis on audit and greater use of computerized procedures for assessment and collection;	In progress
(2) reinforcing fight against smuggling and evasion;	In progress
(3) introducing fiscal cadaster in Dakar area;	In progress
2. Initiate the first step of the five-year program of sales of state-owned land, expected to yield CFAF 3.5 billion in 1987/88;	In progress
3. Transfer to the budget CFAF 36.0 billion of receipts from the oil sector;	Maintained
4. Adopt a new customs code by December 1987.	Implemented
Total expenditure and net lending: increase by 1.9 percent;	
1. Limit the increase in the wage bill to 2.1 percent:	Revised to 0.8 percent
- Reduce the number of government employees to 67,700 at end-December 1987, and 67,100 at end-June 1988;	Maintained
- No general salary increase to be granted in 1987/88;	Maintained; reduction at end-December implemented
2. Increase expenditure for material and maintenance and other current expenditure to CFAF 45.7 billion;	Maintained
3. Reduce expenditure on transfers and subsidies to CFAF 27.5 billion.	Maintained
<u>F. Monetary policy</u>	
1. Limit growth of domestic liquidity to 7.5 percent;	Revised to 3.2 percent
2. Limit the growth of private sector credit, excluding crop credit, to 2.1 percent;	Maintained
3. Limit increase in net bank claims on the Government to 4.5 percent;	Maintained
4. Reduce outstanding 1986/87 crop credit to CFAF 7.8 billion by end-December, and fully reimburse balance by end-March 1988;	Maintained; reduction at end-December implemented
5. Reimburse fully outstanding 1985/86 crop credit;	Implemented
6. Complete preparatory work on the reform of the banking system.	In progress
<u>G. External debt</u>	
1. Limit new nonconcessional loans to SDR 24.0 million for maturity from 1-12 years; no new nonconcessional loans with a maturity of 1-5 years; no short-term external borrowing (less than 1 year), except for normal import related credits;	Maintained
2. No external payments arrears to be incurred.	Maintained

elections which took place in February 1988. All the performance criteria for end-September 1987 were observed, and, based on preliminary data, those for end-December are also estimated to have been met. Furthermore, the policy action relating to the removal of the remaining quantitative import restrictions, which constituted the first benchmark under the second annual arrangement under the SAF, was taken, albeit with a delay of a few weeks. The performance criteria, including those proposed for changes in net bank claims on the Government and net domestic assets of the banking system for the second half of the year, as well as the status of the benchmarks under the SAF, are shown in Table 4. Although there are indications that some private capital outflows took place in the first half of the fiscal year, owing in part to perceived exchange rate risks, the tight financial policies being pursued are expected to contribute to the attenuation of these outflows. The program for 1987/88 remains broadly on track, with its key quantitative objectives expected to be achieved. Thus, real GDP is estimated to grow by about 4.2 percent; the rate of inflation, as measured by the GDP deflator, to be curbed to some 3.8 percent; and the external current account deficit, excluding official grants, to be reduced further, to 9.2 percent of GDP.

1. Supply-oriented policies

To lay the foundation for achieving sustainable economic growth, the Government is taking steps to strengthen the public investment programming process, to reinforce agricultural policy, to reorient industrial policy, and to streamline and narrow the scope of the public enterprise sector.

In July 1987 the authorities launched the first three-year rolling public investment program for the period 1987/88-1989/90. The World Bank staff considers it an improvement over previous programs in terms of size, composition, and project selection and documentation. The program is being implemented as envisaged, emphasizing high-return investment projects as well as rehabilitation and maintenance operations; it allocates 36 percent of total investment to the primary sector. For 1987/88, the investment target was set at CFAF 144.0 billion, compared with a target of CFAF 173.3 billion for 1986/87. However, the actual investment outlays for 1986/87 amounted only to an estimated CFAF 119.7 billion, implying an implementation ratio of about 69 percent. In view of the more realistic target adopted for 1987/88, a higher implementation ratio can be expected. In addition to the introduction of a three-year rolling public investment programming system, the Government has initiated a number of specific measures to reform the development planning system and enhance the efficiency of public investment. These include the formulation of a six-year strategic development plan, the decentralization of project identification and preparation, the standardization of methods of project appraisal and selection, and the computerization of the monitoring of public investment. The authorities are also evaluating in

Table 4. Senegal: Quantitative Performance Criteria for 1987/88 Under the Stand-By Arrangement and Benchmarks Under the Second Annual Arrangement Under the Structural Adjustment Facility

	Stock at End-June 1987	Change from July 1, 1987 to end									
		1987					1988				
		September		December			March		June		
		Prog.	Adj.	Act.	Prog.	Adj.	Est.	Prog.	Rev.	Prog.	Rev.
								Prog.			Prog.
I. Performance criteria and financial benchmarks											
(In billions of CFA francs)											
Net domestic assets <u>1/2/3/</u>	549.7	-7.4	-11.0	-17.3	-1.3	-14.8	-15.1	...	30.6 <u>5/</u>	0.1 <u>4/</u>	0.1 <u>5/</u>
Claims on Government (net) <u>1/2/</u>	143.9	1.4	-3.7	-7.7	10.5	10.5	10.5	8.9 <u>4/</u>	8.9 <u>5/</u>	6.5 <u>4/</u>	6.5 <u>5/</u>
Arrears of Government and public agencies											
1. Domestic	22.5	-3.0	-3.0	-3.6	-3.5	-3.5	-4.5	-9.5	-9.5 <u>6/</u>	-14.0	-14.0 <u>6/</u>
2. External	—	—	—	—	—	—	—	—	—	—	—
Repayment of 1985/86 crop credit	2.5	—	—	—	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5
Repayment of ONCAD debt	80.2	-2.2	-2.2	-2.2	-3.4	-3.4	-3.4	-6.5	-6.5 <u>6/</u>	-8.6	-8.6 <u>6/</u>
(In millions of SDRs)											
New external borrowing on nonconcessional terms by the Government or with government guarantee <u>7/</u>											
1. Short-term (less than 1 year)	—	—	—	—	—	—	—	—	—	—	—
2. 1-5 years' maturity	—	—	—	—	—	—	—	—	—	—	—
3. 1-12 years' maturity	24.0	24.0	5.4	24.0	24.0	5.4	24.0	24.0	24.0	24.0	24.0
II. Structural benchmarks under the SAP											
	Actions					Status					
(a)	Elimination of the remaining quantitative restrictions on imports (January 1988).					Lifted in February 1988. <u>8/</u>					
(b)	Implementation of appropriate adjustments in producer prices for the 1988/89 crop season based on recommendation of study on agricultural prices and other incentives (1988 and 1989). <u>9/</u>					Study completed in February 1988, and action plan on producer prices expected to be finalized in March 1988.					
(c)	Adoption of a three-year public investment program for 1988/89-1990/91.					Draft completed in December 1987 and under review.					

Sources: EBS/87/205; and Appendix II.

1/ The program assumes that Senegal will receive a cumulative amount of external budgetary assistance (excluding grants) beginning July 1, 1987 of CFAF 19.5 billion through September 30, 1987, of CFAF 46.5 billion through December 31, 1987, of CFAF 61.5 billion through March 31, 1988, and of CFAF 62.9 billion through June 30, 1988. In the event that the external budgetary assistance (excluding grants) exceeds the above amounts, the changes will be reduced pro tanto, net of any budgetary assistance used to accelerate: (a) the reduction in arrears of the Government and public agencies; and (b) the repayment of ONCAD debt. No adjustment to the changes will be made if the external budgetary assistance falls below the above amounts, except as indicated in footnote 6. Based on this provision, the end-September 1987 ceilings have been adjusted by the excess of CFAF 5.1 billion in budgetary assistance received beyond the amount projected in the program, as well as by the adjustment regarding crop credit as provided for in footnote 3.

2/ The program does not envisage the receipt by Senegal of any exceptional external financial assistance during the period July 1, 1987-June 30, 1988 that would have the effect of improving the net position of the Government vis-à-vis the banking system. Should such assistance be received, however, the changes will be reduced pro tanto, net of any expenditure tied to such assistance.

3/ The program envisages a reduction in crop credit of CFAF 14.9 billion during the period July 1-September 30, 1987; a reduction of CFAF 21.9 billion during the period July 1-December 31, 1987; an increase in crop credit of CFAF 6.2 billion during the period July 1, 1987-March 31, 1988; and a reduction of CFAF 21.9 billion during the period July 1, 1987-June 30, 1988. In the event that the variation in crop credit is lower or higher than these amounts, the variation in net domestic assets will be adjusted downward or upward pro tanto. On this basis, the September 30, 1987 ceiling has been adjusted by the excess of CFAF 1.5 billion in crop credit, in addition to the adjustment indicated in paragraph 1 above. The December 31, 1987 ceiling has been adjusted downward by an estimated CFAF 13.5 billion.

4/ Indicative.

5/ Proposed as definitive.

6/ The program assumes that Senegal will receive external budgetary assistance (including grants) administered by the World Bank and estimated at CFAF 9.1 billion during the period October 1-December 31, 1987. The revised program assumes that Senegal will receive from July 1, 1987, a cumulative amount of external budgetary assistance (including grants) administered by, or associated with the World Bank, estimated at CFAF 36.0 billion by March 31, 1988 and June 30, 1988. In the event that the full amount is not received, the changes in arrears of the Government and public agencies and in repayment of ONCAD debt will be adjusted accordingly to compensate for the shortfall.

7/ The exchange rate applicable to these borrowings will be the rate of the SDR vis-à-vis the contract currency on June 30, 1987, as reported in International Financial Statistics. For debts directly contracted by the Government, the loan will count toward the ceiling on the date of signature. 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 signature or the date that the loan enters into effect (whichever is later) until the last scheduled amortization payment. For the 1987/88 ceiling, the last tranche under the loan signed by SOTRAC in 1985/86 will count toward the ceiling on the date the guarantee becomes effective, and will be converted into SDRs at the exchange rates of June 30, 1987. Loans on concessional terms as defined by the OECD Development Assistance Committee are excluded from these ceilings.

8/ With the exception of those on used clothes, maintained for sanitary reasons.

9/ Before the beginning of the crop season, normally in April.

greater detail the impact of public investment on recurrent costs. A draft of the next three-year rolling public investment program has been prepared and is currently under review.

The Government is continuing to implement its new agricultural policy, which was launched in 1984. In the context of the 1987/88 program, the authorities are reducing fertilizer subsidies financed directly by donors by about one third. They are also liberalizing the import and marketing of agricultural inputs, such as fertilizers and seeds, and gradually transferring production and marketing operations from the rural development agencies to producer cooperatives and the private sector. The implementation of the Cereals Plan, launched in June 1986, is also proceeding as envisaged. The plan aims at achieving self-sufficiency in cereals by stimulating production through the liberalization of cereals marketing and the processing of domestic coarse grains for local consumption. This objective is also being pursued through the maintenance of the retail price of rice at a level that provides adequate incentives to local producers of cereals. Further steps are to be taken, based on the results of a study on agricultural prices financed by the World Bank and France, which was completed in February 1988. The Government intends to prepare shortly, in consultation with the Fund and the World Bank staffs, a plan of action for the determination of the producer prices for the 1988/89 crop season.

In the context of this plan of action, the Government will announce the producer price for groundnuts before the start of the next crop season and will take additional steps to reduce the losses in the sector. The producer price for groundnuts had been raised to CFAF 90 per kg. in the context of previous programs to encourage groundnut production. However, with the unexpected sharp decline in world market prices for edible oils, it is estimated that this producer price and other processing and marketing costs currently involve a subsidy of the order of some CFAF 40 per kg. The overall deficit of the groundnut sector in 1987/88 is estimated at some CFAF 22 billion, equivalent to 1.6 percent of GDP. About CFAF 18.8 billion of this deficit will be financed by STABEX resources from the European Community and the remaining CFAF 3.2 billion by other concessional external assistance. ^{1/} The authorities recognize that the situation is not sustainable, and have decided to adopt measures to reduce significantly the subsidy to the groundnut sector for the 1988/89 crop season. The

^{1/} The deficit of the groundnut sector for the 1987/88 crop will be incurred in 1988/89, when the crop is marketed. As the producer price for the 1987/88 crop season has remained unchanged, and taking into account the projected world price for groundnut oil, it is estimated that the deficit of the groundnut sector in 1988/89 will remain at about CFAF 22 billion. This deficit could be partly covered from STABEX resources; the Government is also seeking additional concessional external assistance to finance the balance.

measures, including the adjustment of the producer price, will take into account the need to maintain adequate incentives, the relative price structure in the agricultural sector, the producer price in neighboring countries, the international price level, and the availability of external financing. In addition, measures to reduce marketing and processing costs will be taken by the groundnut oil processing company, SONACOS. To this end, a technical, financial, and management audit of SONACOS, focusing on the processing and transportation of groundnuts, will be completed by June 1988.

Considerable progress has been achieved in the implementation of a comprehensive industrial policy reform, aimed at improving the competitiveness of the industrial sector, promoting exports, and making enterprises more responsible. Following the actions taken during the past two years, the last stage of lifting the quantitative import restrictions on the remaining groups of products, namely textiles, shoes, and school supplies, was completed in February 1988. ^{1/} This action, which was to have been taken in January 1988, constitutes a benchmark under the second annual arrangement under the SAF. Moreover, the number of goods subject to price controls was reduced, thereby making further progress toward abolishing all remaining price controls by end-1988, with the exception of those on a small number of essential and strategic products. The existing special agreements, which give certain enterprises tax exemptions and other privileges, are being reviewed with a view to their elimination. In this context, the direct operating subsidies to the Senegalese Sugar Company (CSS) were discontinued, effective November 1987. In consultation with the World Bank, further preparatory work is under way to formulate appropriate corrective actions to improve the operations of the sugar industry.

In order to simplify the regulatory environment for private enterprises and improve labor productivity, the Government revised the labor code in July 1987, allowing enterprises to hire employees and renew temporary contracts without state interference. These measures will be complemented by the elaboration of a plan of action, to be finalized by April 1988, based on studies of the social security system, of remuneration and productivity, and of worker participation in profit-sharing schemes. In addition, the new investment code, promulgated in July 1987, aims at reducing the bias toward capital-intensive industries and is contributing to an enhancement of efficiency in small- and medium-sized enterprises.

The authorities are pursuing the reform of the public enterprise sector, which focuses on the liquidation of nonviable public enterprises, the privatization of others, and the rehabilitation of those remaining in the Government's portfolio. The authorities' program also includes institutional reforms aimed at strengthening the role of the

^{1/} With the exception of those on used clothes, which were retained primarily for sanitary reasons.

agencies overseeing the sector, and clarifying the regulations governing the financial relations between the Government and the enterprises. At the beginning of 1987/88, the Government strengthened the management of the reform process by establishing an upgraded office, with World Bank technical assistance, to coordinate and supervise the restructuring of the sector. Seven public enterprises and two public agencies were liquidated in the second half of 1987. Furthermore, since October 1987, the Government's divestiture program has become fully operational. A first set of 10 public enterprises has been offered for sale. Another set of 10 public enterprises has been identified for the second phase of privatization. The rehabilitation programs for several enterprises remaining in the Government's portfolio are being included in formal agreements defining the reciprocal commitments between the enterprises and the Government. The policy of reducing direct subsidies to the public enterprise sector is being pursued, as well as the program involving the settlement of cross-debts between the Government and public enterprises.

2. Demand-oriented policies

The authorities are continuing to pursue tight financial policies, involving a further narrowing of the budget deficit and a reduction in the level of outstanding bank credit. Furthermore, with a view to enhancing financial intermediation, some initial steps to reform the banking system have been undertaken and further preparatory work is under way.

On the fiscal front, the policy of gradually reducing nonessential expenditure and improving tax performance has received high priority in the implementation of the 1987/88 program. On the basis of provisional data for the first half of the current fiscal year, the overall fiscal deficit, on a commitment basis and including grants, is now estimated to be reduced from CFAF 19.7 billion (1.5 percent of GDP) in 1986/87 to CFAF 4.1 billion (0.3 percent of GDP) in 1987/88, compared with an original program target of CFAF 6.7 billion (0.5 percent of GDP) (Appendix I, Table III). ^{1/} After allowing for the programmed reimbursement of domestic payments arrears, as well as a higher repayment of crop credit than originally programmed, the overall cash deficit is estimated at CFAF 42.3 billion (2.9 percent of GDP), only slightly higher than the original program target of CFAF 41.7 billion (2.9 percent of GDP). This deficit will be financed by net foreign financial assistance, including CFAF 18.9 billion of debt relief. The further repayment of the debt owed to banks by the liquidated agricultural marketing agency (ONCAD), along with a reduction of nonbank debt, will be partly covered by net Government borrowing from the domestic banking system, which will be limited to CFAF 6.5 billion.

^{1/} Excluding grants, it is estimated to be reduced from 2.6 percent of GDP in 1986/87 to 1.8 percent in 1987/88, compared with a program target of 1.9 percent.

The growth of total expenditure and net lending is estimated to be limited to 0.8 percent. This reflects a downward revision of outlays to CFAF 288.0 billion, to take into account an improvement in the positions of the Treasury's correspondents and special accounts. To strengthen the monitoring of these accounts, a reform of the Treasury's correspondents and special accounts will be undertaken in 1987/88 with Fund technical assistance. With regard to budgetary spending, the authorities are determined to keep both current and capital outlays within the original program targets of CFAF 240.5 billion and CFAF 45.0 billion, implying increases of 3.4 percent and 18.1 percent, respectively. ^{1/} In particular, the Government has taken steps to ensure that the CFAF 122.3 billion ceiling on the total wage bill will be respected. The number of government employees was reduced from 68,131 at end-June 1987 to some 67,700 by end-December 1987, as programmed, and will be further reduced to 67,100 by end-June 1988. Moreover, no general salary increase will be granted and the various employment-related allowances will be kept strictly within the budgetary allocation. A high-level commission has been assigned the responsibility of studying government remuneration issues. Based on the recommendations of this commission, the authorities will consider medium-term measures to further curb recruitment and reduce gradually the share of the wage bill in current budgetary outlays. Expenditures on materials, supplies, and other related current expenditure, which were raised to ensure the proper functioning of essential services, as well as those on subsidies and transfers, which were reduced, are estimated to remain in line with the original program targets.

Total revenue and grants are estimated to increase by 6.7 percent to CFAF 283.9 billion in 1987/88, marginally exceeding the original program projection, owing to a higher level of grants. The program target for revenue is expected to be attained. The receipts from the oil sector, estimated at CFAF 36.0 billion, are broadly in line with the original program projections. Excluding these receipts, other revenue is projected to grow by 9.8 percent. The authorities adopted a new customs code at end-1987, and are restructuring and strengthening the revenue departments. Tax revenue collection is estimated to be higher than originally projected, given the impact of the aforementioned measures, the full-year effects of the reform of a number of domestic taxes in 1986/87, and the improvements in tax assessment and administrative efficiency. However, this is estimated to be offset by a small shortfall in nontax revenue, resulting from delays in the launching of the first tranche of a five-year program of sales of state-owned land. Studies for the extension of the value-added tax to trade and services are under way.

^{1/} The percentage increases differ from those in the original program, owing to differences between the estimated and final data for 1986/87.

The monetary authorities are following a credit policy geared at dampening aggregate demand pressures. Domestic credit in 1987/88 will be reduced by 1.3 percent, consistent with the original program target (Appendix I, Table IV). ^{1/} This reduction is entirely due to the repayment of crop credit. The growth in private sector credit, excluding crop credit, will be limited to 2.1 percent. In line with the fiscal target, the expansion in net bank credit to the Government will be held to 4.5 percent. Therefore, given the expected evolution of other items (net), net domestic assets are still estimated to be kept within the originally programmed level. Taking into account the programmed movement in net foreign assets, domestic liquidity is now projected to increase by 3.2 percent in 1987/88, as against 7.5 percent initially envisaged in the program.

Interest rate policy in Senegal is determined in the broader context of the West African Monetary Union (WAMU) ^{2/} by the Central Bank of West African States (BCEAO). The monetary authorities indicated that they attach particular importance to pursuing a flexible interest rate policy, which takes into account economic and financial conditions in the WAMU, as well as interest rate developments in France and other international markets. As shown in Chart 3, the overnight money market rate on advances, a representative rate, has moved in line with the comparable interest rate in France; except for a short period, it has remained higher than that in France since the beginning of 1985. It has also been positive in real terms since April 1986. In January and in February 1988, following interest rate developments in France, the overnight money market rate in the WAMU was reduced twice by 0.5 percentage points.

The authorities are developing a long-term strategy to strengthen the financial position of the banking system, which is facing serious liquidity problems, stemming mainly from sizable nonperforming loans and management problems. The Government has prepared a detailed report, which has been reviewed by the Fund and the World Bank staffs, as well as bilateral and other multilateral donors and creditors. The general recommendations comprise mobilizing external financial resources for the repayment of government-guaranteed debt vis-à-vis banks; consolidating

^{1/} The ceilings on changes in net bank claims on the Government and on net domestic assets at end-September and, based on estimates, end-December 1987 have been observed. Furthermore, the outstanding crop credit carried over from 1985/86, of CFAF 2.5 billion, was fully repaid at end-December 1987, in conformity with the relevant performance criterion. The outstanding amount of the 1986/87 crop credit has been reduced by more than originally envisaged in the program, to CFAF 5.7 billion at end-December 1987, compared with a program target of a reduction to CFAF 7.8 billion. The remaining amount is expected to be fully reimbursed by end-March 1988.

^{2/} Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, and Togo.

certain debit balances of banks with the BCEAO; reducing the share of government participation in banks and attracting private shareholders; increasing banks' own resources; intensifying the efforts to recover outstanding loans from the private sector; liquidating or merging certain banks; and strengthening the supervision and control of bank operations. In accordance with these recommendations, an action plan is being drawn up by the authorities. Pending the adoption of the action plan, specific rehabilitation programs are under way. The Banque Commerciale du Sénégal (BCS) has been liquidated, and its assets and liabilities taken over by a new bank, ASSURBANK; the Government has guaranteed its nonperforming loans, while the BCEAO has agreed to consolidate its debit balance. The Union Sénégalaise de Banque (USB) has recently benefited from a consolidation of its debit balance and a refinancing of certain nonperforming loans by the BCEAO, as well as from a loan extended by a foreign commercial bank. The authorities are reviewing similar programs for the other commercial banks in difficulty. The rehabilitation program of development banks, notably of the Banque Nationale de Développement du Sénégal (BNDS), which holds the largest share of nonperforming loans, is being reviewed by the authorities in the context of the overall reform strategy.

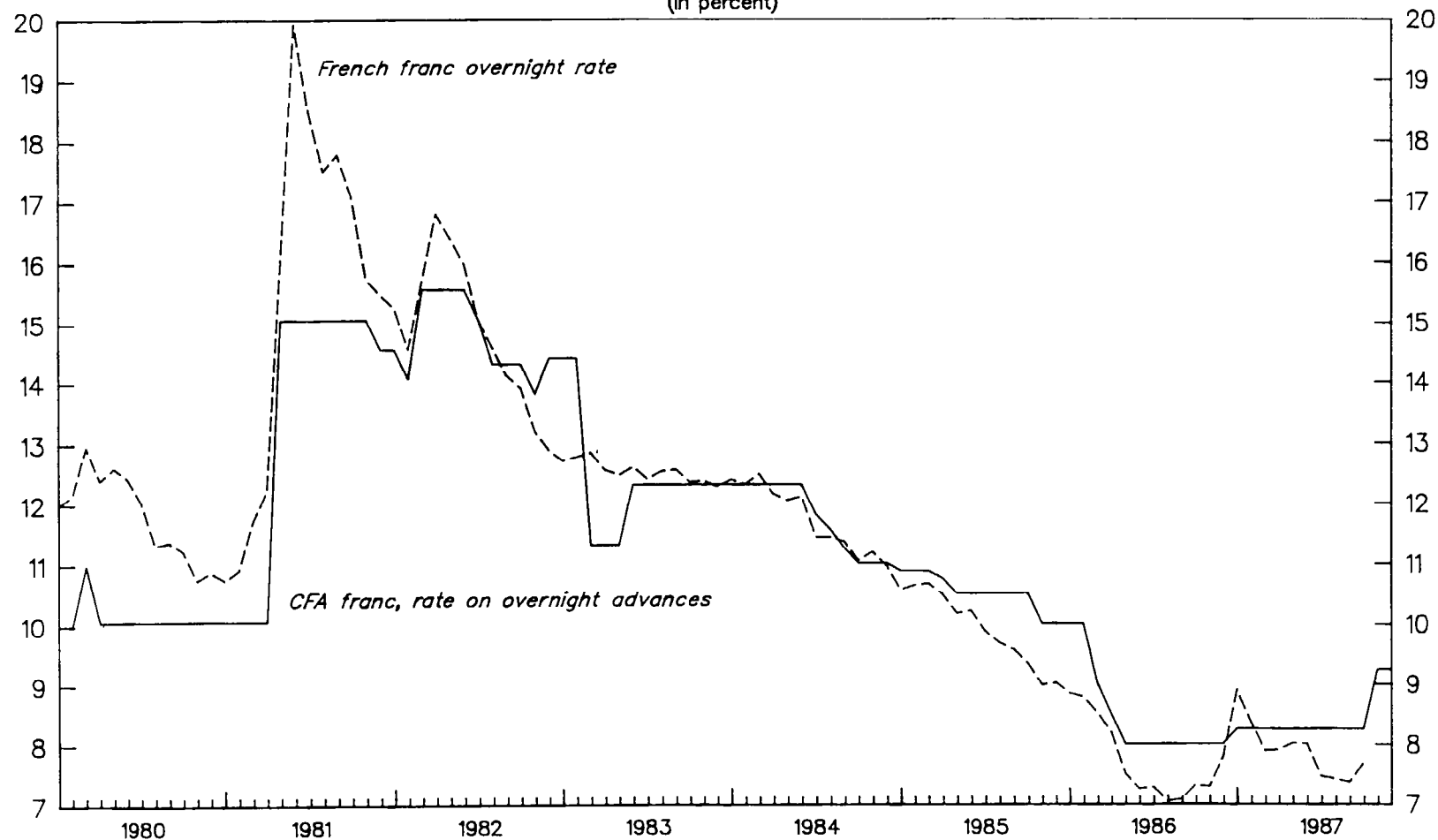
3. The external sector

The authorities' supply- and demand-oriented policies are expected to reinforce Senegal's external payments position in 1987/88. Despite the continuing softness of world market prices of groundnut products, export earnings from the groundnut sector are estimated to recover markedly, exceeding the original program target, owing to the favorable crop and the sales of stocks carried over from 1986/87. However, in view of lower volume and unit values of phosphate exports and petroleum re-exports, total exports are estimated to rise by 16 percent, falling short of the original program projection (Appendix I, Table V). The export shortfall is estimated to be virtually offset by lower-than-expected import payments, reflecting partly a lower unit price of foodstuffs. Thus, the trade deficit is estimated to decline by 19 percent, in line with the original program projection. Accordingly, the external current account deficit, including grants, is estimated to be reduced to 4.1 percent of GDP and, excluding grants, to 9.2 percent of GDP, consistent with the original targets.

The surplus on the capital account is estimated to remain virtually in line with the original program projection, with higher net public sector capital inflows being offset, by and large, by higher net private capital outflows. The upward revision in net public capital inflows is due to higher drawings and lower scheduled amortization payments, partly reflecting improvements in data. Net private capital outflows are expected to reflect the repayment of CFAF 26.6 billion (SDR 68.2 million) of banknotes received in 1987/88 with respect to previous years. The delay in the repatriation of the banknotes to Dakar for settlement stems from a shift in the collection center of Senegal's CFA banknotes from Paris to Abidjan. Moreover, some private capital outflows are

CHART 3
SENEGAL

COMPARISON OF MONEY MARKET INTEREST RATES¹
ON FRENCH FRANCS AND CFA FRANCS, 1980-1987
(In percent)



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

estimated to have taken place in the first half of 1987/88, owing to perceived exchange rate risks. The authorities expect these outflows to be attenuated by the tight financial policies being pursued. In view of the above, the overall balance of payments surplus, before rescheduling, is now projected to reach SDR 6.1 million in 1987/88, somewhat less than the original program target of SDR 9.3 million.

To cover the budget and the balance of payments financing gaps during 1987/88, Senegal has benefited from debt relief. On November 17, 1987, official creditors participating in the Paris Club agreed to reschedule Senegal's debt service falling due over the period November 1, 1987 through October 30, 1988. The consolidated amount is to be repaid over 16 years, including a grace period of six years (SM/88/16). The Senegalese authorities are making efforts to secure debt relief on comparable terms from other official creditors. On the assumption that all the bilateral agreements are concluded as scheduled, total debt relief for the fiscal year 1987/88 would amount to some SDR 67 million. ^{1/} Taking into account the estimated balance of payments surplus, the debt relief secured, and net purchases from the Fund, Senegal's position in the operations account with the French Treasury is projected to improve by nearly SDR 82 million.

Senegal's external debt service obligations for 1987/88, before rescheduling, are now estimated at 28.9 percent of exports of goods and services, and private transfers, compared with 29.3 percent in 1986/87 (Appendix I, Table VI). After rescheduling, the external public debt service ratio would amount to 22.7 percent in 1987/88. To reduce further the debt service burden over the medium term, the authorities are following a cautious external debt management policy. Hence, during the fiscal year ending June 1988, the Government will not contract nor guarantee any external loans on nonconcessional terms with an initial maturity from one up to (and including) twelve years, beyond a limit equivalent to SDR 24.0 million; within this limit, there will be no loans from one up to (and including) five years. ^{2/} Moreover, during the same period, there have not been, nor will there be, any short-term external borrowing of less than one year contracted or guaranteed by the Government, except for normal import-related credits. No external payments arrears have been incurred thus far, nor will any be incurred during the program period.

Senegal continues to maintain an exchange system that is free from restrictions on payments and transfers for current international transactions. As a member of WAMU, Senegal shares, with the other

^{1/} For the period of consolidation (November 1, 1987 to October 30, 1988), the debt relief secured would amount to SDR 57 million.

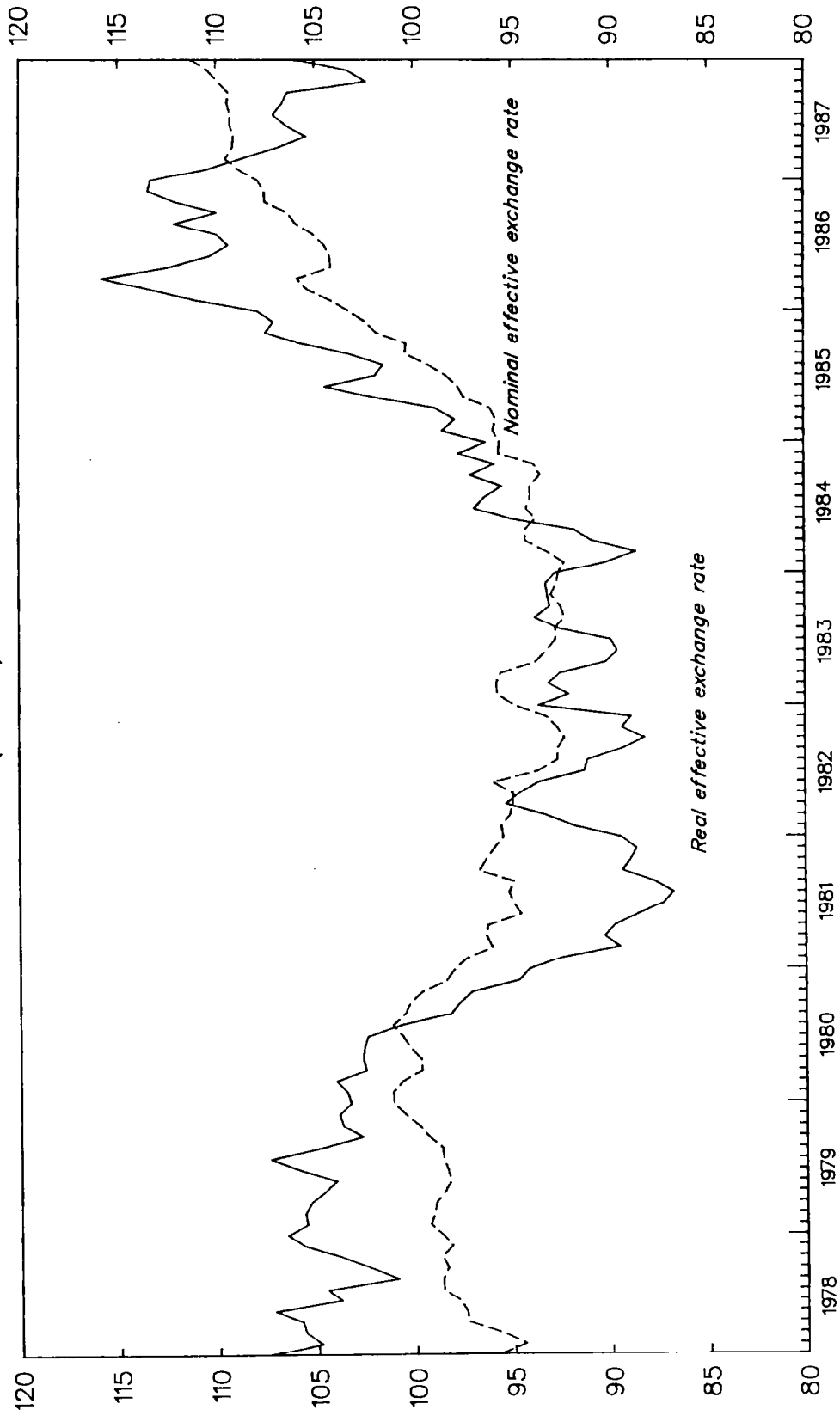
^{2/} These limits do not include borrowings by the multinational companies, Air Afrique and Agence pour la Sécurité de la Navigation Aérienne, or new borrowing for refinancing existing debts in the context of debt reschedulings.

members of the Union, a common currency, the CFA franc, which is issued by the BCEAO. The CFA franc is pegged to the French franc at the fixed rate of CFAF 50 = F 1. Thus, variations in Senegal's nominal effective exchange rate reflect movements in the French franc against the currencies of Senegal's trading partners outside the franc area. The movements over the last ten years in the nominal and real effective exchange rates are shown in Chart 4. After declining sharply starting in 1979/80, Senegal's real effective exchange rate index began to rise in 1984/85, peaked in 1985/86, and returned to its 1978/79 level in 1987. With the deceleration of the inflation rate in Senegal, the real effective exchange rate index fell by 6 percent during the 12-month period ending November 1987. The authorities emphasized that the design of their adjustment programs has continued to take into account Senegal's exchange arrangement. Thus, in their view, the use of other policy instruments have enabled Senegal to make satisfactory progress toward its adjustment objectives. They recognized the importance of enhancing Senegal's competitiveness by keeping the inflation rate below those of its trading partners and competitors. Furthermore, they are pursuing a restrained wage policy; there have been no cost-of-living adjustments made in recent years in public service salaries and in the minimum guaranteed wage rate. Overall, they noted that the benefits of full convertibility and stability of the CFA franc afforded by membership in WAMU outweighed the potential advantages of a more flexible exchange rate policy.

IV. Staff Appraisal

Adjustment and economic growth in recent years have proceeded hand in hand in Senegal. Since mid-1983, the authorities have pursued vigorously wide-ranging supply- and demand-oriented policies, in the context of adjustment programs supported by use of Fund and World Bank resources, as well as other multilateral and bilateral financial assistance, including debt relief. On the supply side, the launching of the new agricultural policy and the Cereals Plan have stimulated economic growth, largely by the progressive liberalization of production and marketing arrangements and the enhancement of price incentives. The new industrial policy has contributed to a reduction in distortions, through tax and tariff reforms, a reduction in administrative controls, and the gradual liberalization of pricing policies. The streamlining of the public enterprise sector has been initiated. The improvement in public investment programming has been essential for enhancing the efficiency of public capital outlays, thereby strengthening the foundation for sustained economic growth. On the demand side, the fiscal deficit has been significantly reduced, through austere expenditure policies and tax reforms. The Government has released resources to the nongovernment sector, by the repayment of its outstanding domestic payments arrears, the reimbursement of crop credit, and less recourse to net domestic bank borrowing. Thus, the monetary authorities have succeeded in bringing credit expansion under control, while still adequately providing for the credit needs of the productive

CHART 4
SENEGAL
NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, 1978—NOVEMBER 1987
(1980=100)



Source: IMF, Information Notice System.



sectors in the economy. Furthermore, the prudent external debt management policy pursued has helped to stabilize Senegal's external debt service ratio. These policies, in conjunction with a return of favorable weather conditions, have been instrumental in the achievement of high rates of economic growth, a reduction in the rate of inflation, and a strengthening of the external sector position.

Despite this progress, the magnitude of the initial economic distortions and financial imbalances was such that Senegal continues to face serious structural bottlenecks and unsustainable domestic and external financial positions. Accordingly, the Senegalese authorities have reinforced their adjustment efforts in the context of an updated three-year economic policy framework for 1987/88-1989/90, elaborated in close consultation with the staffs of the Fund and the World Bank. The framework provides for a further strengthening of public investment programming, the pursuit of agricultural policy reforms, further steps to promote the industrial sector, and an acceleration of the restructuring of the public enterprise sector. These structural policies are to be reinforced by further reductions in the fiscal deficit, a restrained credit policy, a reform of the banking system, and a continued prudent external debt management policy. Based on the latest information available, if Senegal continues to vigorously pursue the policies outlined in its medium-term policy framework paper, and barring unforeseen circumstances, it can expect to attain a viable balance of payments position consonant with sustained economic growth and relative price stability toward the end of this decade. Senegal's financing gap in 1988/89 is expected to be covered mainly by external assistance and debt relief.

The 1987/88 program is broadly on track. The performance criteria at end-September 1987 have been observed and those at end-December 1987 are estimated to have been met. Based on developments in the first half of the fiscal year, the key objectives of the program in terms of growth, inflation, and the external current account deficit are likely to be attained. Satisfactory progress is being made in the implementation of the envisaged measures. The first three-year rolling public investment program constitutes a significant step forward in strengthening the process of public investment programming. The restructuring of agricultural prices and the curtailment of subsidies on agricultural inputs will contribute to a reduction in economic distortions in the agricultural sector. The lifting of the remaining quantitative restrictions on imports, together with the revisions of the investment and labor codes, will promote productivity in the industrial sector. The ongoing rehabilitation of specific public enterprises, together with the programs of privatization and liquidation of others, will reduce the financial imbalances in this sector and enhance its efficiency. While these structural policies will contribute to an improvement in supply conditions, the financial policies will curb the growth of aggregate demand. The targeted reduction in the fiscal deficit in 1987/88 is expected to be achieved, as a tight rein is being kept on government expenditure, while revenue-generating measures are contributing to a

rise in receipts. This will be complemented by the envisaged reduction in domestic credit, which is critical to the attenuation of the private capital outflows which took place in the first half of the fiscal year.

During the remainder of the program period, the authorities will need to follow and act decisively on a number of issues in order to maintain the momentum of the adjustment process. First, as the subsidy involved in groundnut operations is not sustainable, it will be particularly important to reduce it to a manageable level. Given present trends in world market conditions for edible oils, this reduction will require a substantial downward revision in the producer price for groundnuts, along with measures to reduce marketing and processing costs of the groundnut oil processing company. In this respect, the forthcoming technical, financial, and management audit of the groundnut oil processing company will be essential. Second, the attainment of the fiscal target will depend critically on increased efficiency in tax administration and revenue collection, as well as the mobilization of the surplus from the petroleum sector. In addition, both current and capital expenditures will have to be firmly controlled. In this regard, the wage bill will have to be kept within the programmed ceiling through the reduction in the number of civil servants and the strict adherence to the budgetary allocations for indemnities and allowances. Moreover, the financial situation of the Treasury's correspondents and special accounts will have to be closely monitored. The Fund's forthcoming technical assistance mission should be helpful in this regard. Third, the authorities will have to accelerate the preparatory work for the reform of the banking system under way, in collaboration with the BCEAO and other interested parties. The reform should include measures to improve bank management and to enhance the efficiency of the banking system. In this context, steps to reinforce bank supervision will need to be considered, and an evaluation of credit management policies, including interest rate policy, undertaken. Finally, in view of the recent capital movements, the authorities will need to keep the situation under careful review and, if necessary, further tighten credit policy and review the interest rate structure.

Overall, Senegal has made impressive progress over the last four years toward achieving a satisfactory rate of growth consonant with domestic and external financial balance. Notwithstanding the considerable political pressures associated with parliamentary and presidential elections which took place in February, the authorities did not relent in their adjustment efforts. To achieve Senegal's medium-term economic objectives, these efforts will have to be continued in the next three years, and will need to be supported by external financial assistance on concessional terms.

V. Proposed Decision

In view of the foregoing, the following draft decision is proposed for adoption by the Executive Board:

1. Senegal has consulted with the Fund in accordance with paragraph 4(b) of the stand-by arrangement for Senegal (EBS/87/205, Supplement 1) and paragraphs 31 and 34 of the letter of intent from the Minister of Economy and Finance dated September 18, 1987, attached to the stand-by arrangement, in order to assess the progress made in the implementation of the program and to establish suitable performance criteria for the remaining period of the stand-by arrangement.

2. The letter from the Secretary of State attached to the Minister of Economy and Finance dated March 1, 1988 and the table annexed to that letter shall be attached to the stand-by arrangement for Senegal, and the letter of September 18, 1987 and the table annexed to that letter shall be read as supplemented by the letter dated March 1, 1988 and the table annexed to that letter. Accordingly, references in paragraphs 4(a)(i) and 4(a)(ii) of the stand-by arrangement for Senegal to paragraph 27 of the letter of September 18, 1987 and the table annexed to that letter, relating to the limit on net domestic assets of the banking system and the limit on net bank claims on the Government, shall comprehend a reference to paragraph 11 of the letter dated March 1, 1988, and to the table annexed to that letter.

3. The Fund decides that the review contemplated in paragraph (b) of the stand-by arrangement for Senegal is completed.

Table I. Senegal: Schedule of Purchases
During Period of Stand-By Arrangement

Amount	Availability date	Conditions necessary for purchase <u>1/</u>
SDR 4.075 million <u>2/</u>	October 30, 1987	Executive Board approval of the stand-by arrangement.
SDR 4.3 million <u>2/</u>	After December 14, 1987	Compliance with quantitative performance criteria as of September 30, 1987.
SDR 4.3 million	After March 14, 1988	Compliance with quantitative performance criteria as of December 31, 1987 and completion of the mid-term review under the stand-by arrangement.
SDR 4.3 million	After June 14, 1988	Compliance with quantitative performance criteria as of March 31, 1988.
SDR 4.3 million	After September 14, 1988	Compliance with quantitative performance criteria as of June 30, 1988.

Source: IMF.

1/ Other than generally applicable conditions under the stand-by arrangement and nonquantitative performance criteria, including the performance clause on the exchange and trade system.

2/ Purchases effected.

Table II. Senegal: Fund Position During Period of Stand-By Arrangement

	Outstanding at December 31, 1987	Jan.- March	1988 April- June	July- Sept.
		(In millions of SDRs)		
Transactions under tranche policies (net)		-2.08	-7.77	-4.91
Purchases		4.30 1/	4.30	4.30
Ordinary resources		(4.30)	(4.30)	(4.30)
Borrowed resources		(--)	(--)	(--)
Repurchases		-6.38	-12.07	-9.21
Ordinary resources		(-3.79)	(-5.47)	(-5.96)
Borrowed resources		(-2.59)	(-6.60)	(-3.25)
Transactions under special facilities (net)		--	--	--
Structural adjustment facility loans		--	--	--
Total Fund credit outstanding (end of period)	230.64	228.56	220.79	215.88
Tranche policies	188.09	186.01	178.24	173.33
Special facilities	--	--	--	--
Structural adjustment facility	42.55	42.55	42.55	42.55
		(In percent of quota)		
Total Fund credit outstanding (end of period)	271.02	268.57	259.44	253.67
Tranche policies	221.02	218.57	209.44	203.67
Special facilities	--	--	--	--
Structural adjustment facility	50.00	50.00	50.00	50.00
<u>Memorandum item:</u>				
Trust Fund loans outstanding (end of period)				
In millions of SDRs	11.00	8.33	7.69	5.61
In percent of quota	12.93	9.79	9.04	6.59

Source: IMF, Treasurer's Department.

^{1/} To be effected after March 14, 1988, subject to the observance of the performance criteria for end-December 1987 and the completion of the mid-term review under the stand-by arrangement.

Table III. Senegal: Government Financial Operations, 1983/84-1987/88

	1983/84	1984/85	1985/86	1986/87	1987/88	
					Prog.	Rev. prog.
(In billions of CFA francs)						
Total revenue and grants	201.6	216.1	237.9	266.1	283.1	283.9
Revenue	189.4	203.9	218.7	251.0	262.2	262.2
Of which: tax revenue ^{1/}	(177.4)	(190.1)	(185.1)	(196.1)	(212.2)	(213.5)
Grants	12.2	12.2	19.2	15.1	20.9	21.7
Of which: capital	(6.0)	(5.0)	(8.0)	(9.0)	(10.8)	(10.8)
Total expenditure and net lending	246.3	254.2	266.0	285.8	289.8	288.0
Current expenditure	205.3	217.1	220.3	232.7	240.5	240.5
Wages and salaries	100.4	106.6	111.8	119.8	122.3	122.3
Interest due ^{2/}	36.9	44.4	41.0	39.6	45.0	45.0
Of which: external	(36.4)	(43.8)	(40.3)	(39.3)	(42.0)	(42.0)
Materials and maintenance	35.4	33.5	40.2	43.2	44.7	44.7
Transfers and subsidies ^{3/}	30.6	32.3	25.7	28.6	27.5	27.5
Other	2.0	0.3	1.6	1.5	1.0	1.0
Capital expenditure	40.3	34.7	33.8	38.1	45.0	45.0
Budgetary	10.0	9.7	5.8	8.1	15.0	15.0
Extrabudgetary	30.3	25.0	28.0	30.0	30.0	30.0
Treasury special accounts (net) ^{4/}	6.9	4.1	12.9	14.8	14.3	13.0
Treasury correspondents (net) ^{4/}	-6.2	-1.7	-1.0	0.2	-10.0	-10.5
Overall fiscal surplus or deficit (-) (commitment basis)	-44.7	-38.1	-28.1	-19.7	-6.7	-4.1
Adjustments to cash basis	-22.6	-11.6	-12.6	-26.3	-35.0	-38.2
Payments arrears of the Government and public agencies (reduction -)	-2.0	-7.6	-9.6	-14.0	-14.0	-14.0
Crop credit (repayment -)	-20.6	-4.0	-3.0	-12.3	-21.0	-24.2
Overall fiscal surplus or deficit (-) (cash basis)	-67.3	-49.7	-40.7	-46.0	-41.7	-42.3
Financing	67.3	49.7	40.7	46.0	41.7	42.3
External	36.7	38.0	28.0	52.0	34.0	47.4
Drawings	35.9	40.9	36.7	76.8	79.8	82.1
Treasury	(11.6)	(20.9)	(16.7)	(55.8)	(60.6)	(62.9)
Other	(24.3)	(20.0)	(20.0)	(21.0)	(19.2)	(19.2)
Amortization payments due ^{2/}	-28.4	-31.2	-29.6	-43.9	-51.9	-53.6
External debt rescheduling	29.2	28.3	20.9	19.1	6.1	18.9
Domestic	30.6	11.7	12.7	-6.0	-5.1	-5.1
Banking system ^{5/}	35.2	17.9	19.6	1.8	6.5	6.5
Repayment of ONCAD debt to banks	-8.8	-10.0	-8.0	-12.0	-8.6	-8.6
Nonbank borrowing	1.4	2.0	0.8	2.2	—	—
Other	2.8	1.8	0.3	2.0	-3.0	-3.0
Gap	—	—	—	—	12.8	—
Memorandum items:						
(In billions of CFA francs)						
Payment arrears of the Government and public agencies outstanding (end of period)	53.7	46.1	36.5	22.5	8.5	8.5
Domestic	(53.7)	(37.5)	(36.1)	(22.5)	(8.5)	(8.5)
External	(—)	(8.6)	(0.4)	(—)	(—)	(—)
Nominal GDP	977.5	1,083.8	1,224.0	1,350.2	1,460.3	1,460.3
(In percent of GDP)						
Total revenue and grants	20.6	19.9	19.4	19.7	19.4	19.4
Revenue	19.4	18.8	17.9	18.6	18.0	18.0
Of which: tax revenue ^{1/}	(18.1)	(17.5)	(15.1)	(14.5)	(14.5)	(14.6)
Total expenditure and net lending	25.2	23.5	21.7	21.2	19.8	19.7
Current expenditure	21.0	20.0	18.0	17.2	16.5	16.5
Capital expenditure	4.1	3.2	2.8	2.8	3.1	3.1
Overall fiscal surplus or deficit (-) (commitment basis)	-4.6	-3.5	-2.3	-1.5	-0.5	-0.3
Overall fiscal surplus or deficit (-) (cash basis)	-6.9	-4.6	-3.3	-3.4	-2.9	-2.9

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

^{1/} Excludes receipts from the oil sector.^{2/} In accordance with established procedures, the external debt service figures in this table include all debt directly contracted by the Government, but only 10 percent of the government-guaranteed debt.^{3/} Includes outlays for scholarships.^{4/} Deficits are added to expenditure, while surpluses are deducted.^{5/} Includes the counterparts of fund purchases and repurchases, as well as 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 central bank in the fiscal year involved.

Table IV. Senegal: Monetary Survey, June 1983-June 1988

(In billions of CFA francs; end of period)

	1983	1984	1985		1986		1987				1988		
	June	June	June	Dec.	June	Dec.	March	June	Sept.	Dec. Prog.	March Rev. prog.	June Prog.	Rev. prog.
Foreign assets (net)	-178.8	-198.4	-229.5	-264.4	-243.8	-204.6	-201.6	-207.5	-225.4	-194.7	...	-182.0	-196.7
Central bank	-163.4	-181.5	-215.7	-228.2	-219.8	-180.1	-180.6	-185.0	-196.2	-170.2	...	-155.9	-156.6
Commercial banks	-15.4	-16.9	-13.8	-36.2	-24.0	-24.5	-21.0	-22.5	-29.2	-24.5	...	-26.1	-40.1
Domestic credit	468.0	490.1	503.5	547.5	544.0	548.2	573.0	575.3	555.1	569.9	598.4	567.9	567.9
Claims on Government (net)	90.4	120.9	126.6	144.0	142.1	148.7	141.2	143.9	136.2	154.4 <u>1/</u>	152.8 <u>1/</u>	150.4	150.4 <u>1/</u>
Claims on enterprises and households	377.6	369.2	376.9	403.5	401.9	399.5	431.8	431.4	418.9	415.5	445.6	417.5	417.5
Ordinary credit	334.7	356.8	360.3	375.2	371.9	372.3	369.1	374.5	375.4	380.5	382.5	382.5	382.5
Of which: ONCAD	(67.7)	(67.7)	(67.7)	(67.7)	(67.7)	(67.7)	(67.0)	(66.7)	(66.4)	(67.7)	(...)	(67.7)	(...)
Crop credit	42.9	12.4	16.6	28.3	30.0	27.2	62.7	56.9	43.5	35.0	63.1	35.0	35.0
Money and quasi-money	266.8	276.6	284.3	300.1	291.4	333.5	356.1	342.2	307.0	353.7	...	367.8	353.1
Other items (net)	22.4	15.1	-10.3	-17.0	8.8	10.1	15.3	25.6	22.7	21.5	18.1	18.1	18.1
Of which: ONCAD	(29.7)	(26.5)	(22.0)	(20.7)	(19.3)	(17.0)	(14.9)	(13.6)	(12.8)	(...)	((...))	(...)	(...)
<u>Memorandum item:</u>													
Domestic assets (net)	445.6	475.0	513.8	564.5	535.2	538.1	557.7	549.7	532.4	548.4 <u>1/</u>	580.3 <u>1/</u>	549.8	549.8 <u>1/</u>

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

1/ Performance criteria.

Table V. Senegal: Balance of Payments 1983/84-1990/91

(In millions of SDRs)

	1983/84	1984/85	1985/86	1986/87	1987/88		1988/89	1989/90	1990/91
		Estimates			Prog.	Rev. prog.	Projections ^{1/}		
Trade balance	-231.3	-257.1	-282.5	-200.3	-160.9	-162.8	-150.3	-137.3	-114.6
Exports, f.o.b.	586.4	524.8	509.2	526.2	637.6	610.6	668.2	754.9	855.9
Of which: groundnut products	(155.1)	(90.9)	(36.8)	(53.9)	(79.2)	(90.4)	(89.6)	(100.6)	(112.1)
Imports, f.o.b.	-817.7	-781.9	-791.7	-726.5	-798.5	-773.4	-818.5	-892.2	-970.5
Of which: petroleum products	(-233.3)	(-229.7)	(-168.8)	(-99.2)	(-128.9)	(-126.0)	(-132.4)	(-146.5)	(-154.5)
Services (net)	-133.9	-161.9	-165.2	-172.7	-189.7	-187.3	-189.6	-186.9	-167.6
Of which: interest due on public debt	(-92.1)	(-108.8)	(-117.3)	(-115.7)	(-131.5)	(-120.8)	(-139.8)	(-155.0)	(-155.4)
Unrequited transfers	133.6	134.9	162.1	181.0	196.2	196.2	206.8	216.0	225.6
Of which: gross official grants	(161.6)	(149.0)	(163.1)	(178.7)	(189.0)	(189.0)	(196.5)	(204.4)	(212.6)
Current account deficit (-)	-231.6	-284.1	-285.6	-192.0	-154.4	-153.9	-133.1	-108.2	-56.6
Capital account	205.3	189.3	160.7	242.1	163.7	160.0	167.8	150.9	91.1
Public sector	136.0	116.7	101.8	236.0	197.1	219.0	130.6	86.0	13.7
Drawings	221.1	199.6	199.3	358.2	358.1	366.4	298.7	269.3	200.0
Amortization	-85.1	-82.9	-97.5	-122.2	-161.0	-147.4	-168.1	-183.3	-186.3
Private sector	69.3	72.6	58.9	6.1	-33.4	-59.0	37.2	64.9	77.4
Errors and omissions	-82.0	-55.2	26.4	-31.0	—	—	—	—	—
Overall balance (deficit -)	-108.3	-150.0	-98.5	19.1	9.3	6.1	34.7	42.7	34.5
Debt rescheduling	78.8	74.3	70.5	67.2	23.2	66.7	20.8	—	—
Financing	29.5	75.7	28.0	-86.3	-74.7	-72.8	-93.1	-42.7	-34.5
IMF	54.1	4.8	-8.3	-1.1	9.0	9.0	-29.2	-42.1	-36.8
Purchases ^{2/}	63.0	34.6	42.0	43.5	50.0	50.0	15.8	—	—
Repurchases	-8.9	-29.8	-50.3	-44.6	-41.0	-41.0	-45.0	-42.1	-36.8
Operations account and other	-24.6	52.5	48.1	-76.1	-83.7	-81.8	-63.9	-0.6	2.3
Arrears (reduction -)	—	18.4	-11.8	-9.1	—	—	—	—	—
Financing gap	—	—	—	—	42.2	—	37.6	—	—
<u>Memorandum items:</u>									
Current account									
Including gross official grants, in percent of GDP	-10.2	-12.2	-9.9	-5.6	-4.1	-4.1	-3.3	-2.5	-1.2
Excluding gross official grants, in percent of GDP	-17.3	-18.7	-15.6	-10.8	-9.2	-9.2	-8.2	-7.3	-5.8
CFA francs/SDR (average)	430.1	467.1	424.4	395.3	390.0	390.0	390.0	390.0	390.0

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

^{1/} Base-line scenario.

^{2/} Includes disbursements under the SAF. The projections assume for 1988/89 disbursements of SDR 11.5 million under the structural adjustment facility.

Table VI. Senegal: External Public Debt Service, 1983/84-1990/91 ^{1/}

(In millions of SDRs)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
						Projections		
Principal	94.0	112.7	147.8	166.9	188.4	213.1	225.3	223.1
Medium and long-term	85.1	82.9	97.5	122.3	147.4	168.1	183.3	186.3
IMF repurchases	8.9	29.8	50.3	44.6	41.0	45.0	42.0	36.8
Interest	92.1	108.8	117.3	115.7	120.8	139.8	155.0	155.4
Medium and long-term	76.2	88.0	97.1	99.7	106.1	127.1	145.2	148.3
IMF charges	15.9	20.8	20.2	16.0	14.7	12.7	9.8	7.1
Total debt service (before rescheduling)	186.1	221.5	265.1	282.6	309.2	353.0	380.2	378.6
Debt rescheduling	78.8	74.3	70.5	67.2	66.7	20.8 ^{2/}	—	—
Debt service after rescheduling	107.3	147.2	194.6	215.4	242.5	332.2	380.2	378.6
<u>Memorandum items:</u>								
Exports of goods and services, & private transfers	950.7	877.8	910.9	966.1	1,070.2	1,162.0	1,287.4	1,430.2
Debt service ratio (in percent)								
Before debt rescheduling	19.6	25.2	29.1	29.3	28.9	30.4	29.5	26.5
After debt rescheduling	11.3	16.8	21.4	22.3	22.7	28.5	29.5	26.5
IMF debt service ratio (in percent)	2.6	5.8	7.7	6.3	5.2	5.0	4.0	3.1
Use of Fund credit (including loans under the SAF) (end of period)								
In millions of SDRs	216.4	221.2	212.9	211.8	220.8	191.6	149.5	112.8
In percent of GDP	9.5	9.5	7.4	6.2	5.9	4.8	3.5	2.4
In percent of quota	254.3	259.9	250.2	248.9	259.4	225.1	175.7	132.4
External public debt (end of period)								
In percent of GDP	80.0	90.5	80.3	73.4	72.7	69.9	66.3	61.5

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

^{1/} Consistent with the base-line scenario for the balance of payments. Excludes debt service obligations of the multinational companies, Air Afrique and Agence pour la Sécurité de la Navigation Aérienne.

^{2/} Refers to the amount of debt service rescheduled in November 1987 and falling due in the period July-October 30, 1988.

TRANSLATION

Dakar, March 1, 1988

Dear Mr. Camdessus:

1. In accordance with the one-year stand-by arrangement for Senegal, approved on October 26, 1987, we have recently held discussions with a Fund staff mission regarding the mid-term review of Senegal's adjustment program for the fiscal year 1987/88 (July/June). The discussions focussed on the progress made in the implementation of the program during the first half of the fiscal year and on the prospects for the remainder of the year. In this context, understandings were reached on a course of action for reducing the subsidy to the groundnut sector, as well as on ceilings for the cumulative changes in net domestic assets of the banking system and in net bank claims on Government through end-March and end-June 1988. The quantitative performance criteria under the program, including the ones proposed for the second half of the fiscal year, are shown in the annexed table. Based on the progress achieved thus far, the indications are that the program remains broadly on track; the performance criteria for end-September 1987 were observed, and those for end-December 1987 are also estimated to have been met. The Government of Senegal remains committed to the policies described in the letter of intent of September 18, 1987, as supplemented by this letter.

2. The Government is implementing its adjustment program for 1987/88 within the context of its updated medium-term policy framework paper for the three-year period 1987/88-1989/90, prepared in consultation with the staffs of the Fund and the World Bank. Despite the significant progress achieved in the last four years, Senegal still suffers from major structural and financial problems. Accordingly, Senegal is following a two-pronged strategy involving policies aimed at (a) fostering private sector economic activity and (b) strengthening public resource management. The program for 1987/88 comprises wide-ranging structural policies aimed at promoting economic growth. These include the continuation of the new agricultural policy, with a view to increasing domestic production and reducing reliance on imports; the implementation of the second phase of the reform of the industrial sector; the pursuit of an appropriate energy strategy, with adequate safeguards for two export-oriented industries; the acceleration of parapublic sector reform through the liquidation, privatization, or rehabilitation of selected public enterprises; the formulation of a reform program for the banking system, with a view to improving the financial position of the banks and enhancing financial intermediation; and the launching of the first three-year rolling public investment program. These structural policies are being reinforced by a restrained financial policy stance, involving prudent fiscal, credit, and external debt management policies.

3. The quantitative objectives of the program for 1987/88 are expected to be realized. Real GDP is estimated to grow by 4.2 percent, as

envisaged in the program. The expansion in economic activity is being led by strong growth in the agricultural sector, resulting from continued normal weather conditions, price incentives, and the ongoing agricultural reforms. In particular, the groundnut harvest in 1987/88 is estimated to increase by over 4 percent; the cereals harvest by some 20 percent; and the cotton harvest by about 18 percent. The rate of inflation, as measured by the GDP deflator, is estimated to be reduced to the program target of 3.8 percent, reflecting the restrained financial policies being pursued and the improved supply conditions. In the external sector, the current account deficit, including grants, is estimated to be contained to CFAF 60.0 billion (4.1 percent of GDP), as programmed. A shortfall in export proceeds is estimated to be compensated by a lower-than-envisaged level of imports. However, due primarily to a transient rise in net private capital outflows, the overall balance of payments surplus, after debt relief, estimated at CFAF 28.4 billion, will be somewhat lower than the program target of CFAF 29.1 billion. In view of recent developments regarding private capital flows, the authorities are monitoring the situation carefully, with a view to taking any further necessary steps in a timely manner.

4. Consistent with our medium-term policy framework, continued progress is being made in the implementation of the new agricultural policy, in order to consolidate the gains achieved in the last three years. To further reduce the role of the public sector, the Government has eliminated direct budgetary subsidies for agricultural inputs and is gradually transferring marketing operations to producer cooperatives and the private sector. The implementation of the Cereals Plan, launched in June 1986, is proceeding as envisaged, with a view to stimulating domestic production and encouraging the substitution of locally produced cereals for imported rice. Following the recent abolition of the Government's rice import monopoly, the role of private importers of rice is being reviewed on the basis of the experience gained during the first year of implementation. The agricultural pricing and incentives study, financed by the World Bank and the French Caisse Centrale de Coopération Economique, has been completed in February 1988. It will provide the basis for a comprehensive review of the system of producer prices. A decision on producer prices for the 1988/89 crop season will be taken in consultation with the Fund and the World Bank staffs by March 1988.

5. With regard to the groundnut sector, the producer price was raised to CFAF 90 per kg in 1985/86. With the unexpected sharp decline in world market prices for edible oils, coupled with a larger-than-foreseen production of groundnuts, the deficit of the sector in 1987/88 is estimated to reach CFAF 22 billion, equivalent to 1.6 percent of GDP. About CFAF 18.8 billion of this deficit will be financed by STABEX transfers from the European Community and the remaining CFAF 3.2 billion by other concessional foreign assistance. The projected increase in output is likely to result in another sizable deficit in 1988/89, projected at approximately CFAF 22 billion. This deficit may be covered partly from STABEX resources; the Government is seeking additional concessional external assistance to finance the balance. The Government

recognizes that the situation is not sustainable, and has decided to take appropriate measures to reduce significantly the subsidies to the groundnut sector for the 1988/89 crop, taking into account the need for adequate incentives and the relative price structure in the agricultural sector, the producer price in neighboring countries, the international price level, the availability of external financing, and possible savings on marketing, processing, and transportation costs. All these measures for the groundnut sector will be elaborated by March 1988, in consultation with the Fund and the World Bank staffs. In the meantime, additional measures to reduce marketing costs are being reviewed by the groundnut oil processing company (SONACOS); the reduction in the number of collection points has already resulted in lower costs. An audit of the company, focussing on the processing and transportation of groundnuts, will be completed by June 1988, in order to determine the areas where further economies can be effected.

6. Considerable progress has been achieved in the implementation of a comprehensive industrial policy reform, notably through the initial stage of reductions in customs tariffs and in quantitative restrictions on imports, aimed at improving the competitiveness of the industrial sector and promoting exports. The quantitative import restrictions on all remaining products, with the exception of used clothes, were lifted in February 1988. The plan for rationalization of the system of effective protection is being finalized, with a view to implementing it by July 1988. Price controls, which were already significantly reduced in June 1987, will be progressively eliminated by end-1988, with the exception of those on a few essential and strategic products. Regarding the sugar industry, the direct operating subsidies to the Senegalese Sugar Company (CSS) have been discontinued effective November 1987. However, the technical and financial audit of CSS, originally expected to be completed in September 1987, has been delayed, as its terms of reference have been expanded in scope and were approved only in November 1987. The audit will provide the basis for further steps to improve the operations of the sugar industry. The revision of the labor code, aimed at increasing labor productivity, was effected in July 1987. It is being followed up by the elaboration of an action plan, to be finalized by April 1988, based on studies of the social security system, of remuneration and productivity, and of worker participation in profit-sharing schemes. The revision of the investment code in July 1987 has reduced the bias toward capital intensive industries and is contributing to an enhancement of efficiency in small- and medium-sized enterprises.

7. The Government has intensified its reform of the parapublic sector, started in July 1985, with a view to strengthening the performance of this sector. The reform comprises the liquidation of nonviable public enterprises, the privatization of others, and the rehabilitation of those remaining in the Government's portfolio. In addition, the institutional reforms include the strengthening of the role of agencies overseeing the sector, and the clarification of the regulations governing the financial relations between the Government and the

enterprises. As envisaged, the liquidation of seven public enterprises and two public agencies was completed in the second half of 1987. Furthermore, last October the Government began offering for sale a first set of ten public enterprises. Another set of ten public enterprises has been identified for the second phase of privatization. The rehabilitation programs for enterprises remaining in the Government's portfolio will continue to be included in formal agreements (contrat plan or lettre de mission) between the Government and the enterprise. The policy of progressively eliminating direct subsidies to the parapublic sector will be pursued, and the program involving the settlement of cross-debts between the Government and public enterprises will continue. To coordinate and supervise the parapublic sector reform, the Government has established an office with World Bank technical assistance. To minimize the transitional effects of the reform of the public enterprise sector, as well as those of other reforms, on specific social groups, the Government has established a National Employment Fund, which is financed largely by external assistance. The fund will assist laid-off workers, college graduates, and returning emigrants by extending credit to help them set up their own businesses.

8. The first three-year rolling public investment program, covering the period 1987/88-1989/90, was launched in July 1987. The program, which covers the entire public sector, represents an improvement in terms of size, composition, and project selection and documentation. Consistent with Senegal's medium-term macroeconomic objectives and constraints, total investment outlays under the program amount to CFAF 378.7 billion, of which CFAF 144 billion, or 38 percent, is programmed for 1987/88. The authorities are continuing to effect improvements in development planning by elaborating the public investment program in a macroeconomic framework, standardizing and decentralizing project preparation in technical ministries, and evaluating in greater detail the impact of public investment on recurrent costs. The authorities have already prepared the second three-year rolling public investment program for the period 1988/89-1990/91 and submitted it for review to the World Bank.

9. The policy of fiscal adjustment continues to be pursued vigorously through sustained efforts to improve tax performance and contain expenditure. Based on preliminary results for the first half of the year and the prospects for the remainder of the year, the fiscal targets of the 1987/88 program are expected to be broadly achieved. The overall fiscal deficit, on a commitment basis and including grants, is now projected to amount to some CFAF 4.1 billion, or CFAF 2.6 billion below the program target. In relation to GDP, the overall deficit, on a commitment basis and including grants, would thus be reduced from 1.5 percent in 1986/87 to 0.3 percent in 1987/88. With current and capital expenditure kept to within the program target, the more favorable budgetary outcome is expected to come from marginally higher grants and a relative improvement in the Treasury's special accounts and correspondents. With the programmed reduction in payments arrears of the Government and public agencies on target, and crop credit repayments

exceeding the initial program objective by CFAF 3.2 billion, the Treasury's overall cash deficit is now expected to reach CFAF 42.3 billion, or CFAF 0.6 billion above the original target. This deficit is estimated to be entirely covered by external financial assistance, including debt relief. The repayment of ONCAD debt will be covered partly by net government borrowing from the domestic banking system, which will be limited to CFAF 6.5 billion.

10. Total revenue and grants in 1987/88 are now projected to reach CFAF 283.9 billion, an amount slightly higher than the program target of CFAF 283.1 billion, due to higher-than-originally estimated grants. Total revenue is estimated to reach the program target of CFAF 262.2 billion, due primarily to the full-year effect of the implementation of the first phase of the tax reform. The performance of most domestic taxes is expected to be somewhat better than originally envisaged, owing to increased efficiency in tax administration. Revenue from taxes on international trade is growing at a higher pace than in the previous year, partly because of improved enforcement following the adoption of a new customs code, and is expected to be close to the original program projection. To achieve the revenue objective, it will also be essential to mobilize at least the programmed amount of CFAF 36.0 billion of the expected surplus of the oil sector. Both current and capital expenditure will be contained within the program limits of CFAF 240.5 billion and CFAF 45.0 billion, respectively. In particular, the Government is taking appropriate steps to ensure that the CFAF 122.3 billion ceiling on the wage bill will not be exceeded. The number of government employees was reduced from 68,131 at end-June 1987 to 67,700 at end-December 1987, and will be further reduced to 67,100 by end-June 1988; no general salary increase will be granted; indemnities and other allowances will also be strictly controlled. The authorities are considering introducing more effective measures to contain new recruitment and bring about a reduction in the share of the wage bill in the next fiscal year.

11. In order to reinforce the above fiscal policy, the monetary authorities are pursuing a cautious credit policy. With a view to reducing the aggregate demand pressures, the rate of growth of domestic liquidity will be limited to 3.2 percent in 1987/88, well below the projected growth in nominal GDP. Total domestic credit is projected to be reduced by 1.3 percent. Credit to the economy will be reduced by 3.2 percent, offsetting the growth of net bank claims on Government programmed at 4.5 percent. In line with the indicative ceilings set in my letter of intent of September 18, 1987, appropriate performance criteria are proposed for the cumulative changes in net bank claims on the Government and net domestic assets of the banking system at end-March and end-June 1988, as shown in the annexed table. The interest rate policy of Senegal is determined jointly for all member countries by the Central Bank of West African States. Within this context, the authorities attach particular importance to pursuing a flexible interest rate policy and to maintaining positive real interest rates.

12. The banking sector is facing serious liquidity difficulties, stemming mainly from sizable nonperforming loans and management problems. With a view to finding long-term solutions, the authorities are working on developing a strategy to rehabilitate the banking system. To this end, the Government has held a number of meetings with bilateral and multilateral donors and creditors, including the Fund and the World Bank. At the last meeting on October 30 and 31, 1987, a detailed report prepared by the Government was reviewed. The general recommendations comprised mobilizing an external loan for the repayment of government-guaranteed debt vis-à-vis banks; rescheduling on favorable terms the ONCAD debt; consolidating certain debit balances of banks with the Central Bank; reducing the share of government participation in banks and attracting private shareholders; increasing banks' own resources; recovering loans from the private sector; and liquidating or merging certain banks. In addition, the Central Bank would strengthen the supervision and control of bank operations. The World Bank and two major donor countries have each prepared a memorandum with comments and suggestions on this report, while another memorandum is expected from the Senegalese Banking Association. These memoranda will be discussed and an action plan drawn up at a meeting scheduled for early 1988. Pending the adoption of comprehensive reform efforts, specific rehabilitation programs are under way. The Banque Commerciale du Sénégal (BCS), in accordance with a restructuring plan, has been liquidated, and its assets and liabilities have been taken over by a new bank, ASSURBANK; the Government has guaranteed the nonperforming loans of the bank, while the Central Bank has agreed to consolidate its debit balance. Concerning the Union Sénégalaise de Banque (USB), the Central Bank has recently signed a moratorium consolidating debit balances and the refinancing of certain nonperforming loans. In addition, USB has received a loan from a foreign commercial bank. The authorities are reviewing similar programs for the other commercial banks in difficulty. The rehabilitation program of development banks, notably of the Banque Nationale de Développement du Sénégal (BNDS), which hold the larger part of nonperforming loans, is being reviewed by the authorities in the context of the overall strategy. Moreover, the Government is repaying debts resulting from the liquidation of ONCAD according to the quarterly schedule of the adjustment program.

13. The effective implementation of the adjustment program will contribute to improving Senegal's external payments position. Largely due to a decline in receipts from petroleum re-exports and phosphate exports, it is estimated that there will be a shortfall in export receipts of about CFAF 10 billion in 1987/88, compared with the original program projection. However, this is expected to be virtually fully offset by lower-than-projected import payments, owing largely to lower food import prices. Thus, the external current account deficit, including grants, is projected to amount to about CFAF 60 billion, equivalent to about 4 percent of GDP, in line with the original program target. Net public capital inflows are now estimated to be higher than envisaged in the program, partly due to a downward revision in amortiza-

tion payments. However, in view of a higher-than-anticipated net private capital outflow, the net capital account surplus is estimated to be lower than the original program projection. Reflecting these factors, the overall balance of payments, after debt relief, is now estimated to record a surplus of about CFAF 28 billion, compared with a surplus of CFAF 29 billion initially programmed.

14. In view of the heavy external debt service burden confronting Senegal, the Government is continuing its efforts to secure debt relief from various creditors. On November 17, 1987, the Paris Club creditors agreed to provide debt relief to Senegal, estimated at about CFAF 22.4 billion, for part of its debt obligations falling due in the period November 1, 1987 through October 31, 1988. The consolidated amount will be repaid over 16 years, including a grace period of six years. The Government is also seeking debt relief on comparable terms from other official creditors. The Government will continue to follow a prudent 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.

15. The Government of Senegal believes that the policies and measures described above are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. The Government will consult with the Fund on the adoption of any measures that may be appropriate, in accordance with the policies of the Fund on such consultations.

Sincerely yours,

/s/

Moussa Touré
Secretary of State
Ministry of Economy
and Finance

Attachment

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

Senegal: Proposed Quantitative Performance Criteria for 1987/88

		Change from July 1, 1987 to end							
	Stock at End-June 1987	1987						1988	
		September			December			March	June
		Prog.	Adj.	Act.	Prog.	Adj.	Est.		
(In billions of CFA francs)									
Net domestic assets <u>1/2/3/</u>	<u>549.7</u>	-7.4	-11.0	-17.3	-1.3	-14.8	-15.1	30.6	0.1
Claims on Govt. (net) <u>1/2/</u>	<u>143.9</u>	1.4	-3.7	-7.7	10.5	10.5	10.5	8.9	6.5
Arrears of Govt. & pub. agencies									
1. Domestic	<u>22.5</u>	-3.0	-3.0	-3.6	-3.5	-3.5	-4.5	-9.5 <u>4/</u>	-14.0 <u>4/</u>
2. External	--	--	--	--	--	--	--	--	--
Repayment of 1985/86 crop credit	<u>2.5</u>	--	--	--	-2.5	-2.5	-2.5	-2.5	-2.5
Repayment of ONCAD debt	<u>80.2</u>	-2.2	-2.2	-2.2	-3.4	-3.4	-3.4	-6.5 <u>4/</u>	-8.6 <u>4/</u>
(In millions of SDRs)									
New external borrowing on nonconcessional terms by the Government or with government guarantee <u>3/</u>									
1. Short term (less than 1 year)		--	--	--	--	--	--	--	--
2. 1-5 years' maturity		--	--	--	--	--	--	--	--
3. 1-12 years' maturity		24.0	24.0	5.4	24.0	24.0	5.4	24.0	24.0

1/ The program assumes that Senegal will receive a cumulative amount of external budgetary assistance (excluding grants) beginning July 1, 1987 of CFAF 19.5 billion through September 30, 1987, of CFAF 46.5 billion through December 31, 1987, of CFAF 61.5 billion through March 31, 1988, and of CFAF 62.9 billion through June 30, 1988. In the event that the external budgetary assistance (excluding grants) exceeds the above amounts, the changes will be reduced pro tanto, net of any budgetary assistance used to accelerate: (a) the reduction in arrears of the Government and public agencies; and (b) the repayment of ONCAD debt. No adjustment to the changes will be made if the external budgetary assistance falls below the above amounts, except as indicated in footnote 4. Based on this provision, the end-September 1987 ceilings have been adjusted by the excess of CFAF 5.1 billion in budgetary assistance received beyond the amount projected in the program, as well as by the adjustment regarding crop credit as provided for in footnote 3.

2/ The program does not envisage the receipt by Senegal of any exceptional external financial assistance during the period July 1, 1987-June 30, 1988 that would have the effect of improving the net position of the Government vis-à-vis the banking system. Should such assistance be received, however, the changes will be reduced pro tanto, net of any expenditure tied to such assistance.

3/ The program envisages a reduction in crop credit of CFAF 14.9 billion during the period July 1-September 30, 1987; a reduction of CFAF 21.9 billion during the period July 1-December 31, 1987; an increase in crop credit of CFAF 6.2 billion during the period July 1, 1987-March 31, 1988; and a reduction of CFAF 21.9 billion during the period July 1, 1987-June 30, 1988. In the event that the variation in crop credit is lower or higher than these amounts, the variation in net domestic assets will be adjusted downward or upward pro tanto. On this basis, the September 30, 1987 ceiling has been adjusted by the excess of CFAF 1.5 billion in crop credit, in addition to the adjustment indicated in paragraph 1 above. The December 31, 1987 ceiling has been adjusted downward by an estimated CFAF 13.5 billion.

4/ The program assumes that Senegal will receive external budgetary assistance (including grants) administered by the World Bank and estimated at CFAF 9.1 billion during the period October 1-December 31, 1987. The revised program assumes that Senegal will receive from July 1, 1987, a cumulative amount of external budgetary assistance (including grants) administered by, or associated with the World Bank, estimated at CFAF 36.0 billion by March 31, 1988 and June 30, 1988. In the event that the full amount is not received, the changes in arrears of the Government and public agencies and in repayment of ONCAD debt will be adjusted accordingly to compensate for the shortfall.

5/ The exchange rate applicable to these borrowings will be the rate of the SDR vis-à-vis the contract currency on June 30, 1987, as reported in International Financial Statistics. For debts directly contracted by the Government, the loan will count toward the ceiling on the date of signature. 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 signature or the date that the loan enters into effect (whichever is later) until the last scheduled amortization payment. For the 1987/88 ceiling, the last tranche under the loan signed by SOTRAC in 1985/86 will count toward the ceiling on the date the guarantee becomes effective, and will be converted into SDRs at the exchange rates of June 30, 1987. 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, 1988)

I. Membership status

- | | |
|-----------------------|-----------------|
| a. Date of membership | August 31, 1962 |
| b. Status | Article XIV |

A. Financial Relations

II. General Department

General Resources Account

- | | |
|--|--|
| a. Quota | SDR 85.1 million |
| b. Total Fund holdings of Senegal's currency | SDR 271.14 million,
equivalent to 318.61
percent of quota. |
| c. Fund credit | SDR 187.02 million,
equivalent to 219.76
percent of quota,
of which: SDR 60.85
million (71.51 percent
of quota) under credit
tranches; SDR 10.24
million (12.04 percent
of quota) under the EFF;
SDR 12.69 million
(14.91 percent of quota)
under the SFF; and
SDR 103.23 million
(121.31 percent of
quota) under the EAR. |
| d. Reserve tranche position | SDR 0.99 million |

Special Disbursement Account

- | | |
|--------------------------------|-------------------|
| Structural adjustment facility | SDR 42.55 million |
|--------------------------------|-------------------|

Senegal - Relations with the Fund (continued)
(As of January 31, 1988)

III. Previous stand-by and extended 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.
- b. An extended Fund facility, 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 EFF 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); the full amount under the stand-by arrangement was purchased, and the first loan under the SAF equivalent to SDR 17.02 million has been disbursed.
- h. One-year stand-by arrangement, approved 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; the loan under the SAF and the first two tranches of the stand-by arrangement (SDR 8.375 million) have been disbursed.

Senegal- Relations with the Fund (continued)
(As of January 31, 1988)

IV. Financial obligations due to the Fund

(In millions of SDRs)

	Overdue Financial Obligations 01/31/88	Principal and interest due		
		1988 Feb.-Dec.	1989	1990
Principal	--	<u>44.1</u>	<u>47.2</u>	<u>40.7</u>
Repurchases	--	40.7	43.4	39.7
Trust Fund repayments	--	3.4	3.8	1.0
Charges and interest including SDR, Trust Fund and SAF	--	<u>10.3</u>	<u>12.1</u>	<u>9.0</u>
Total	--	<u>54.4</u>	<u>59.3</u>	<u>49.7</u>

V. SDR Department

- a. Net cumulative allocation SDR 24.46 million
- b. Holdings SDR 0.48 million

VI. Administered accounts

- a. Trust Fund loans
 - Disbursed SDR 33.23 million
 - Outstanding SDR 9.59 million
- b. SFF Subsidy Account
 - Payments by the Fund SDR 7.19 million

Senegal - Relations with the Fund (continued)
(As of January 31, 1988)

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 1987 was CFAF 378.78 = SDR 1.

VIII. Last Article IV consultation and mid-term review under stand-by arrangement

The last Article IV consultation discussions, together with the mid-term review under the stand-by arrangement, were held during the period December 3-17, 1986. The staff report (EBS/87/50) was discussed by the Executive Board on March 25, 1987, and the following decision was adopted on the mid-term review:

1. Senegal has consulted with the Fund in accordance with paragraph 4(b) of the stand-by arrangement for Senegal (EBS/86/227, Supplement 1, November 17, 1986) and paragraph 23 of the letter of intent from the Minister of Economy and Finance dated September 22, 1986, attached to the stand-by arrangement, in order to assess the progress made in the implementation of the 1986/87 program and to establish suitable performance criteria for end-March and end-June 1987, with respect to net domestic assets of the banking system and net bank claims on the Government.

2. The letter from the Minister of Economy and Finance dated February 25, 1987 and the annexed table shall be attached to the stand-by arrangement for Senegal and the letter of September 22, 1986 and the annexed table shall be read as supplemented by the letter dated February 25, 1987 and the annexed table.

3. The Fund decides, pursuant to paragraph 4(b) of the stand-by arrangement, that the review provided for in paragraph 23 of the letter from the Minister of Economy and Finance dated September 22, 1986 is completed, and that no additional understandings are necessary.

Senegal - Relations with the Fund (continued)
(As of January 31, 1988)

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 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 tariff, and with a simplification and rationalization of the tariff structure and nomenclature.

A member of the fiscal panel was assigned as Tax Advisor to the Ministry of Economy and Finance for an initial period of six months effective June 1986. His term has been extended by one year to November 1988.

Senegal - Relations with the Fund (concluded)
(As of January 31, 1988)

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

c. Bureau of Statistics

Technical assistance was provided in the area of government finance statistics in September-October 1982 and again in May 1984, as well as in the area of balance of payments statistics in February 1984.

X. Fund resident representative

Stationed in Dakar since July 24, 1984.

Senegal - Relations with the World Bank Group

Commentary on lending operations

1. The World Bank's assistance strategy in Senegal is designed to support a far-reaching medium- and long-term structural adjustment program. The main objectives of this strategy are to assist the Government in (a) addressing the central issues of economic management by promoting institutional reforms in the parapublic sector and the investment programming and budgeting process, and by improving the management of public employment and finances; (b) developing and diversifying the productive base by implementing appropriate incentive policies and reorienting the investment program in the direction of high-priority new investments in the productive sectors and rehabilitation of existing assets; and (c) improving the effectiveness of external assistance by acting as a focal point for increased aid coordination among the donors.

2. As of December 31, 1987, the World Bank Group had approved 80 operations in Senegal for a total of US\$867.1 million, consisting of 51 IDA credits (including 3 special fund credits) and 20 Bank loans, together with one SFA and 9 IFC operations. Physical execution of most projects is progressing reasonably well, although some operations have been affected by the shortage of local counterpart funds. 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 in transport (highways, rail, port, and airport). However, in view of the financial difficulties in supporting new investments, emphasis is now being placed on better utilizing and maintaining 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. Over the next three-year period (FY88-90), the Bank's lending program, on present planning, is expected to amount to about US\$303 million, almost all of which would be on IDA terms. US\$67 million was committed in FY87, excluding the third structural adjustment credit (SAL III) of US\$93 million, which was approved on May 21, 1987. This major policy-based operation, financed partly out of the Special African Facility, followed the successful completion of SAL II. The main objectives of the program are to increase the efficiency of public sector management and restore public sector savings through an acceleration of the parapublic sector reform, to extend the reform of production and private investment incentives in agriculture and industry, and to rehabilitate the financial sector and improve financial intermediation.

Senegal - Relations with the World Bank Group (continued)

5. Given the need to focus Senegal's public investment program on financing high-priority rehabilitation and maintenance costs, improved donor coordination is assuming increased importance. In this connection, the Bank is pursuing its economic dialogue with Senegal in close collaboration with the Fund and bilateral and multilateral donors. Following the first Consultative Group meeting in December 1984, the Bank implemented the second structural adjustment operation indicated above and helped organize sector meetings of interested donors on telecommunications, power, and agriculture. Further meetings are planned during 1988 for the tourism, transport, hydraulics, education, and industry sectors. A second meeting of the Consultative Group took place on March 31-April 1, 1987 at which the Government's three-year public investment program (PIP) for the 1987-90 period, was reviewed and agreements reached on the policy measures, assistance levels, and aid coordination mechanisms needed to enable Senegal to overcome its economic and financial difficulties. Bank staff is currently reviewing the draft PIP for FY 1988/89-1990/91.

Senegal - Relations with the World Bank Group (concluded)

<u>Lending operations</u> (As of December 31, 1987; in millions of U.S. dollars)					
	<u>IBRD and IDA 1/</u>		<u>IFC loans and 1/ investment participations</u>		<u>Grand total</u>
	<u>Total commitments</u>	<u>Of which: undisbursed</u>	<u>Total commitments</u>	<u>Of which: undisbursed</u>	
Seventeen loans and 27 credits fully disbursed	404.7	(--)	--	(--)	404.7
Structural adjustment and technical assistance	120.2	(42.4)	--	(--)	120.2
Agriculture, livestock, and forestry	89.5	(63.7)	5.0	(--)	94.5
Energy, industry, and tourism	92.8	(64.1)	47.4	(15.5)	140.2
Transport and tele- communications	51.0	(30.7)	--	(--)	51.0
Urban development, education, and health	<u>56.5</u>	<u>(25.6)</u>	<u>--</u>	<u>(--)</u>	<u>56.5</u>
Total	814.7	(226.6)	52.4	(15.5)	867.1
Less: repaid or sold					60.1
Total committed					807.0
Held by IBRD					89.7
IDA					691.7
IFC					25.6

Memorandum items:

<u>Annual IBRD/IDA operations 2/</u>	<u>Commitments</u>	<u>Disbursements</u>	<u>Repayments</u>
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	163.6	84.3	11.6

Source: World Bank Group.

1/ Less cancellations.

2/ End of period.

Senegal - Selected Social and Demographic Indicators

Area

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

Population (1987)

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

Population density (1980-87)

57.0 per sq. km. of agricultural land

Population characteristics (1980-87)

Crude birth rate (per thousand) 46.0
Crude death rate (per thousand) 19.0
Life expectancy at birth (years) 47.0
Urban population (percent of total) 36.0

Health (1980-87)

Population per physician (in thousands) 13.1
Population per hospital bed (in thousands) 0.9
Infant mortality rate (per thousand) 137

Access to safe water (1980-87)

In percent of population
Total 43.0
Urban 63.0
Rural 27.0

Nutrition (1980-87)

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

Education (1980-87)

Enrollment rates (in percent)
Primary 55
Secondary 13
Pupil-teacher ratio
Primary 44
Secondary 23

Source: World Bank.

